



**BASED ON FINANCE
ACT 2024 (2)**

PCA

CA Inter

May 25 | Sep 25 | Jan 26

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DIRECT TAXATION

CONCEPT BOOK



**THE KING OF
TAXATION**

CA PRANAV
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DT - Concept Book

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BASIC CONCEPTS OF INCOME TAX



WHAT IS TAX?

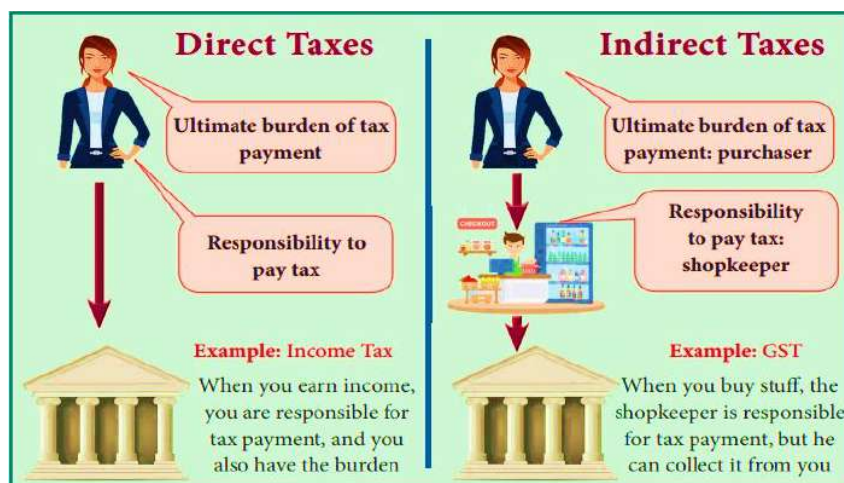
- Tax is an amount of money that you have to pay to the government so that it can pay for public services.
- Tax is **not a voluntary** payment or donation, but an **enforced contribution**.
- However, it is **non-penal in nature**.

WHY ARE TAXES LEVIED?

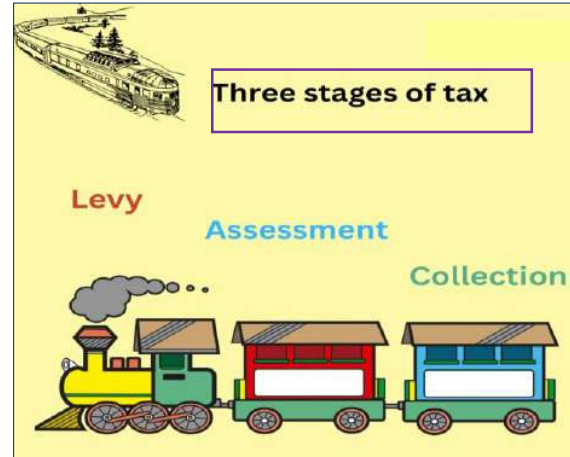
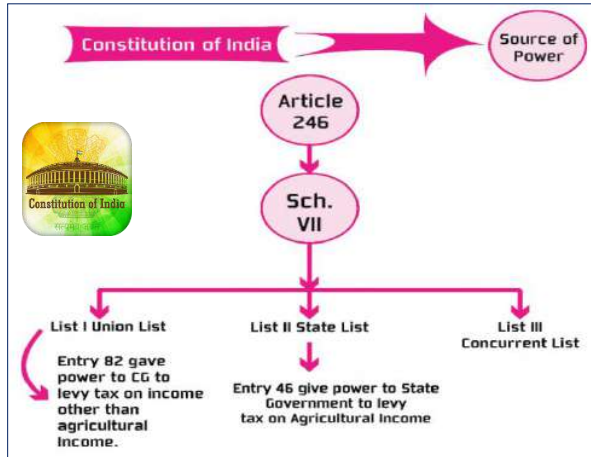
- Taxes are considered to be the '**cost of living in a society**'.
- Taxes constitute basic source of revenue to the government which are utilized for meeting expenses of Government like **defence, provision of education, health-care, facilities like roads, dams etc.**
- Taxes are levied by the Governments to meet the common welfare expenditure of the society.

TYPES OF TAXES ⇒ DIRECT TAX & INDIRECT TAX

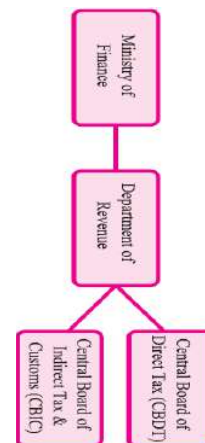
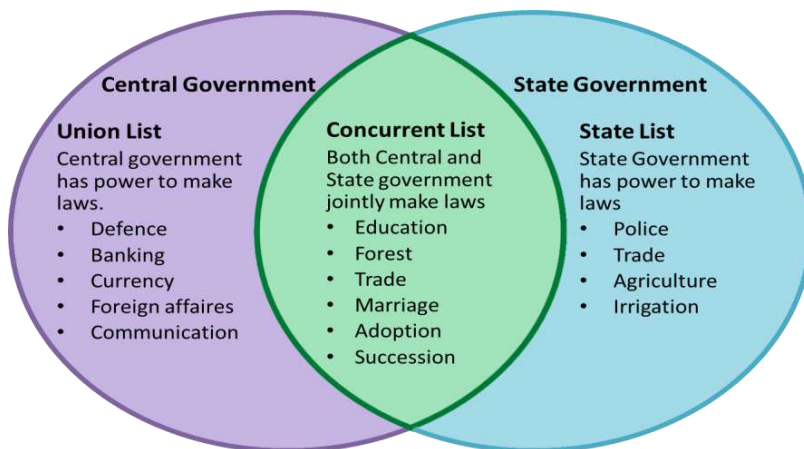
Basis	Direct Tax	Indirect Tax
Definition	▪ If tax is levied directly on income of a person, it is a direct tax.	▪ If tax is levied on price of a good or service, it is an indirect tax.
Incidence & Impact	▪ Impact & incidence of tax are on the same person.	▪ Impact & incidence of tax are on the different person.
Levied on	▪ Income/wealth of the person.	▪ Price of Goods or Services
Burden	▪ There is no shifting of burden.	▪ Burden is shifted to the subsequent buyer.
Borne by	▪ Directly borne by the taxpayer.	▪ Burden falls on final consumer.
Nature	▪ Progressive in nature	▪ Regressive in nature
Collection	▪ Yearly basis.	▪ At the time of sale/purchase of G/S
Examples	▪ Income tax, Tax on undisclosed Income.	▪ GST, Custom duty.



POWER TO LEVY TAX – CONSTITUTIONAL VALIDITY



- Article 265 of Constitution provides that no tax shall be levied or collected except by authority of law.
- Constitution gives power to levy & collect taxes to Central Government (CG) & State Government.
- Parliament (Union) & State Legislature are empowered to make laws by virtue of Article 246.
- Seventh Schedule to Article 246 contains 3 lists:**
 - ☐ **List I - Union List:** CG has exclusive power to make laws on the matters contained in Union List.
 - ☐ **List II - State List:** SG has exclusive power to make laws on the matters contained in State List.
 - ☐ **List III - Concurrent List:** CG & SG have power to make laws on the matters contained in this list.

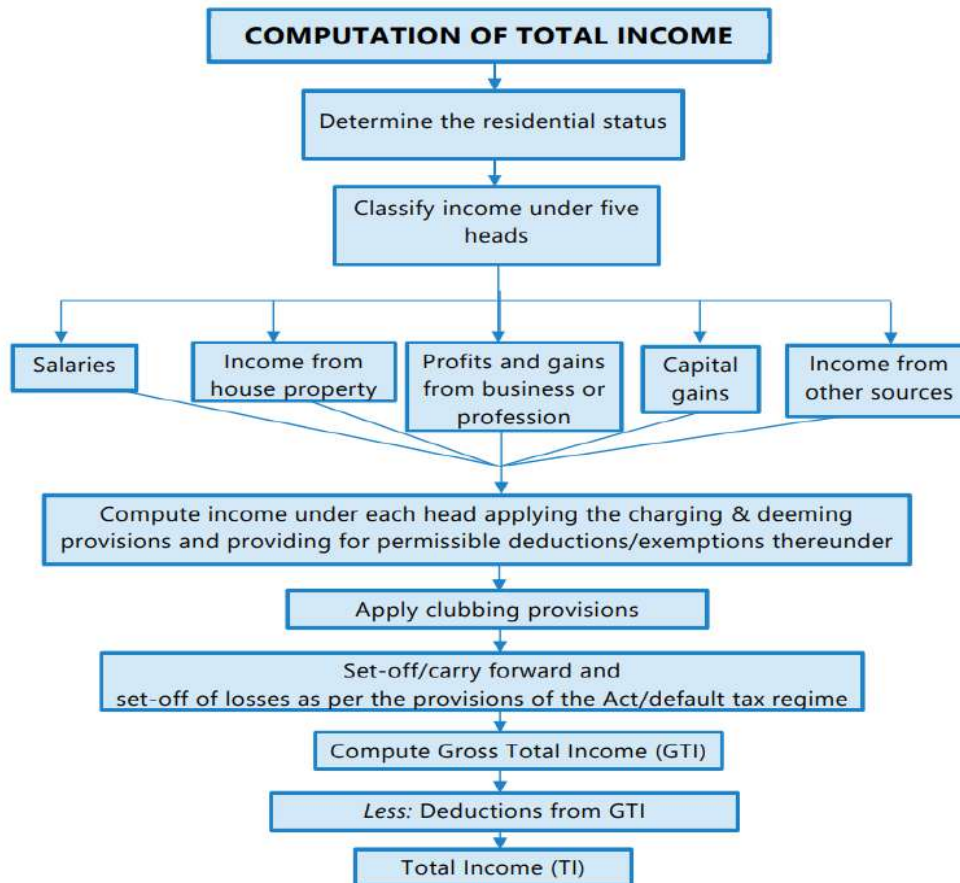


PC Note:

Entry 82 of Union List	Power to Levy Tax on Income (other than Agricultural Income) .
Entry 46 of State List	Power to Levy Tax on Agricultural Income .

CHARGE OF INCOME TAX [SECTION 4]

- Income-tax is a tax levied on the **Total Income (TI)** of the **Previous Year** of **every person**.
- Tax shall be charged at the **rates prescribed** for the year by the Annual Finance Act or Income-tax Act, 1961 or both.
- Steps/Procedure for computation of TI of the person for levy of Income tax is as follows:**



FIVE MAIN HEADS OF INCOME:



FROM SALARY

FROM PROFITS AND GAINS
OF BUSINESS OR PROFESSION

FROM HOUSE PROPERTY



FROM CAPITAL GAINS



FROM OTHER SOURCES

CQ1. State under which Head the following incomes will be taxable:

SN	Nature of Income	Head
1	Tarun received Rs. 7,200 as interest on fixed deposit with SBI.	IFOS
2	Akash made a gain of Rs. 35,000 on sale of shares held by him.	CG
3	Rs. 2,700 received by Atul as remuneration as an examiner from Calcutta University	IFOS
4	Barnali, a lawyer, earned an income of Rs. 1,45,000 from her profession.	PGBP
5	Swarnli received rent of Rs. 84,000 by letting out one of her flat to a tenant.	HP

DEFINITION OF A PERSON [SECTION 2(31)]

1	INDIVIDUAL
	<ul style="list-style-type: none"> Individual means only a natural human being (Male/Female/Minor/Unsound Mind). Income of Minor & Person of unsound Mind → Assessed in hands of Guardian or Manager u/s 161(1). In the case of Deceased person, assessment would be made on the legal representative.
2	HINDU UNDIVIDED FAMILY
	<ul style="list-style-type: none"> HUF is treated as separate entity (from members) for assessment purpose & tax is payable by HUF. As per Hindu Law, it consists of all males lineally descended from a common ancestor & includes their wives & daughters. The Status in HUF is received by birth & not by operation of law. Even a single male member can have HUF (w.e.f 6/9/2005). Only Co-parceners have the right to Partition. Coparceners → HUF may contain many members, but only members within 4 degrees including KARTA are called co-parceners (including daughters w.e.f 6/9/2005). PC Note: Wife/ daughter-in-law cannot be co-parceners; however, they can be members. Jain & Sikh undivided families would also be assessed as a HUF under IT Act.
3	COMPANY [SECTION 2(17)]
	<ul style="list-style-type: none"> 'Company' has a much wider meaning under Income Tax Act than Companies Act. It means: <ul style="list-style-type: none"> Any Indian Company defined in section 2(26); Any Body Corporate incorporated under the foreign laws [Foreign company]; Any institution, association or body (incorporated/not) whether Indian or non-Indian, which is declared by general or special order of CBDT to be a company. <p>PC Note: Classes of Companies is explained in Detail in Later Part of the Chapter.</p>
4	A FIRM [SECTION 2(23)]
	<ul style="list-style-type: none"> A firm includes a partnership firm (registered or not) & shall include a LLP. "Partnership firm" has same meanings as assigned to them in Indian Partnership Act. However, a minor admitted to the benefits of existing partnership would also be treated as partner [Sec 2(23)] Same Tax Treatment would be applicable for both General Partnerships & LLPs.
5	ASSOCIATION OF PERSONS or BODY OF INDIVIDUALS
	<p>ASSOCIATION OF PERSONS</p> <ul style="list-style-type: none"> When two or more persons combine together for promotion of joint enterprise, they are assessable as an AOP when they do not constitute a partnership legally. Conditions to form AOP: Persons must join in a common purpose, common action & their object must be to produce Income, but they should not form a partnership. Co-heirs, co-donees joining together for common purpose would be chargeable as AOP. <p>Example: Mr. Yash, AB & Co. (Firm) and X (P) Ltd. join together to carry on construction activity otherwise than as a partnership firm, such an association will be recognized as an AOP.</p>

BODY OF INDIVIDUALS (BOI):

- Persons who merely **receive** the **income jointly** & who may be assessable in like manner & to the same extent as the beneficiaries individually. [**Ex: Executors/trustees**]
- Co-Executors/Co-trustees are assessable as BOI since **their title & interest are indivisible**.
- Example:** Mutual trade associations, members club, etc.

Note: Tax is **not** payable by the assessee on **share of Income received by him from BOI** on which the tax has already been paid by such BOI. [**To avoid Double Taxation**]

Note: Section 2(31) further explains that AOP or BOI shall be treated as a person, whether or not it was formed with the object of deriving income/profits. Accordingly, even if such entities have been formed not for earning any income, still they are "person" & are covered by the provisions of the Act.

6 LOCAL AUTHORITY

- Municipal committee, district board, Municipality, body of port commissioners etc. legally entitled/entrusted by Government with control & management of Municipal/ local fund.
- Income of LA is taxable only if it is derived from the business of supply of commodity/service (other than water & electricity) outside its own jurisdictional area. Income arising from supply of water & electricity even outside its own jurisdictional areas → Exempt.**

7 EVERY OTHER ARTIFICIAL JURIDICAL PERSON (not falling within above categories)

- AJPs are the entities which are not natural persons but are separate entities in the eyes of law.
- This is a **residuary clause**. If the assessee does not fall in any of the first six categories, he is assessed under this clause. **Ex: An idol, or deity.**

CQ2. What is the difference between AOP & BOI?

Answer:

- AOP:** Voluntary getting together for definite purpose;
- BOI:** Just a body without an intention to get together.
- Members of BOI can be individuals only;
- Members of AOP can be individual or non-individual (Artificial persons).

CQ3. Determine the status of the following:

SN	Case	Status
1	Howrah Municipal Corporation	Local authority
2	Corporation Bank Ltd.	Company
3	Mr. Amitabh Bachchan	Individual
4	Amitabh Bachchan Corporation Ltd.	Company
5	A joint family of Sri Ram, Smt. Ram and their son Lav and Kush	HUF
6	Calcutta University	AJP
7	X and Y who are legal heirs of Z	BOI
8	Sole proprietorship business	Individual
9	Partnership Business	Firm

CLASSES OF COMPANIES

A	DOMESTIC COMPANY [SECTION 2(22A)] <ul style="list-style-type: none"> An Indian company or Any other company which has made prescribed arrangements for declaration & payment of dividends (including dividends on preference shares) within India payable out of the income taxable in India.
B	FOREIGN COMPANY [SEC 2(23A)]: A Company which is not a domestic company.
C	INDIAN COMPANY [SECTION 2(26)] <ul style="list-style-type: none"> Company should have been formed & registered under any law in India & Registered office or Principal office of the company should be in India.

CONCEPT OF FINANCIAL YEAR, PREVIOUS YEAR & ASSESSMENT YEAR

FY	Financial year means a year starting on 1 st April & ending on 31 st March of next year.
PY	<ul style="list-style-type: none"> FY in which the income is earned is called "Previous Year". PY means the Financial Year immediately preceding the AY.
AY	<ul style="list-style-type: none"> The year in which income is assessed to tax is called Assessment Year. AY 25-26 will commence on 1.4.2025 & will end on 31.3.2026. Thus, Income earned during PY 24-25 will be assessed/taxed in AY 25-26.

PC Note: PY → FY in which Income is earned; AY → FY (Next) in which income is taxed.

CQ4. Mr. A is running a business from 2003. Determine PY for AY 25-26. [Ans: PY = 1.4.2024 - 31.3.2025]

FIRST PREVIOUS YEAR FOR NEWLY SET-UP BUSINESS/PROFESSION DURING FY

- First PY = The period beginning from the date of setting up of the business or from the date the new source came into existence & ending on the last day of that FY (31st March).
- Therefore, first PY of a newly set-up business/ profession or a new source of income will be either 12 months or less than 12 months. It can never exceed a period of 12 months.

PC Note: Same provision will be applicable for 'New Source of Income'.

CQ5. Mr. PC set up a new business on 24.02.2024, what will be first PY for that business?

Ans: From 24.02.2024 – 31.03.2024; PY 23-24; AY 24-25.

CQ6. What will be the 2nd PY for his business?

Ans: [PY 24-25; AY 25-26]

DUAL ROLE OF A FINANCIAL YEAR

- Each financial year is both Previous Year as well as Assessment Year.
- It is PY for income earned during that FY & AY for the income earned during the preceding FY.

Example	Previous Year [PY]	Assessment Year [AY]
FY 23-24	PY for incomes during 1.4.2023 to 31.03.2024	AY for incomes earned in PY 22-23
FY 24-25	PY for incomes during 1.4.2024 to 31.03.2025	AY for incomes earned in PY 23-24

CASES WHERE INCOME OF PREVIOUS YEAR IS ASSESSED IN SAME YEAR

- **General Rule:** Income earned during any PY is assessed to tax in immediately succeeding AY.
- However, in following circumstances, income is taxed in PY in which it is earned. **Thus, AY & PY in these circumstances will be same.** These exceptions have been made to **protect the interests of revenue.**

FOLLOWING ARE THE EXCEPTIONS:**1 SHIPPING BUSINESS OF NON-RESIDENTS [Section 172]**

- If a **ship belonging** to **NR** carries passengers/livestock/mail/goods shipped **at a port in India**,
- Ship is **allowed to leave** the port only when **tax has been paid** or satisfactory arrangement has been made for payment thereof.
- **Income = 7.5% of the freight paid/payable** (whether in India or o/s India for such carriage).
- Such income is charged to tax in the same year in which it is earned.

2 PERSONS LEAVING INDIA [Section 174]

- Where it appears to AO that any individual may leave India during the current AY or shortly after its expiry & he has **no present intention of returning to India, then**
- Total Income of such individual for the period from the expiry of the respective PY up to the probable date of his departure from India is chargeable to tax in that AY.

Ex: Suppose Mr. X is leaving India for USA on 10.06.2024 & it appears to AO that he has no intention to return. Before leaving India, Mr. X will be required to pay tax on the income earned during PY 23-24 (last PY) as well as the total income earned during the period 1.4.2024 to 10.06.2024 (PY & AY will be same)

3 AOP/BOI/AJP FORMED FOR A PARTICULAR EVENT OR PURPOSE [Section 174A]

- If AOP/BOI etc. is formed or established for a particular event or purpose &
- AO apprehends that AOP/BOI is **likely to be dissolved** in the same year or in next year,
- he can make assessment of the **income upto date of dissolution** as income of relevant AY.

4 PERSONS LIKELY TO TRANSFER PROPERTY TO AVOID TAX [Section 175]

- During the current AY, if it appears to AO that a person is likely to charge, sell, transfer, dispose any of his assets **to avoid payment of any liability** under this Act,
- Total income of such person for the period from the expiry of PY to the date when AO commences proceedings is chargeable to tax in that assessment year.

5 DISCONTINUED BUSINESS [Section 176]

- If any business or profession is discontinued in any AY,
- Income of the period from the expiry of the PY up to the date of such discontinuance may,
- **at the discretion of AO**
- may be charged to tax in that assessment year.

PC Note:

Section 176 is a Discretionary power. AO has the discretion of applying it.

AO may choose not to apply it & wait till the end of the Assessment Year.

COMPONENTS OF INCOME TAX LAWS**1 INCOME TAX ACT, 1961**

- It came into force on **1st April, 1962**. The act contains **298 sections & XIV schedules**.
- A section may have **sub-sections, clauses & sub-clauses**.

Clause	When each part of the section is independent of each other & one is not related with other, such parts are called a "Clause".
Sub-section	It refers to such parts of a section where each part is related with other & all sub-sections taken together completes the concept propounded in that section.

Ex: Clause (1A) of Section 2 defines "agricultural income", Clause (1B) defines "amalgamation".

PC Note: Each sub section is related with the other in the sense that only when one reads them all, one gets the complete idea related with scope of total income.

- A Section may also have **Provisos & Explanations**.

Proviso	It gives the exceptions to the provision contained in the respective section.
Explanation	It gives clarification relating to the provision contained in that section.

- The Act (since it is **Revenue-based Act**) undergo changes every year with additions & deletions brought by the **Annual Finance Act** passed by the parliament.

2 ANNUAL FINANCE ACT

- Every year, **Finance Minister Introduces the Finance Bill** in Parliament's Budget session.
 - Part A** of budget speech → contains the **proposed policies of government in fiscal area**.
 - Part B** of budget speech → contains the **detailed tax proposals**.
- When the **Finance Bill** is passed by both the houses of the Parliament & gets the assent of the President, it becomes the **Finance Act** which is incorporated in the Income-Tax Act.
- Amendments are made every year to the Act & other tax laws by the Finance Act.
- The **First Schedule** to the Finance Act contains **four parts** which specify the rates of tax.

3 INCOME TAX RULES, 1962

- Administration of direct taxes is looked after by Central Board of Direct Taxes (CBDT).
- CBDT is empowered to make rules for **proper administration** of the Act.
- Ex:** Section 32 provides deduction for depreciation but rates of depreciation are given by Rule 5

4 NOTIFICATIONS

- Notifications are **subordinate legislation issued by CG** to give effect to the provisions of the Act.
- The CBDT is also empowered to **make & amend rules by issuing notifications**.
- They are **binding on everyone**. [Assessee + Income Tax department]

5 CIRCULARS

- Circulars are issued by the CBDT to deal with **certain specific problems & to clarify the doubts regarding the scope & meaning of the provisions of the law**.
- Circulars are issued for the guidance of the Income Tax officers &/or Assesseees.
- These circulars are **binding on the department but not on the assessee**.
- However, assessee can take advantage of beneficial circulars.

6 CASE LAWS (JUDICIAL DECISIONS)

- It is not possible to make law for all the possible issues that may arise. Hence, any new point which arises (on which law is not made) will be heard by the courts & decision given by court becomes Law.
- Supreme Court Decisions** becomes Judicial Precedent (Law) & are **binding on all the courts, Appellate Tribunal, Income Tax Authorities & on the assessee**.
- High Court decisions are binding on the assesseees & IT Authorities which come under its jurisdiction unless it is overruled by Supreme Court. **Decision of a High Court cannot bind the other High Courts.**

CHARGE OF INCOME TAX & RATE OF TAX [SECTION 4]

➡ **Total income** ⇒ Income from all sources after deductions **Except Incomes taxable at special rates.**

Space for Chart of Bifurcation of Total Income & Applicable Tax Rates

Space for Class Note of Default Tax Regime vs. Optional Tax Regime

DEFAULT TAX REGIME - NEW TAX REGIME [SECTION 115BAC]

- Section 115BAC provides for concessional rates of tax to **Individuals/HUF/AOP/BOI/AJP (R/NR)**.
- These concessional tax rates are slab rates which are applicable on total income (**other than special incomes taxable at special rates under Chapter XII**).
- **However, assessee will not be able to avail certain exemptions/deductions** like LTC, Std. deduction u/h 'Salaries', interest on housing loan on SOP, Deductions (except 80CCD(2), 80CCH(2) or 80JJAA)
- **Concessional Slab Rates are:**

Income	≤ 3L	3L – 7L	7L – 10L	10L – 12L	12L – 15L	Above 15 Lacs
Rate	Nil	5%	10%	15%	20%	30%

PC Note: BEL of Rs. 3 Lacs will be same for individual of all ages u/s 115BAC.

PC Note: Individuals & HUFs exercising option u/s 115BAC are not liable to AMT u/s 115JC.

CQ7. Mr. X has a total income of Rs. 16 Lacs for PY 24-25, comprising of income from house property & interest on fixed deposits. Compute his tax liability for AY 25-26 under the default tax regime if his age is: (a) 45 years; (b) 63 years; (c) 82 years.

[Source: ICAI SM Illustration 3]

Answer: Computation of Tax liability of Mr. X for AY 25-26

Income	Calculations	Amount
First Rs. 3,00,000	Nil (i.e Basic Exemption Limit)	
Next Rs. 3,00,001 – Rs. 7,00,000	Rs. 4,00,000 x 5%	Rs. 20,000
Next Rs. 7,00,001 – Rs. 10,00,000	Rs. 3,00,000 x 10%	Rs. 30,000
Next Rs. 10,00,001 – Rs. 12,00,000	Rs. 2,00,000 x 15%	Rs. 30,000
Next Rs. 12,00,001 – Rs. 15,00,000	Rs. 3,00,000 x 20%	Rs. 60,000
Income above 15 Lacs	Rs. 1,00,000 x 30%	Rs. 30,000
Total Tax		Rs. 1,70,000
Add: 4% HEC of Tax		Rs. 6,800
Total Tax Liability		Rs. 1,76,800

CQ8. Can Non-resident pay concessional tax u/s 115BAC ? YES

RATES PRESCRIBED BY ANNUAL FINANCE ACT - OPTIONAL TAX REGIME

- Individuals/HUF/AOP/BOI/AJP who exercise the option to **opt out of the default tax regime u/s 115BAC**, have to pay tax as per normal provisions of the Act.
- Under the normal provisions of the Act, rates of tax are prescribed by the Annual Finance Act of the year.

A	INDIVIDUAL/HUF/AOP/BOI/AJP [R/NR]	
	Total Income	Rate of Tax
	Upto Rs. 2,50,000 [Basic Exemption Limit]	Nil
	From Rs. 2,50,001 to Rs. 5,00,000	5%
	From Rs. 5,00,001 to Rs. 10,00,000	20%
	Above Rs. 10,00,000	30%
B	Resident Senior Citizen [Age = 60 years or more but < 80 years at any time during PY]	
	Total Income	Rate of Tax
	Upto Rs. 3,00,000	Nil
	From Rs. 3,00,001 to Rs. 5,00,000	5%
	From Rs. 5,00,001 to Rs. 10,00,000	20%
	Above Rs. 10,00,000	30%
C	For Resident Super Senior Citizen [Age = 80 years or above at any time during PY]	
	Total Income	Rate of Tax
	Upto Rs. 5,00,000	Nil
	From Rs. 5,00,001 to Rs. 10,00,000	20%
	Above Rs. 10,00,000	30%

CQ9. Mr. X has a total income of Rs. 16 Lacs for PY 24-25, comprising of income from house property & interest on fixed deposits. Compute his tax liability for AY 25-26 if his age is (a) 45 years; (b) 63 years; (c) 82 years. Assume that Mr. X has opted out of the default tax regime u/s 115BAC. [Source: ICAI SM Illustration 4]

Answer:

(a) Age = 45 years

First Rs. 2,50,000	Nil
Next Rs. 2,50,000 @ 5%	Rs. 12,500
Next Rs. 5,00,000 @ 20%	Rs. 1,00,000
Balance: Rs. 6 Lacs @ 30%	Rs. 1,80,000
Total	Rs. 2,92,500
Add: 4% HEC	Rs. 11,700
Total Tax (rounded off)	Rs. 3,04,200

PC Note: Tax on Rs. 10 Lacs = Rs. 1,12,500 in case of Normal Individual (Remember this). Only Tax on Income above Rs. 10 Lacs shall be calculated & such amount shall be added by Rs. 1,12,500 to arrive at final tax amount.

(b) Age = 63 years. Mr. X is a senior citizen, he will get BEL of Rs. 3 Lacs & remaining slabs will be same.

First Rs. 3,00,000	Nil
Next Rs. 2,00,000 @ 5%	Rs. 10,000
Next Rs. 5,00,000 @ 20%	Rs. 1,00,000
Balance Rs. 6,00,000 @ 30%	Rs. 1,80,000
Total	Rs. 2,90,000
Add: 4% HEC	Rs. 11,600
Tax rounded off	Rs. 3,01,600

(c) Age = 82 Years. Since Mr. X is a super-senior citizen, he will get BEL of Rs. 5 lacs.

First Rs. 500,000	Nil
Next Rs. 5,00,000 @ 20%	Rs. 1,00,000
Balance Rs. 2,00,000 @ 30%	Rs. 1,80,000
Total	Rs. 2,80,000
Add: 4% HEC	Rs. 11,200
Tax rounded off	Rs. 2,91,200

Clarification regarding attaining age of 60 years/80 years on 31st March if birthday falls on 1st April

- Question is whether a person born on 1st April of a particular year can be said to have completed a particular age on 31st March on preceding day of his/her birthday or on 1st April itself of that year.
- CBDT has clarified that a person born on 1st April would be considered to have attained a particular age on 31st March, the day before his birthday.
- Thus, resident individual whose 60th birthday falls on 1st April 2025 would be treated as having attained 60 years on 31st March 2025 (i.e. in PY 24-25) and would be eligible for higher BEL of Rs. 3 Lacs &
- Resident individual whose 80th birthday falls on 1st April 2025, would be treated as having attained the age of 80 years in PY 24-25 & would be eligible for higher BEL of Rs. 5 lacs for AY 25-26.

DECISION OF DEFAULT SCHEME VS OPTIONAL SCHEME

CQ10. Examine whether to pay tax under the default tax regime u/s 115BAC or pay tax under optional (normal) tax regime as per the regular provisions of the Act.

Answer:

- Total income and tax liability of individuals/HUF/AOP/BOI/AJP may be computed in accordance with both the default tax regime u/s 115BAC and as per the regular provisions of the Act including provisions relating to AMT, if applicable.
- Then, such persons can determine which is more beneficial and accordingly decide whether or not to opt out of the default tax regime u/s 115BAC.
- Individuals/HUF/AoPs/Bols not having income from business or profession can choose whether or not to exercise the option of shifting out of the default tax regime in each previous year. They may choose to pay tax under default tax regime u/s 115BAC in one year and exercise the option to shift out of default tax regime in another year.

REBATE U/S 87A – UNDER OLD TAX REGIME [IF OPTED OUT]

Eligibility	Resident Individuals whose Total Income ≤ Rs. 5,00,000.
Amount of Rebate	Lower of (i) Income Tax payable on Total Income OR (ii) Rs. 12,500.

PC Note:

- ✍ Rebate u/s 87A is **not available i.r.o tax payable on LTCG u/s 112A.**
- ✍ Rebate u/s 87A shall be taken **before adding 4% HEC.**
- ✍ Rebate u/s 87A is allowed from casual incomes also.

CQ11. Compute rebate u/s 87A in the following cases:

Particulars	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
Assessee	Individual	Individual	Senior Citizen	Senior Citizen	Individual	HUF
Res. Status	Resident	Resident	Resident	Resident	NR	Resident
Total Income	4,90,000	5,12,000	4,25,000	5,40,000	2,60,000	2,65,000
Tax on above	12,000	14,900	6,250	18,000	500	750
87A Rebate	12,000	Nil	6,250	Nil	Nil	Nil
Reason	-	TI > 5 Lacs		TI > 5 Lacs	No Rebate to NR	Rebate only for individual
Tax	Nil	14,900	Nil	18,000	500	750

CQ12. Mr. Piyush, aged 35 years and a resident in India, has a total income of Rs. 4,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for AY 25-26 if he exercises the option to shift out of the default tax regime. **[ICAI SM Q11]**

Solution: Since Mr. Piyush is a resident having Total Income < Rs. 5,00,000, rebate u/s 87A is available.

First Rs. 2,50,000	Nil
Next Rs. 1,65,000 @ 5%	Rs. 8250
Less: Rebate u/s 87A = Lower of (i) Tax payable i.e Rs. 8250; OR (ii) Rs. 12,500	(Rs. 8250)
Tax payable after rebate u/s 87A	Nil

CQ13. Total income of Mr. Anup (22 yrs) resident in India is Rs. 5,00,000. Compute tax liability for AY 25-26.

Solution: Since Mr. Anup is a resident having Total Income = Rs. 5,00,000, rebate u/s 87A is available.

Tax Liability on Rs. 5 Lacs	Rs. 12,500
Rebate u/s 87A = Lower of (i) Tax payable or (ii) Rs. 12,500	(Rs. 12,500)
Tax payable after rebate u/s 87A	Nil

CQ14. Total income of Dia (22 yrs) resident in India is Rs. 5,00,100. Compute tax liability for AY 25-26.

Solution: Since Dia is a resident having Total Income > Rs. 5,00,000, rebate u/s 87A is NOT available.

First Rs. 2,50,000	Nil
Next Rs. 2,50,000 @ 5%	Rs. 12,500
Next Rs. 100 @ 20%	Rs. 20
Total	Rs. 12,520
Rebate u/s 87A = Lower of (i) Tax payable or (ii) Rs. 12,500	NA
Add: 4% HEC	Rs. 500.80
Tax payable (rounded off)	Rs. 13, 020

REBATE U/S 87A – UNDER DEFAULT (NEW) TAX REGIME u/s 115BAC

Eligibility	Resident Individuals whose Total Income ≤ Rs. 7,00,000.
Amount of Rebate	Lower of (i) Income Tax payable on Total Income OR (ii) Rs. 25,000.
<p>PC Note: If TI > Rs. 7 Lacs & tax payable on such TI exceeds the amount by which total income is in excess of Rs. 7,00,000, the rebate would be as follows:</p> <p>(1) Compute Tax Liability on Total Income</p> <p>(2) Compute Extra Income (i.e Income over Rs. 7 Lacs)</p> <p>(3) If Tax Liability > Extra Income, Rebate = Tax Liability – Extra Income.</p>	

CQ12. Mr. Pawan (age 35) & resident in India, has a total income of Rs. 7,15,000, comprising his salary income & interest on bank FD. Compute his tax liability for AY 25-26 u/s 115BAC. **[ICAI SM Q10]**

Ans: **Computation of tax liability of Mr. Pawan for AY 25-26**

Particulars	Rs.
Extra Income (i.e Income over Rs. 7 Lacs)	Rs. 15,000
Tax on total income of Rs. 7,15,000 = 10% of Rs. 15,000 + Rs. 20,000	Rs. 21,500
Since Tax Liability > Extra Income, Rebate = Tax Liability – Extra Income = 21,500 - 15,000	(Rs. 6,500)
Tax Liability [Rs. 26,500 – Rs. 11,500]	Rs. 15,000
Add: 4% HEC	Rs. 600
Total Tax Liability	Rs. 15,600

RATES OF SURCHARGE - OLD SCHEME (SC is levied as % of Income Tax)

Individual/HUF/AOP/BOI/AJP		[PC Method]
1	If there is NO 'Share Market Income' [STCG u/s 111A, LTCG u/s 112A & u/s 112, Dividend]	
(a)	TI ≤ Rs. 50 Lacs	No Surcharge
(b)	TI > Rs. 50 Lacs but ≤ Rs. 1 Cr.	Rate of Surcharge = 10% of Income Tax
(c)	TI > Rs. 1 Cr. but ≤ Rs. 2 Cr.	Rate of Surcharge = 15% of Income Tax
(d)	TI > Rs. 2 Cr. but ≤ Rs. 5 Cr.	Rate of Surcharge = 25% of Income Tax
(e)	TI > 5 Cr.	Rate of Surcharge = 37% of Income Tax
2	If there is 'Share Market Income' [STCG u/s 111A, LTCG u/s 112A & u/s 112, Dividend]	
PC Note: Surcharge Rate of 25% & 37% are not applicable on 'Share Market Income'		
(a)	TI ≤ Rs. 50 Lacs	No Surcharge
(b)	TI > Rs. 50 Lacs but ≤ Rs. 1 Cr.	Rate of Surcharge = 10% of Income Tax
(c)	TI > Rs. 1 Cr. but ≤ Rs. 2 Cr.	Rate of Surcharge = 15% of Income Tax
(d)	TI > 2 Cr.	
(i) Share Market Income		Rate of Surcharge = 15% of Income Tax
(ii) Other Incomes –		
– ≤ Rs. 2 Cr.		Rate of Surcharge = 15% of Income Tax
– > 2 Cr. but ≤ Rs. 5 Cr.		Rate of Surcharge = 25% of Income Tax
– > 5 Cr.		Rate of Surcharge = 37% of Income Tax

RATES OF SURCHARGE - NEW SCHEME

Individual/HUF/AOP/BOI/AJP		[PC Method]	
1	If there is NO 'Share Market Income' [STCG u/s 111A, LTCG u/s 112A & u/s 112, Dividend]		
	(a)	TI ≤ Rs. 50 Lacs	No Surcharge
	(b)	TI > Rs. 50 Lacs but ≤ Rs. 1 Cr.	Rate of Surcharge = 10% of Income Tax
	(c)	TI > Rs. 1 Cr. but ≤ Rs. 2 Cr.	Rate of Surcharge = 15% of Income Tax
	(d)	TI > Rs. 2 Cr	Rate of Surcharge = 25% of Income Tax
2	If there is 'Share Market Income' [STCG u/s 111A, LTCG u/s 112A & u/s 112, Dividend]		
	PC Note: Surcharge @ 25% is not applicable on 'Share Market Income'.		
	(a)	TI ≤ Rs. 50 Lacs	No Surcharge
	(b)	TI > Rs. 50 Lacs but ≤ Rs. 1 Cr.	Rate of Surcharge = 10% of Income Tax
	(c)	TI > Rs. 1 Cr. but ≤ Rs. 2 Cr.	Rate of Surcharge = 15% of Income Tax
	(d)	TI > 2 Cr	
	(iii) Share Market Income		Rate of Surcharge = 15% of Income Tax
	(iv) Other Incomes –		
	– ≤ Rs. 2 Cr.		Rate of Surcharge = 15% of Income Tax
– > 2 Cr.		Rate of Surcharge = 25% of Income Tax	

SURCHARGE FORMAT GIVEN IN MODULE

[USE PC METHOD TO SOLVE THE QUESTIONS]

OLD REGIME		SC
1	TI (including dividend & STCG u/s 111A & LTCG u/s 112A) > Rs. 50 Lacs but ≤ Rs. 1 Cr	10%
Ex: Dividend - Rs. 15 lacs; STCG u/s 111A - Rs. 15 lacs; LTCG u/s 112 - Rs. 25 lacs; LTCG u/s 112A - Rs. 20 lacs; Other income - Rs. 20 lacs. Rate of Surcharge = 10% of tax on total income of Rs. 95 lacs.		
2	TI (including dividend & STCG u/s 111A & LTCG u/s 112A) > Rs. 1 Cr. but ≤ Rs. 2 Cr.	15%
Ex: Dividend - Rs. 10 lacs; STCG u/s 111A - Rs. 60 lacs; LTCG u/s 112A - Rs. 65 lacs; Other income - Rs. 50 lacs. Rate of Surcharge = 15% of tax on total income of Rs. 1.85 Crores.		
3	TI (excluding dividend & STCG u/s 111A & LTCG u/s 112A) > Rs. 2 Cr but ≤ Rs. 5 Cr.	25%
Rate of Surcharge on income-tax payable on portion of dividend & STCG u/s 111A & 112A		15%
Ex: Dividend - Rs. 60 lacs; STCG u/s 111A - Rs. 54 lacs; LTCG u/s 112A - Rs. 55 lacs; Other income - Rs. 3 Cr [PC Note: Other income being > 2 Cr]		
<ul style="list-style-type: none"> ▪ Rate of Surcharge = 25% on income-tax computed on other income of Rs. 3 crores. ▪ SC = 15% on Dividend - Rs. 60 lacs; STCG u/s 111A - Rs. 54 lacs; LTCG u/s 112A - Rs. 55 lacs; 		
4	TI (excluding dividend & STCG u/s 111A & LTCG u/s 112A) > Rs. 5 Cr.	37%
Rate of Surcharge on income-tax payable on portion of dividend & STCG u/s 111A & 112A		15%
Ex: Dividend - Rs. 60 lacs; STCG u/s 111A - Rs. 50 lacs; LTCG u/s 112A - Rs. 65 lacs; Other income - Rs. 6 Cr [PC Note: Other income being > 5 Cr]		
<ul style="list-style-type: none"> ▪ Rate of Surcharge = 37% on income-tax computed on other income of Rs. 6 crores. ▪ SC = 15% on Dividend of Rs. 60 lacs; STCG u/s 111A - Rs. 50 lacs; LTCG u/s 112A - Rs. 65 lacs; 		
5	TI (including dividend & STCG u/s 111A & LTCG u/s 112A) > Rs. 2 Cr [in cases not covered under (3) & (4) above] [PC Note: Other income being ≤ 2 Cr]	15%
Ex: Dividend - Rs. 55 lacs; STCG u/s 111A - Rs. 60 lacs; LTCG u/s 112A - Rs. 55 lacs; Other income - Rs. 1.10 Cr.		
<ul style="list-style-type: none"> ▪ Surcharge would be levied @ 15% on income-tax computed on TI of Rs. 2.80 crore. 		



MARGINAL RELIEF

❖ If surcharge is applicable on Total Income, Marginal relief is available to **ALL Assesseees**.

❖ **Steps to calculate Marginal Relief:**

1. Calculate Tax (including surcharge) on Total Income of the Assessee.
2. Calculate Tax payable on Rs. 50 Lacs/1 Cr/2 Cr/5 Cr (as the case may be).
3. Calculate 'Extra Tax Payable' because of Income above Rs. 50 Lacs/1 Cr/2 Cr/5 Cr. [Step 1 - 2]
4. Marginal Relief = Extra Tax Payable – Income above Rs. 50 Lacs/1 Cr/2 Cr/5 Cr.

PC Note: If Extra Tax > Extra Income, Marginal Relief = Extra Tax - Extra Income.

CQ15. Compute tax liability of Mr. D (aged 65) in most beneficial manner. He is having total income of Rs. 5,01,00,000 for AY 25-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit and is the same under both tax regimes. **[ICAI SM Illustration 8]**

Solution: **Computation of tax liability of Mr. D for AY 25-26 under default (new) tax regime**

Tax payable on Total Income of Rs. 5,01,00,000	Rs. 1,47,20,000
Add: Surcharge @ 25%	Rs. 36,80,000
Tax + Surcharge	Rs. 1,84,00,000
Add: 4% HEC on Rs. 1,84,00,000	Rs. 7,36,000
Total Tax Liability	Rs. 1,91,36,000

PC Note: No Question of MR since income much more than Rs. 2 Cr. No SC @ 37% in default tax regime.

Computation of tax liability of Mr. D for AY 25-26 under optional (old) tax regime

1. Tax payable including surcharge @ 37% on Total Income of Rs. 5,01,00,000	Rs. 2,03,30,800
2. Tax Payable on total income of Rs. 5 Cr [Surcharge @ 25%]	Rs. 1,85,12,500
3. Excess tax payable = [(1) - (2)] = Rs. 2,03,30,800 - Rs. 1,85,12,500	Rs. 18,18,300
4. Marginal Relief = Rs. 18,18,300 – Rs. 1,00,000	Rs. 17,18,300
5. Tax Payable = Rs. 2,03,30,800 - Rs. 17,18,300 = Rs. 1,86,12,500 + 4% HEC	Rs. 1,93, 57,00

Conclusion: It is beneficial for Mr. D to pay tax under default tax regime u/s 115BAC, since his tax liability would be lower by Rs. 2,21,000 (Rs. 1,93,57,000 - Rs. 1,91,36,000).

CQ13. Compute the tax liability of Mr. A (aged 42), having total income of Rs. 51 lacs for AY 25-26. Assume that his total income comprises of salary income, Income from house property & interest on fixed deposit. Assume that Mr. A has exercised the option to shift out of section 115BAC. **[Source: ICAI Illustration 5]**

Solution: **Computation of tax liability of Mr. A for AY 25-26**

1. Tax payable including surcharge @ 10% on Total Income of Rs. 51,00,000	Rs. 14,76,750
2. Tax Payable on total income of Rs. 50 Lacs (No Surcharge will be levied)	Rs. 13,12,500
3. Excess tax payable = [(1) - (2)] = Rs. 14,76,750 – Rs. 13,12,500	Rs. 1,64,250
4. Marginal Relief = [(Rs. 1,64,250 - Rs. 1,00,000) Income in excess of Rs. 50,00,000]	Rs. 64,250
5. Tax Payable = Rs. 14,76,750 – Rs. 64,250 (Mar. Relief) = Rs. 14,12,500 + 4% HEC	14,69,000

CQ14. Compute tax liability of Mr. B (aged 51) under default tax regime, having TI of Rs. 1,01,00,000 for AY 25-26. Assume that his total income comprises of salary, HP income & FD interest. [ICAI SM Illustration 6]

Solution:

Computation of tax liability of Mr. B for AY 25-26

1. Tax payable including surcharge @ 15% on Total Income of Rs. 1,01,00,000	Rs. 31,28,000
2. Tax Payable on total income of Rs. 1 Cr [Surcharge @ 10%]	Rs. 29,59,000
3. Excess tax payable = [(1) - (2)] = Rs. 31,28,000 - Rs. 29,59,000	Rs. 1,69,000
4. Marginal Relief = [(Rs. 1,69,000 - Rs. 1,00,000)]	Rs. 69,000
5. Tax Payable = Rs. 31,28,000 - Rs. 69,000 = Rs. 30,59,000 + 4% HEC	Rs. 31,81,360

CQ16. Compute tax liability of Mr. C (aged 58), having total income of Rs. 2,01,00,000 for AY 25-26. Assume that his total income comprises of salary income, Income from house property & interest on fixed deposit. Assume that Mr. C has exercised the option to shift out of section 115BAC. [Source: ICAI

SM Illustration 7]

Solution:

Computation of tax liability of Mr. C for AY 25-26

1. Tax payable including surcharge @ 25% on Total Income of Rs. 2,01,00,000	Rs. 73,03,125
2. Tax Payable on total income of Rs. 2 Cr [Surcharge @ 15%]	Rs. 66,84,375
3. Excess tax payable = [(1) - (2)] = Rs. 73,03,125 - Rs. 66,84,375	Rs. 6,18,750
4. Marginal Relief = [(Rs. 6,18,750 - Rs. 1,00,000)]	(Rs. 5,18,750)
5. Tax Payable = Rs. 73,03,125 - Rs. 5,18,750 = Rs. 67,84,375 + 4% HEC	70,55,750

Tax Rate of Firms/LLP/LA

Whole Income is taxable @ **Flat 30%** without any BEL.

Note: Rate of Surcharge = 12% of Tax if Total Income > 1 Cr.



CO-OPERATIVE SOCIETIES

Total Income	Rate of Tax
Upto Rs. 10,000	10%
From Rs. 10,001 to Rs. 20,000	20%
Above Rs. 20,000	30%

PC Note:

- Resident Manufacturing co-operative society can opt for concessional rates of tax u/s 115BAE.
Section 115BAE: 15% of income derived from or incidental to manufacturing or production.
- Other co-operative societies, resident in India, can opt for concessional rates of tax u/s 115BAD.
Section 115BAD: 22% of total income.

TAX RATES – COMPANY

Domestic	1	If Turnover/Gross Receipt in PY 22-23 ≤ Rs. 400 Cr.	25%
	2	Any other case	30%
	3	Manufacturing company exercising option u/s 115BAB	15%
	4	Company exercising option u/s 115BAA	22%
	<ul style="list-style-type: none"> Note: (3) & (4) are concessional tax regimes available to companies. Provisions of MAT → NA to domestic companies specified in (3) & (4) above. MAT is payable by companies specified in (1) & (2) above; 		
Foreign	Foreign Company (i.e other than Domestic Company)		40%

SURCHARGE: Domestic Companies/Co-operative society

TI > Rs. 1 Cr but ≤ Rs. 10 Cr	Rate of SC = 7% of Income Tax.
TI > Rs. 10 Cr	Rate of SC = 12% of Income Tax.

SURCHARGE: Foreign Companies

[Note: Foreign companies are not eligible for 115BAA/BAB]

TI > Rs. 1 Cr but ≤ Rs. 10 Cr	Rate of SC = 2% of Income Tax.
TI > Rs. 10 Cr	Rate of SC = 5% of Income Tax.

DOMESTIC COMPANY WHICH OPTED FOR OPTION U/S 115BAA OR U/S 115BAB ↓

- Rate of SC = 10%** of Income Tax computed u/s 115BAA or u/s 115BAB.
- There is no threshold limit for applicability of surcharge. Consequently, there is no marginal relief.

HEALTH & EDUCATION CESS [Applicable on TI of ALL Assessee]

- Health & Education cess @ 4% is levied on **Total Income tax + SC - Rebate u/s 87A**.

ROUNDING OFF OF INCOME & TAX PAYABLE [SECTION 288A/B]

- Total income/Tax shall be rounded off to the **nearest multiple of 10 Rupees**.

AVERAGE RATE OF TAX [SECTION 2(10)]

$$\text{Average Rate of Tax} = \frac{\text{Amount of Income Tax calculated on Total Income using applicable slab rate}}{\text{Total Income}}$$

MAXIMUM MARGINAL RATE OF TAX [SECTION 2(29C)]

- **Highest Slab Rate of Tax (including SC)** specified in Finance Act of relevant PY for **Individual**.
- **MMR for PY 24-25** = 30% (Rate of Tax) + 37% Surcharge + 4% HEC = **42.744%**.

ASSESSEE [Section 2(7)]

- ❖ Any person by whom **any tax or any other sum of money is payable** under this Act.
- ❖ It includes:
 - **Tax Payable:** Every Person by whom any tax or any other sum of money is payable under this Act whether or not any proceeding under this act has started against him.
 - **Proceeding started:** Any Person i.r.o. whom any proceeding has been taken under this act whether or not any tax, penalty etc. is payable by him under this act.

Proceeding may be taken for/of -

 - ☞ **Assessment of his income (or loss)** sustained by him;
 - ☞ **Income (or loss) of any other person** i.r.o. whom he is assessable;
 - ☞ **Refund** due to him or to such other person.
 - **Deemed Assessee:** Sometimes, a person becomes assessable i.r.o. the **income of some other persons**. In such a case, he may be deemed as an assessee. Ex: Legal Heir.
 - **Assessee in default:** Any person who does **not deduct tax at source** or after deducting tax, fails to pay deducted tax to the **government** or who **fails** to pay **advance tax** is deemed to be assessee in default.

PREVIOUS YEAR FOR UNDISCLOSED SOURCES OF INCOME

1 CASH CREDITS [Section 68]

- Where any sum is found credited in the books of the assessee & assessee offers **no explanation** about the **nature & source** or **explanation offered is not satisfactory**,
- Such sum so credited may be charged as income of the assessee of that PY.

Unexplained loan or borrowing: If sum credited consists of loan or borrowing, any explanation offered by the assessee in whose books such sum is credited shall not be deemed to be satisfactory, unless –

- person in whose name such credit is recorded in the books of assessee also offers an explanation about the nature and source of such sum so credited; and
- such explanation in the opinion of AO has been found to be satisfactory.

Unexplained Share Capital/Premium: Any explanation offered by a closely held company i.r.o. any sum credited as share application money, share capital, share premium in the accounts of such company shall be deemed to be not satisfactory, unless

- the person, being a resident, in whose name such credit is recorded in the books of such company also explains about the nature and the source of such sum so credited and
- such explanation in the opinion of AO has been found to be satisfactory

Non-applicability to Venture Capital Fund or Venture Capital Company: These additional conditions would not apply if the person, in whose name the sum is recorded, is a Venture Capital Fund or Venture Capital Company registered with SEBI.

2 UNEXPLAINED INVESTMENTS [Section 69]

- If assessee has made **investments** which are **not recorded in books of account** & Assessee offers **no explanation** about **nature & source of investment** or explanation offered is **not satisfactory**,
- Value of investments are taxed as income of assessee of such FY in which investment is made.

3 UNEXPLAINED MONEY ETC. [Section 69A]

- Where in any FY, assessee is found to be **owner of any money, bullion, jewellery etc.** &
- Such asset is **not recorded** in books of account & the assessee offers **no explanation** about nature & source or explanation offered is not satisfactory,
- Money & Value of bullion etc. will be deemed to be income of the assessee for such FY.
- Ownership is important & mere possession is not enough.**
- Thus, if the assessee is in possession of the above-mentioned things but he is not the owner, then such other person who is the owner will be questioned about the source & will be assessed to tax.

4 AMOUNT OF INVESTMENTS NOT FULLY DISCLOSED IN BOOKS [Section 69B]

- Where in any FY, assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article &
- AO finds that **amount spent** on making such investments **exceeds the amount recorded in his books** & assessee offers **no explanation** for the **difference** or explanation offered is **unsatisfactory**,
- Such excess may be deemed to be the income of the assessee for such FY.

Ex: If the assessee is found to be the owner of 100 gms of gold (market value = Rs. 3,00,000) during PY 24-25 but he has recorded to have spent Rs. 1,00,000 in acquiring it, AO can add Rs. 2,00,000 as the income of the assessee, if the assessee offers no satisfactory explanation thereof.

5	UNEXPLAINED EXPENDITURE [Section 69C]
	<ul style="list-style-type: none"> Where in any FY, Assessee has incurred any expenditure & he offers no explanation about the source of such expenditure or the explanation offered is unsatisfactory, AO may treat such unexplained expenditure as the income of the assessee for such FY. Such unexplained expenditure which is deemed to be income of the assessee shall not be allowed as deduction under any head of income.
6	AMOUNT BORROWED OR REPAID ON HUNDI [Section 69D]
	<ul style="list-style-type: none"> Where any amount is borrowed on hundi or is repaid (other than through A/c Payee Cheque), 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. Amount repaid shall include interest paid on the amount borrowed. But if any amount borrowed on hundi has been taxed as income of the person, he will not be again liable to be assessed i.r.o. such amount on repayment of such amount. <p>Ex: Mr. PC has borrowed Rs. 5 Lacs on Hundi from Mr. AC in cash. Since the amount is borrowed by the mode other than A/c payee cheque, Rs. 5 Lacs will be deemed to be the income of Mr. PC in the year of borrowing. Now when PC will repay the amount to Mr. AC (even if repaid in cash), it cannot be taxed again to PC on repayment.</p>

RATE OF TAX u/s 68 & 69 [Section 115BBE]

- Such Deemed Incomes are taxed **@ 60% + surcharge @ 25% of tax.**
- Effective rate of tax (including SC @ 25% of tax & cess @ 4% of Tax + SC) is **78%**. [Section 115BBE].
- Neither BEL nor any allowance nor set off of any loss shall be allowable against such income.

SPECIAL RATES OF TAX FOR SPECIAL INCOMES

115BB	Winnings from Lotteries, Crossword puzzles, Races including horse races, Card games & other games of any sort, Gambling or betting of any form (other than section 115BBJ)	30%
115BBJ	Net winnings from online games	30%
115BBE	Unexplained money, investment, expenditure, etc. deemed as income u/s 68 or section 69 or section 69A or section 69B or section 69C or section 69D [See discussion below]	60%
LTCG u/s 112, LTCG u/s 112A & STCG u/s 111A – To be discussed in detail in Capital Gains Chapter		

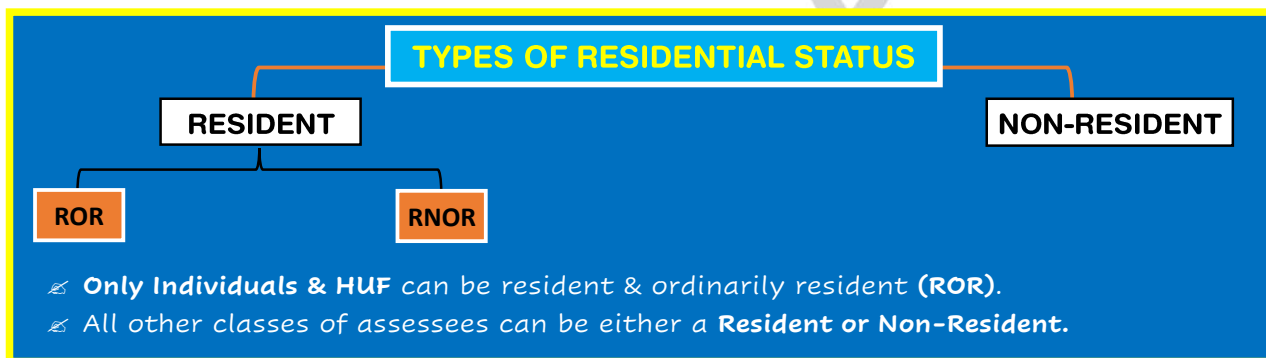




RESIDENTIAL STATUS



- Incidence (burden) of Tax of any Assessee depends upon his residential status under the Act.
- Taxability of Income would depend on -
 - Nature of Income
 - Place of Accrual/Receipt of Income
 - Residential Status of Assessee
- Residential status of the assessee must be determined separately for each Previous Year.
- Residential Status of a person in current PY MAY be different from his residential status in earlier PY.
- To determine whether a particular Income is taxable in the hands of Assessee or not, we have to determine the residential status of the assessee.



RESIDENTIAL STATUS OF “INDIVIDUAL” [SECTION 6]

BASIC CONDITIONS: Individual is a Resident in India if he satisfies ANY ONE of the Basic Conditions:

1. He has been in India for a total period of 182 days or more during PY OR
2. (a) He has been in India for at least 60 days in the relevant PY AND
 (b) He has been in India for at least 365 days during Last 4 PYs.

PC Note:

- ✍ Individual satisfy ANY 1 Condition → Resident ✓ [Check Additional Conditions].
- ✍ If Both conditions are NOT satisfied → Non-Resident ✓.

CQ1. Mr. B, a Canadian citizen, comes to India for the first time during PY 20-21. During PY 20-21, PY 21-22, PY 22-23, PY 23-24 & PY 24-25, he was in India for 55 days, 60 days, 90 days, 150 days & 70 days respectively. Determine his residential status for AY 25-26. [ICAI SM Q3]

Solution:

- During the relevant PY 24-25, Mr. B was in India for 70 days.
- During the Last 4 PYs, he was in India for 355 days (i.e. 55 + 60 + 90 + 150 days).
- Thus, he does not ANY of the basic conditions. Thus, he is a NR.

EXCEPTIONS: Following Individuals will be Resident only if Period of Stay in India during PY \geq 182 days. [2nd Condition → NA in following cases]

1. **Indian Citizen** who **leaves India** during PY **as a Member of Crew** of Indian ship.
2. **Indian Citizen** who **leaves India** during PY for employment outside India;
3. **Indian Citizen** or **Person of Indian Origin** who comes on **visit to India** in PY.

PC Note: Such Person must be engaged in employment or business o/s India].

However, **Indian Citizen** or **Person of Indian Origin** having total (taxable) income $>$ **Rs. 15 lacs** during PY (other than income from foreign sources) will be treated as resident in India if –

- Period of his stay in India during relevant PY \geq 182 days **OR**
- he has been in India (i) during Last 4 PYs for \geq 365 days & (ii) for \geq **120 days** in the PY.

MEANING OF 'INCOME FROM FOREIGN SOURCES' →

Income which accrues/arises outside India & which is not deemed to accrue or arise in India

Except

- (i) Income from a business controlled from India or
- (ii) Profession set up in India.

Space for Class Analysis:

DEEMED RESIDENT [SECTION 6(1A)]

[Inserted by Finance Act, 2020]

- ❖ An Individual (being an Indian citizen) &
- ❖ having total (taxable) income, other than the income from foreign sources $>$ **Rs. 15 lacs during PY &**
- ❖ he is **not liable to pay tax** in any other country or territory by reason of his domicile or residence or any other criteria of similar nature, then

he shall be deemed to be resident in India in that PY.

PC Note: Deemed Resident u/s 6(1A) would always be RNOR [Clause (d) of Sec. 6(6)]

PC Note: Provision of “Deemed Resident u/s 6(1A) → NA to individual who is a resident of India in PY.

ADDITIONAL CONDITIONS [To Determine ROR or RNOR]

- ROR is one who satisfies both the conditions specified u/s 6(6) (Additional Conditions)

1	If such individual has been Resident in India in at least 2 PYs out of Last 10 PYs	AND
2	If such individual has been in India for 730 days or more during Last 7 PYs.	

PC Note:

- An **Indian citizen or Person of Indian Origin** who comes on a **visit to India** during PY & having **total (taxable) income > Rs. 15 lacs** during PY (other than income from foreign sources) & stay in India during PY is ≥ 120 days but < 182 days **will always be RNOR.**

Meaning of “liable to tax” in relation to a person and with reference to a country, means that there is an income-tax liability on such person under the law of that country for time being in force. It also includes a person who has subsequently been exempted from such liability under the law of that country.

PERSON OF INDIAN ORIGIN

☞ If the **person** himself or **his parents/grandparents (maternal/paternal)** were **born** in **UNDIVIDED INDIA**.

PC Note:

- **Continuous Stay** in India → **Not Necessary.**
- **Date of Arrival & Departure** → **Considered** to be **in India** for counting days stayed in India.
- **Individual can be resident in more than 1 country, but he can be citizen in ONLY ONE Country.**

CQ2. Brett Lee, an Australian cricket player visits India for 100 days in every PY. This has been his practice for the past 10 PYs. **[ICAI SM Q2]**

- Find out his residential status for AY 25-26.
- Would your answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia & represents the Australian cricket team?
- What if Srinath had visited India for 120 days instead of 100 days every year, including PY 24-25?

Answer:**(a) Determination of Residential Status of Mr. Brett Lee for AY 25-26:**

- Period of stay during PY 24-25 = 100 days.
- Calculation of period of stay during 4 preceding previous years ($100 \times 4 = 400$ days)
- Mr. Brett Lee has been in India for more than 60 days during PY 24-25 & for more than 365 days during last 4 PYs.
- Since he satisfies one of the basic conditions u/s 6(1), he is a resident for AY 25-26.
- Stay in India during Last 7 PYs = $100 \times 7 = 700$ days. Since his period of stay in India during last 7 PYs is < 730 days, he is a not-ordinarily resident during AY 25-26. **(See Note below)**
- Therefore, Mr. Brett Lee is a resident but not ordinarily resident during PY 24-25.

(b) If above facts relate to Mr. Srinath, an Indian citizen, who residing in Australia, comes on a visit to India, he would be treated as non-resident in India, irrespective of his total income (excluding income from foreign sources), since his stay in India in the current financial year is, in any case, less than 120 days.

(c) If Srinath's total income (excluding income from foreign sources) exceeds Rs. 15 lacs, he would be treated as resident but not ordinarily resident in India for PY 24-25, since his stay in India is 120 days in PY 24-25 & 480 days (i.e., 120 days \times 4 years) in Last 4 PYs.

If his total income (excluding income from foreign sources) does not exceed Rs. 15 lacs, he would be treated as non-resident in India for PY 24-25, since his stay in India is less than 182 days in PY 24-25.

CQ3. Mr. Brad Pit is a foreign national. During PY 24-25, he comes to India for 91 days. Determine his residential status for AY 25-26 if during PY 12-13 to PY 24-25, he was present in India as follows:

PY 12-13	16 days	PY 15-16	179 days	PY 18-19	359 days	PY 21-22	67 days
PY 13-14	40 days	PY 16-17	362 days	PY 19-20	180 days	PY 22-23	12 days
PY 14-15	72 days	PY 17-18	22 days	PY 20-21	307 days	PY 23-24	134 days

Solution:

- During PY 24-25, Mr. Brad Pit is in India for 91 days. Thus, he does not satisfy 1st basic condition.
- During Last 4 PYs, he was in India for 520 days (134 + 12 + 67 + 307 days). Thus, he satisfies 2nd basic condition.
- Thus, he is Resident.**

Additional conditions:

PY	Stay in India	Comments
PY 23-24	134 (566 days in last 4 PYs)	Satisfy 2 nd Basic Condition; Thus Resident (for 1st time)
PY 22-23	12 (866 days in last 4 PYs)	Do not satisfy any Basic Condition; Thus, Non-resident
PY 21-22	67 (868 days in last 4 PYs)	Satisfy 2 nd Basic Condition; Thus Resident (for 2nd time)
PY 20-21	307	Not necessary to determine further as resident for 2 years
PY 19-20	180	
PY 18-19	359	
PY 17-18	22	

- Total stay in 7 preceding PY in India is 1081 days. Thus, Roy satisfies both the additional conditions.
- Thus, Brad Pit is ROR in India for AY 25-26.**

CQ4. Mr. Atif Aslam, a Non-Resident, residing in Pakistan since 2003 came to India on 19.02.2023 for permanent settlement in India. Explain his Residential Status for AY 25-26. [CA Inter May 2015/ Similar to ICAI SM Ex. Q2]

Solution:

- Since Assessee has come back to India in India on 19.02.2023 & has not gone back from India, his stay during PY 24-25 will be 365 days.
- Thus, he satisfies first basic condition for PY 24-25. **Hence, Atif Aslam is a Resident in India.**
- Additional Conditions:**

(a) Total Stay in India in Last 7 PYs	<ul style="list-style-type: none"> PY 23-24: 365 days; PY 22-23: Feb (10 days) + March (31 days) = 41 days; Stay in PY 21-22; PY 20-21; PY 19-20; PY 18-19; PY 17-18 = Nil Total Stay in India in Last 7 PYs = 41+365 + Nil = 406 days. So, 1st Condition is Not satisfied. Thus, he is a RNOR.
(b) Resident Status in Last 10 PYs	No Need to check because to be ROR, all conditions are to be satisfied.

CQ5. Mr. Raj, a citizen of India, is an export manager of XYZ Ltd, an Indian Company, since 01.05.2020. He has been regularly going to USA for export promotion. He spent following days in USA for last 5 yrs:

Previous Year	PY 24-25	PY 23-24	PY 22-23	PY 21-22	PY 20-21
Days spent in USA	294	311	271	150	317

Determine his residential status for AY 25-26 assuming that prior to 1.5.2020, he had never travelled abroad.

Solution:

- This case does not fall in the exceptions to 2nd Basic condition since he has not gone for employment outside India but has gone out of India during the employment in India. **Thus, Both Basic Conditions are applicable.**

▪ **Basic Conditions:**

(a) Stay during PY 24-25: 71 Days (365 - 294) & thus 1st basic condition is not satisfied.

(b) (i) Stay in India during PY 24-25 = 71 days &

(ii) Stay in 4 preceding PYs [55 + 94 + 215 + 48] = 412 days.

PY	PY 23-24	PY 22-23	PY 21-22	PY 20-21
Days in USA	311	271	150	317
Days in India	54	94	215	48

Thus, Mr. Raj satisfies 2nd basic condition. Thus, he is a resident in India.

Additional conditions:

1 Stay in India in Last 7 PYs = 54 + 94 + 215 + 48 + 365 + 365 + 365 = **1506**. He satisfies 1st additional condition.

PY	PY 23-24	PY 22-23	PY 21-22	PY 20-21	PY 19-20	PY 18-19	PY 17-18
Days	54	94	215	48	365	365	365

2	Previous Year	Stay in India	Residential Status
	PY 23-24	54 Days	Non-Resident
	PY 22-23	94 Days	Resident (1 st time). Satisfy 2 nd Basic Condition.
	PY 21-22	215 Days	Resident (2 nd time)
	PY 20-21	48 Days	No need to check
	Prior to PY 20-21	365 Days	No need to check
He satisfies 2 nd additional condition of being resident in at least 2 out of 10 PY prior to the relevant PY. Since Mr. Raj satisfy both additional conditions, he is a ROR.			

Rule 126: Clarification regarding FOREIGN BOUND SHIPS where destination of the voyage is outside India [Explanation 2 to Section 6(1)]

❖ Period of Stay in India of an Individual (Indian Citizen) leaving India as a Member of Crew of Foreign Bound ship **shall not include the following period** i.r.o. an eligible voyage:

Period Commencing from	Ending on
Date entered into CDC for joining the ship	Date entered into the CDC for signing off .

❖ Eligible voyage: A voyage by a ship engaged in carriage of passengers/freight in international traffic:

- (a) For voyage having originated from any port in India → Destination should be any port o/s India.
 (b) For voyage having originated from any port o/s India → Destination should be any port in India.

CQ6. Mr. Anand is an Indian citizen & member of crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June 2024. Determine residential status of Mr. Anand for AY 25-26, assuming that his stay in India in last 4 PYs is 400 days & last 7 PYs is 750 days: **[ICAI SM Q1]**

Date entered into Continuous discharge certificate i.r.o joining the ship by Mr. Anand	6th June 2024
Date entered into Continuous discharge certificate i.r.o signing off the ship by Mr. Anand	9th Dec 2024

Solution:

- Mr. Anand is an Indian citizen & leaving India during PY 24-25 as a member of the crew of Indian ship, he would be resident in India if he stayed in India for 182 days or more.
- Voyage is undertaken by Indian ship engaged in carriage of passenger in international traffic originating from port in India (Chennai) & having its destination at port o/s India (Singapore). Hence it is an eligible voyage.

- Period from 6th June 2024 & ending on 9th Dec 2024, 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 period of his stay in India.
- Thus, Mr. Anand's period of stay in India during PY 24-25 would be 178 days [i.e., 365 days – 187 days].
- Since his period of stay in India during PY 24-25 is less than 182 days, **he is a NR for AY 25-26.**

CQ7. Mr. B, an Indian citizen, leaves India on 22.09.2024 for the first time, to work as an officer of a company in France. Determine his residential status for the AY 25-26. [ICAI Ex. Q1]

Solution:

- During PY 24-25, Mr. B was in India for 175 days (30+31+30+31+31+22). He does not satisfy 1st basic condition.
- Since he is an Indian citizen leaving India for employment, 2nd Basic condition is not applicable to him.
- Therefore, **Mr. B is a NR.**

CQ8. Mr. Shakib was born in Dhaka in 1945. He has been staying in Canada since 1974. He comes to visit India on 13.10.2024 & returns on 29.3.2025. Determine his residential status for AY 25-26.

Solution:

- His stay in India during PY 24-25 is 168 days. He does not satisfy 1st Basic condition.
- Since Shakib was born in Dhaka in 1945 (undivided India), he is a person of Indian origin & thus 2nd basic condition is not applicable to him.
- Thus Mr. Shakib is a Non-Resident in India for AY 25-26.

CQ9. Mr. Nirmal is a citizen of Nepal. His grandfather was born near Multan (Now in Pakistan) in 1945. He came to India for the first time since 1986 on 05.10.2024 for a visit of 294 days. Find his residential status for AY 25-26.

Solution:

- Mr. Nirmal's stay in India during PY 24-25 is 178 days. [Oct – 27; Nov – 30; Dec – 31; Jan – 31; Feb – 28; March – 31]. Thus, he does not satisfy 1st Basic Condition.
- Since his grandfather was born in undivided India, he is a person of Indian origin & thus 2nd basic condition is not applicable to him.
- Therefore, Mr. D is a Non-Resident in AY 25-26.

PC Note: The fact that he has come for 294 days is irrelevant. No. of days in PY is to be considered.

CQ10. Mr. PC comes to India, for the first time on 14.04.2022. During his stay in India upto 03.10.2024, he stays at Mumbai upto 08.04.2024 & then stays in Delhi till his departure. Determine his residential status for AY 25-26.

Solution:

- During PY 24-25, Mr. PC was in India for 186 days (1.4.2024 to 3.10.2024). [1st Basic condition → Satisfied]. Thus, Mr. PC is a Resident in India.

- To determine whether he is ROR/RNOR, we need to check additional conditions.**

AC 1: Residential Status in Last 10 PYs:

Mr. PC is resident in India for PY 22-23 & PY 23-24 since his stay in India \geq 182 days.

AC 2: Mr. PC is in India from 14.04.2022 to 31.03.2024 (i.e. 717 days).

- Mr. PC satisfies only one of the two additional conditions. **Thus Mr. PC is a RNOR in India.**

CQ11. Mr. Raju, an Indian citizen left India for first time on 24.09.2023 for employment in USA. During PY 24-25, he comes to India on 5.6.2024 for 165 days. Determine his residential status for PY 23-24 & PY 24-25.

Solution:

PY 23-24	<ul style="list-style-type: none"> He is a citizen of India & has left India during PY 23-24 for employment outside India. Thus, 2nd basic condition is not applicable. PY 23-24, his stay in India = 177 days [30 (A) + 31 (M) + 30 (J) + 31 (J) + 31 (A) + 24(S)]. Thus, he does not satisfy 1st basic condition. Thus, he is NR in India during PY 22-23.
PY 24-25	<ul style="list-style-type: none"> During PY 24-25, his stay in India is of 165 days. He does not satisfy 1st basic condition. Since he is a citizen of India & comes on a visit to India, 2nd basic condition is not applicable. He is a NR in India during PY 24-25.

CQ12. Mr. Akshay was born in 1977 in India. His parents were born in India in 1950. However, his grandparents were born in England. Mr. X was residing in India till 16.03.2021. Thereafter, he migrated to England & took the citizenship of that country on 15.03.2022. He visits India during PY 24-25 for 90 days. Determine residential status of Mr. Akshay for AY 25-26.

Solution:

- Mr. Akshay is neither a citizen of India nor a person of Indian origin, because neither he nor his parents nor his grandparents were born in undivided India. Thus 2nd basic condition is applicable.
- (a) 1st Basic Condition: Stay in India during PY 24-25: 90 days. Thus, he does not satisfy 1st basic condition.
- (b) 2nd Condition: (i) Stay in India during PY 24-25: 90 days;
(ii) Stay in India during Last 4 PY: 350 days [PY 23-24, PY 22-23, PY 21-22: Nil; PY 19-20: 350 days].
- Since he does not satisfy Any Basic Condition, he is a **Non-Resident in India**.

B. DETERMINATION OF RESIDENTIAL STATUS OF 'HUF'

- ❖ Residential Status of HUF depends on the place where C&M of HUF is situated.

If Control & Management of HUF is situated wholly/partly in India	HUF is Resident
If Control & Management of HUF is situated wholly outside India	HUF is Non-Resident

❖ DETERMINATION OF ROR/RNOR

- Status of **KARTA** will determine whether **HUF** is **ROR/RNOR**.
 - If KARTA satisfy **both of the first 2 Additional Conditions** → **HUF is ROR**
 - If KARTA does not first both/any of the first 2 Additional Conditions → **HUF is RNOR**.

PC Note: No Need to check Basic Conditions for KARTA.

C DETERMINATION OF RESIDENTIAL STATUS OF FIRMS/ AOP/LA/AJP

If Control & Management is situated wholly/partly in India	Resident
If Control & Management is situated wholly outside India	Non-Resident

D DETERMINATION OF RESIDENTIAL STATUS OF "COMPANY"

- ❖ A Company shall be Resident in India if:

1. It is an **Indian company**;
2. **POEM is in India** in that PY (Other than Indian Company).

PC Note: Indian Company is Always **RESIDENT** even if its **POEM** is in India/not. Thus, criterion of **POEM** is relevant for Foreign Company only.

Meaning of POEM: A Place where key management & commercial decisions necessary for the conduct of the business of entity as a whole are substantially made.

CQ14. Business of a HUF is transacted from Australia & all the policy decisions are taken there. Mr. A, the karta of the HUF (born in Kolkata) visited India during PY 24-25 after 15 years. He comes to India on 1.4.2024 & leaves for Australia on 01.12.2024. Determine the residential status of HUF for AY 25-26. **[ICAI SM Q4]**

Solution:

Determination of Residential Status of "HUF"

Since the business of the HUF is transacted from Australia & nothing is mentioned regarding its control & management, it is assumed that C & M is also wholly outside India. Therefore, HUF is a NR for PY 24-25.

CQ15. ABC Ltd is registered in India. All the meetings of BODs of ABC Ltd were held in China during PY 24-25. Determine the residential status of ABC Ltd. for AY 25-26.

Answer: As ABC Ltd. is an Indian Company, it is always resident in India even if its **POEM** is outside India. It is irrelevant that all the board meetings are held in China.

SCOPE OF TOTAL INCOME [Section 5]

➤ Taxability of total income of an assessee depends upon the following factors:

- Residential Status** of the assessee.
- Place of Accrual/Receipt** of Income.
- Point of time** at which income had accrued/received by the assessee or his agent.

To understand the scope of Total Income, we must first understand some terms:

INDIAN INCOME	1. Income Received or deemed to be received in India <u>OR</u> 2. Income Accrued or deemed to be accrued in India .
FOREIGN INCOME	Income which is NEITHER Received in India NOR Accrued in India.

SCOPE OF TOTAL INCOME

1	INDIVIDUAL/HUF			
	Nature of Income	Tax Treatment		
		ROR	RNOR	NR
	Indian Income	Taxable	Taxable	Taxable
	Foreign Income	Taxable	Only 2 types of Foreign Incomes are taxable ** Others foreign incomes are not taxable in India.	Not Taxable
Following Foreign Incomes are taxable in the hands of RNOR ** <ol style="list-style-type: none"> Business Income which is controlled wholly/partly from India. Income from Profession set up in India. Above 2 Incomes must be included in TI of RNOR even if they accrues/arises outside India. PC Note: No other foreign Income (Salary, Rent, Interest etc.) is taxable to RNOR in India.				
2	Other than INDIVIDUAL/HUF			
	Nature of Income	Tax Treatment		
		Resident	Non-Resident	
	Indian Income	Taxable	Taxable	
	Foreign Income	Taxable	Not Taxable	

PC Note

- ❖ **Indian Income** → Taxable to **EVERYONE (R/NR)**.
- ❖ **ROR** → Every Income (Indian/Foreign) is Taxable.

Circular: Clarification regarding liability to Tax in India of **NR Seafarer receiving Remuneration in NRE (Non-Resident External) A/c** maintained with Indian Bank

Income by way of salary, received by non-resident seafarers, for services rendered **outside India** on a foreign going ship (with Indian flag or foreign flag) & received into NRE bank A/c maintained with an Indian bank shall **not be included** in the total income.

RECEIPT OF INCOME & ACCRUAL OF INCOME

A. RECEIPT OF INCOME

Income received in India	<ul style="list-style-type: none"> ➤ Receipt → First occasion(time) when the recipient gets money under his control. ➤ Any Further Remittance/Transmission of the received amount to another place/person does not result in "Receipt" in the hands of subsequent recipient.
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Space for Class Ex:

Income deemed to be received in India	<ul style="list-style-type: none"> (i) Employer's Contribution to RPF in excess of 12% of salary. (ii) Interest credited to RPF of the Employee in excess of 9.5% p.a. (iii) Amount transferred from URPF to RPF (Employer's contribution & its interest). (iv) Contribution made by CG/other employer in the PY under Pension scheme [80CCD] to the account of employee. (v) Any Tax deducted at source.
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CQ16. Discuss the taxability of the following items of receipt in the case of RNOR:

- (i) Rs. 1,00,000 was earned from a business in the USA but the profit has been remitted to India. The assessee used to attend to the business only when he was in the USA.
- (ii) Remuneration of Rs. 20,000 due to him for services rendered in Russia was credited to his bank account in Russia & immediately thereafter remitted to India.

Solution:

- (i) Remittance of profit to India does not mean that business is controlled in India.
For RNOR, income accruing outside India is taxable only when it is from a business controlled from India or from a profession set up in India. Thus, income of Rs. 1,00,000 is not taxable in India.
- (ii) Salary accrues where services are rendered. In the present case services were rendered in Russia & income received there, it is income accruing outside India & received outside India. Hence it is not taxable in India.

B. ACCRUAL OF INCOME

- **Accrue** means the **right to receive income**.
- **Due** means the **right to enforce payment** of the accrued income.

Examples:

1. Salary for work done in December will accrue throughout the month, day to day, but will become due on the salary bill being passed on 31st Dec or 1st Jan.
2. Interest on Government securities payable on specified dates arise during the period of holding but will become due for payment on specified dates.

Explanation to Section 5

1	Income accruing/arising outside India shall not be deemed to be received in India merely because it is taken into account in Balance Sheet prepared in India.
2	Income taxed on Accrual basis cannot be assessed again on Receipt basis, as it will amount to double taxation.

PC Class Note:

INCOMES DEEMED TO ACCRUE OR ARISE IN INDIA [SECTION 9]

- Some Incomes are **deemed** to accrue/arise in India **even though they actually accrue outside India**.
- **PC Note:** This section is relevant only for NR because for ROR, Global Income is taxable.

1 INCOME FROM BUSINESS CONNECTION IN INDIA

❖ **Conditions for Taxability of Income from Business Connection:**

- (a) Assessee has a **"Business Connection"** in India.
- (b) Income arises **outside India** by virtue of such Business Connection to the assessee.

PC Note: Even if such income arises outside India, it will be deemed that such income has accrued in India & will be taxable in India.

❖ **Examples of Business Connection**

- (a) Branch office in India or Agent of a NR in India or an organization/factory of a NR in India.
- (b) Appointing an agent in India for systematic & regular purchase of Raw Material or for sale of NR's goods for other business purpose.
- (c) Formation of subsidiary company in India to carry on business of NR parent company.
- (d) Any profit of NR which can be reasonably attributable to such part of operations carried out in India through business connections in India are deemed to be earned in India.

FOLLOWING SHALL NOT BE TREATED AS BUSINESS CONNECTION IN INDIA to NR

(a) **Business whose All operations are not carried out in India**

- Proportionate Income attributable to the operations carried out in India shall be deemed to accrue or arise in India.
- Income which cannot be attributed to the operations in India shall not be deemed to accrue/arise in India.

Income attributable to the operations carried out in India includes:

- Income from advertisement targeting customers residing in India or accessing advt. through IPA in India.
- Income from sale of data collected from persons residing in India or using IPA located in India.
- Income from sale of goods & services using data collected from persons residing in India or using IPA located in India.

(b) **Purchase of Goods in India for Export by NR**

No Income shall be deemed to accrue in India from operations which are confined to purchase of goods in India for Export by NR.

(c) **Collection of News & Views in India for transmission out of India by NR**

If a person is engaged in news agency business etc, income from activities which are confined to collection of news & views in India for transmission out of India → Not deemed to accrue in India

(d) **Shooting of Cinematograph films in India by NR**

Income from operations confined to shooting of any cinematograph film in India, if such NR is:

- (a) Individual, who is not a citizen of India or
- (b) Firm which does not have any partner who is a Citizen of India or who is Resident in India;
- (c) Company which does not have any Shareholder who is a Citizen or Resident of India.

(e) **Display of Rough Diamonds in SNZ by Foreign Company**

Income from the activities carried out by **Foreign Company** which are confined to display of uncut & unassorted diamonds (**without any sorting or Sale**) in any SNZ notified by CG.

2 INCOME FROM PROPERTY OR ASSET OR SOURCE OF INCOME IN INDIA

- ❖ Income from Property/Asset situated in India → Deemed to accrue in India.

Ex: Rent paid o/s India for use of machinery/buildings situated in India is deemed to accrue in India.

Ex: Deposits with an Indian company for which interest is received o/s India.

3 CAPITAL GAIN ON TRANSFER OF A CAPITAL ASSET SITUATED IN INDIA

- ❖ Capital Gain on Transfer of Capital Asset situated in India is deemed to accrue in India even if:
 - Place of **Registration** of Document of Transfer is in India or **outside India**; &
 - Place of **Payment** of consideration for transfer is in India or **outside India**.

4 DIVIDEND INCOME FROM INDIAN COMPANY

- ❖ Dividends paid by Indian company outside India → Deemed to Accrue in India.
- ❖ It would be taxable in the hands of shareholders at normal slab rates.

5 INCOME FROM SALARIES

- ❖ Salary is deemed to accrue/arise at the place where the **services are rendered**.
- ❖ Salaries payable by **Government** to a citizen of India for services rendered **outside India** would be deemed to accrue India (even if services are rendered outside India).

However, **Allowances & Perquisites** paid outside India by Government are **exempt u/s 10(7)**.

Exception u/s 9(2): Pension payable **outside India** by the **Government** to its **officials & judges** who permanently reside outside India shall **not be deemed to accrue** or arise in India.

CQ17. Mr. David, an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for first time on 31.03.2024 due to his transfer to High Commission of Canada. He did not visit India any time during PY 24-25. He has received following income for PY 24-25. Compute his Gross Total Income for AY 25-26.

SN	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

Solution:

Mr. David is a NR for AY 25-26, since he was not present in India at any time during the PY 24-25. Thus only Indian Income is taxable in his hands.

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

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

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

6 INTEREST, ROYALTY, FEES FOR TECHNICAL SERVICES PAID TO NON-RESIDENT

- (a) **Payable by Government of India (CG/SG):** deemed to accrue/arise in India
- (b) **Payable by Resident:** Always deemed to accrue/arise in India
Exceptions: [In following cases, income is not deemed to accrue in India]
 (a) If borrowed money is used by the payer of interest (NR) for a **business/profession carried on outside India** or for earning any income from the source outside India.
 (b) Payment of Royalty or Technical fees **related to a Business/profession** carried on by the payer **outside India** or for earning any income outside India.
- (c) **Payable by NR:** deemed to accrue/arise in India in (a) & (b) cases only.
 (a) If borrowed money is used by the payer of Interest for a business/profession carried on in India or for earning any income in India.
 (b) Payment of Royalty or FTS related to a Business/profession carried on by the payer in India or for earning any income in India.
Exception: Interest on money borrowed by NR for any purpose other than business or profession in India will NOT be deemed to accrue or arise in India.
Ex: If a NR 'A' borrows money from a non-resident 'B' & invests the same in shares of an Indian company, interest payable by 'A' to 'B' will not be deemed to accrue or arise in India.

PC Note: Income by way of Interest, Royalty, FTS from services utilized in India would be deemed to accrue in India & be included in NR's TI, whether or not such services were rendered in India & whether or not NR has a residence or place of business or business connection in India.

Consideration for sale, distribution or exhibition of cinematographic films = Royalty.

CQ17. Mr. Rashid Khan, a national of Iraq received the following fees for technical services during PY 24-25.

1	From Government of India	1,00,000
2	From Government of Iraq	4,00,000
3	From S, a ROI, services have been utilised for earning income in India	40,000
4	From V, a ROI, services have been utilised for earning income outside India	80,000
5	From J, a NR for services for a business carried on in India	70,000

Compute his TI for AY 25-26. He has come for first time in India during PY 24-25 & stayed for 181 days.

Solution: Since Mr. Rashid do not satisfy any basic conditions; he is a NR. Thus, Indian Incomes are taxable.

Fees for technical services received from:

1	Government of India [taxable u/s 9(vii)(a)]	1,00,000
2	Government of Iraq [not taxable since paid by foreign government to NR]	-
3	S [Paid by Resident & services has been used for earning Income in India]	40,000
4	V [Paid by Resident & services has been used for earning Income outside India]	-
5	J [Paid by one NR to another NR but services has been given for business in India]	70,000
Total Income		2,10,000

CQ18. What if Rashid came to India on 15.06.2024 & stayed upto. 31.12.2024, what will be his taxable income?

Solution: If Mr. Rashid stays in India from 15.06.2024 to 31.12.2024, his stay in India = 200 days. Thus, he will be Resident in India. However, he shall be "RNOR" as he does not satisfy both the additional conditions.

For RNOR, income earned & received o/s India is taxable only when it is from a business controlled from or profession set up in India. Assuming that this condition is not satisfied, FTS received from Government of Iraq as well as from V will still be exempt from tax in India. **Hence, Total Income of Rashid will remain at Rs. 2,10,000.**

7 MONEY PAID BY RESIDENT INDIAN TO A NR/FOREIGN COMPANY/RNOR

- ❖ Any sum of money paid (without consideration) by Indian resident person to a NR/FC/RNOR on/after 05.07.2019
- ❖ would be deemed to accrue or arise in India if the same is chargeable to tax u/s 56(2)(x).
- ❖ **Section 56(2)(x):** If aggregate sums received exceeds Rs. 50,000 in a FY.

CQ19. Discuss the correctness of the statement - "Income deemed to accrue or arise in India to a NR by way of interest, royalty & fees for technical services is to be taxed irrespective of territorial nexus". **[ICAI EX Q4]**

Answer:

- As per section 9, if any NR has provided any patent right or any managerial, technical services & such patent right etc. was used in India, in such cases any royalty or fee received by NR shall be considered to be income accruing/arising in India & shall be taxable & it do not matter that NR do not have residence or place of business or business connection in India i.e. there is no territorial nexus or NR has not rendered services in India.
- **Ex:** If Suzuki of Japan, a NR company has provided technical know-how in Japan to Maruti Udyog Ltd for use in India & has received Rs. 3 Cr. Such income is deemed to be accruing in India & is taxable even if Suzuki do not have any Territorial Nexus with India i.e. company do not have place of residence or PoB in India.
- If any loan was given by NR to other NR & such other NR has utilized loan amount in India in business or profession, interest received by NR shall be considered to be his income accruing in India even if such NR do not have any territorial nexus with India.

MASTER QUESTION ON RESIDENTIAL STATUS

MQ01. Compute total income of Mr. PC assuming him (i) ROR (ii) RNOR (iii) NR for AY 25-26. **[Modified]**

	Particulars	Amt
1	Interest on UK Development Bonds (50% of interest received in India)	10,000
2	Interest for debentures in an Indian company (received in London)	10,000
3	Income from a business in Chennai managed from London (50% is received in India)	20,000
4	Profits on sale of shares of Indian company (received in London)	20,000
5	Dividend from British Company (received in London)	5,000
6	Profits on Sale of Plant at Germany (50% of profits are received in India)	40,000
7	Business income in Germany which is controlled from Delhi (40,000 is received in India)	70,000
8	Profits from a business in Delhi but managed entirely from London	15,000
9	Income from House in London deposited in Indian Bank at London, brought to India (computed)	50,000
10	Royalty/Fees for technical services rendered in India (received in London)	8,000
11	Pension for services rendered in India (received in Burma)	4,000
12	Income from property situated in Pakistan received there	16,000
13	Past foreign untaxed Income brought to India during the PY	5,000
14	Income from agricultural land in Nepal received there and then brought to India	18,000
15	Income from profession in Kenya which was set up in India, received there but spent in India	5,000
16	Gift received on the occasion of his wedding	20,000
17	Income from a business in Russia, controlled from Russia	20,000
18	Dividend from Reliance Petroleum Limited, an Indian company	5,000
19	Honorarium received from Government of India (Rs. 15,000 was paid for travelling expenses)	20,000
20	Income from Business connection in India, received in London	10,000
21	Speculation profit earned & received outside India	20,000
22	Salary drawn for 2 months for working in Indian Embassy's Office in Australia & received there	80,000

Solution:

Computation of Total Income for AY 25-26

	Particular	ROR	RNOR	NR
1	Interest on UK Development Bonds. It is foreign Income. But 50% of interest received in India is Indian Income.	10,000	5,000	5,000
2	Interest for debentures in an Indian company Since Interest is paid on debentures by Indian company, it is an Indian Income. Thus, taxable to Everyone.	10,000	10,000	10,000
3	3. Income from a business in Chennai (50% is received in India) Since business is situated in India, 100% is Indian Income irrespective of the place it is managed from.	20,000	20,000	20,000
4	Profits on sale of shares of Indian company received in London	20,000	20,000	20,000
5	Dividend from British company received in London [Foreign Income]	5,000	-	-
6	Profits on sale of plant at Germany [50% Foreign & 50% Indian Income]	40,000	20,000	20,000
7	Income earned from business in Germany which is controlled from Delhi Since the business has been controlled from India, such foreign income is taxable to RNOR also.	70,000	70,000	40,000
8	Profits from business in Delhi [Indian Income & thus taxable to everyone]	15,000	15,000	15,000
9	Income from property in London deposited in London, later on remitted to India [Foreign Income & thus taxable to ROR]; No tax on Remittance	50,000	-	-
10	Royalty/FTS rendered in India; Indian Income & thus taxable to everyone	8,000	8,000	8,000
11	Pension for services rendered in India & [Thus Indian Income]	4,000	4,000	4,000
12	Income from property situated in Pakistan [Foreign Income; tax – ROR]	16,000	-	-
13	Past foreign untaxed income brought to India during the PY Since income relates to past year, it is assumed that it must have been taxed in that PY. Thus, it is not taxable in this PY.	-	-	-
14	Income from Agricultural land in Nepal received there [Foreign Income]	18,000	-	-
15	Income from profession in Kenya which was set up in India [Refer Pt. 7]	5,000	5,000	-
16	Gift received on the occasion of his wedding [not taxable]	-	-	-
17	Income from business in Russia, controlled from Russia [Foreign Income]	20,000	-	-
18	Dividend from Reliance Limited, Indian Company	5,000	5,000	5,000
19	Honorarium received from Government of India [Indian Income]. But, allowance are exempt u/s 10(7). Thus, travelling expenses are not taxable.	5,000	5,000	5,000
20	Income from Business connection in India, received in London	10,000	10,000	10,000
21	Speculation profit earned & received outside India [Foreign Income]	20,000	-	-
22	Salary for working in Indian Embassy's Office in Australia & received there. [Deemed to accrue in India & thus Indian Income]	80,000	80,000	80,000



INCOME FROM HOUSE PROPERTY



- ⇒ Sale of House Property → Taxable u/h 'Capital Gains'.
- ⇒ Renting of House Property → Taxable u/h 'House Property'.

Note: Annual Value is taxable & not the rent.

BASIS OF CHARGE [SECTION 22]

- 'Annual value' of any **house property** which is **owned** by the assessee is taxable u/h 'Income from HP'.
- House property shall include **all types of house properties** [i.e. residential houses, shops, godowns, cinema building, workshop building, hotel buildings etc].

ANALYSIS OF SECTION 22

- 1 Property should consist of any building or Land attached (appurtenant) to the building (thereto)**
 - Land appurtenant means land connected with the building [**Ex: Garden, Garage, Parking**]
 - **Letting out of vacant land** → Taxable u/h IFOS [as No Building]
 - **Subletting of House Property** → Taxable u/h IFOS [as No Ownership]
- 2 Assessee must be the owner of the rented House Property**
 - Ownership of land on which the building stands is not necessary. [Land may be on lease].
 - Ownership in PY is relevant & not in AY.
 - Registration of the sale deed → Not necessary. [& thus includes also a beneficial owner]
 - Ownership includes deemed ownership (discussed in Section 27 later).
 - **House Property with Disputed Title of Ownership:** It will be the decision of Income-tax Department as to who is the owner till the court gives its decision on such property.
- 3 Purpose**
 - **HP may be used for any purpose by the owner (other than for his business/profession).**
 - **If house property is used by the assessee for his own business/profession,** annual value of such house property is **not taxable** u/h 'house property'.

Ex: Mr. X uses the property for his office. Income from such property cannot be taxed u/h HP.

PC Note: If the assessee is engaged in the business of letting (renting) out of properties

Residential Property → Taxed u/s HP & Commercial property → Taxed u/s PGBP.

STEPS TO COMPUTE "INCOME FROM HOUSE PROPERTY"

A. Gross Annual Value (GAV)	xxx
B. Less: Municipal tax paid by the owner during the PY.	(xxx)
C. Net Annual Value (NAV) [A – B]	xxx
D. Less: Deduction u/s 24	(xxx)
Section 24(a): Standard deduction (30% of NAV)	(xxx)
Section 24(b): Interest on borrowed Capital	(xxx)

A. DETERMINATION OF GROSS ANNUAL VALUE [SECTION 23]

- 1 Calculate **Expected Rent (ER)** = Higher of (a) MV or (b) FR subject to maximum of SR.
- 2 Calculate **Actual Rent Received (ARR)** = Rent receivable - **Unrealized Rent** [See PC Note Below].
- 3 GAV = Higher of ER or ARR.

- ❖ **Unrealized Rent** → House was let out, but rent could not be recovered from tenant.
- ❖ **Vacancy Loss** → Loss of rent because house property remained vacant during such period.

CQ1. When Unrealized Rent shall be deducted from Rent Received/Receivable?

Answer: Unrealized rent shall be deducted from rent if all the following conditions are satisfied:

- (a) Tenancy is **bonafide**;
- (b) Defaulting tenant **has vacated**, or steps have been taken to compel him to vacate the property;
- (c) Defaulting tenant is **not in occupation** of any other property of the assessee;
- (d) Assessee has taken all **reasonable steps to institute legal proceedings** for the **recovery** of the unpaid rent or **satisfies AO** that **legal proceedings would be useless**.

CQ2. Jayashree owns 5 houses in Chennai, all of which are let-out. Compute GAV of each House. [ICAI SM Q1]

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	NA	75,000	58,000	N.A.	78,000
AR received/Receivable	72,000	72,000	60,000	30,000	72,000

COMPUTATION OF GAV FOR DIFFERENT TYPES OF HOUSE PROPERTIES

1. Self-occupied (SOP)/unoccupied HP	<ul style="list-style-type: none"> GAV = Nil for 2 Houses [Only for Individual/HUF] No deduction of Municipal taxes paid by the owner. 						
2. LOP for whole year	<ul style="list-style-type: none"> GAV = Higher of (i) ER or (ii) ARR. No Question of vacancy since property was occupied for whole year. 						
3. LOP vacant for a part of the year.	<ul style="list-style-type: none"> ER shall be calculated for whole year. While computing ARR, rent for the period for which the house was vacant shall be excluded. <table border="1"> <tr> <td>If $ARR > ER$</td><td>GAV = ARR</td></tr> <tr> <td>If $ARR < ER$ due to vacancy</td><td>GAV = ARR</td></tr> <tr> <td>If $ARR < ER$ due to other reason</td><td>GAV = ER</td></tr> </table>	If $ARR > ER$	GAV = ARR	If $ARR < ER$ due to vacancy	GAV = ARR	If $ARR < ER$ due to other reason	GAV = ER
If $ARR > ER$	GAV = ARR						
If $ARR < ER$ due to vacancy	GAV = ARR						
If $ARR < ER$ due to other reason	GAV = ER						
4. LOP for part of the year & SOP for part of the year	<ul style="list-style-type: none"> ER shall be calculated for the whole year. ARR shall be computed for let out period. GAV = Higher of (i) ER (for whole year) or (ii) ARR (for let out part). 						
5. Deemed Let out property	<p>If Assessee is having more than 2 houses & he is using all of them for himself, he has the option to choose any 2 houses as SOP & other houses will be deemed to be let out.</p> <ul style="list-style-type: none"> GAV of DLOP → ER because there is no rent since both HPs are SOP. GAV of SOP = Nil; 						
6. Single House – One portion is let & let & another portion is self-occupied	<ul style="list-style-type: none"> SOP → GAV = Nil; No deduction of Municipal taxes paid; Interest is deductible subject to the limit of Rs. 30,000/2,00,000. For LOP → ER shall be computed on proportionate basis. 						

CQ3. Anirudh has a property whose municipal valuation is Rs. 1,30,000 p.a. The fair rent is Rs. 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is Rs. 1,20,000 p.a. The property was let out for a rent of Rs. 11,000 p.m. throughout the previous year. Unrealised rent was Rs. 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was Rs. 40,000 for the year. Compute his income from house property for AY 25-26. **[SM Q4]**

CQ4. Ganesh has a property whose municipal valuation is Rs. 2,50,000 p.a. The fair rent is Rs. 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is Rs. 2,10,000 p.a. The property was let out for a rent of Rs. 20,000 p.m. However, the tenant vacated the property on 31.1.2025. Unrealised rent was Rs. 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was Rs. 65,000 for the year. Compute the income from house property of Ganesh for AY 25-26. **[SM Q5]**

CQ5. Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is Rs. 5,00,000, fair rent is Rs. 4,20,000 and standard rent is Rs. 4,80,000. The property was let-out for Rs. 50,000 p.m. up to December 2024. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2024 could not be realized inspite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @12% during the year. She had paid interest of Rs. 25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the AY 25-26. **[SM Q7]**

CQ6. Ganesh has three houses, all of which are self-occupied. Particulars of the houses for PY 24-25 are:

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	31.03.2001	31.03.2003	01.04.2017
Municipal taxes paid during the year	12%	8%	6%
Interest on loan for repair of property during current year	-	55,000	
Interest for current year on loan taken in July 2017 for purchase			1,75,000

Compute Ganesh's income from house property for AY 25-26 & suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum. **[SM Q8]**

MUNICIPAL TAXES

Municipal taxes are to be deducted from GAV if:

- Municipal taxes have been **borne by the owner** &
- they **have been actually paid during PY**.

PC Note:

- Municipal Taxes are allowed as deduction in PY of payment **even if they relate to past years**.
- Municipal Taxes levied by foreign local authority → Deductible if such taxes are paid by the owner.
- If Municipal taxes are borne by tenant, rent received/receivable should not be increased to calculate rent since it is the duty of occupier of HP (i.e. tenant) to pay the municipal taxes.

C. NET ANNUAL VALUE

NAV = GAV - Municipal Taxes paid & borne **by the owner**.

DEDUCTIONS U/S 24

(a) Standard Deduction [Sec 24(a)]

- Standard deduction = **30% of NAV** shall be allowed from NAV.
- This is a **flat deduction** & is allowed irrespective of the actual expenditure incurred.
- No other expenses** shall be **allowed** as deduction while computing house property income.
- For SOP → Standard Deduction = Nil** (as NAV itself is Nil).

(b) Interest on Borrowed Capital [Section 24(b)]

1 Current year Interest

Deduction	Interest = Amount of Loan × ROI p.a (Without any limit)
From When	Interest relating to the PY of completion of construction can be fully claimed in that PY (irrespective of the date of completion).
Purpose	Loan can be taken for Acquisition, construction, repair, renovation, reconstruction of HP.
Accrual	Deduction u/s 24(b) for interest is available on accrual basis . Thus, Interest accrued but not paid during PY can also be claimed as deduction.

2 Pre-construction period Interest

Deduction	Pre-commencement Interest is allowed as deduction in 5 successive PYs starting from PY of completion of construction. [1/5th of Total Interest]
Meaning	Pre-construction Period means period during which loan was taken but the construction of HP was/could not be started.
Pre-Construction Period	Start: From Date of Borrowing & End: (a) 31st March immediately prior to date of completion of construction (b) Date of payment of Loan (<i>Whichever is earlier</i>).

Note: Interest will be aggregated from the date of borrowing till the end of the PY prior to the PY in which the house is completed and not till the date of completion of construction.

PC Note:

- Loan may be taken for purchasing the land even if construction is done out of the own funds.
- Interest on unpaid interest is not deductible.
- Interest on fresh loan taken to repay original loan is allowed as a deduction.
- Amount paid as brokerage/commission for arrangement of loan → NOT Allowed as deduction.
- If loan is taken from outside India, Interest is deductible if tax has been deducted at source.
- Where a buyer enters into an arrangement with a seller to pay the sale price in installments along with interest due, the seller becomes the lender in relation to unpaid purchase price & buyer becomes the borrower. In such case, unpaid purchase price can be treated as capital borrowed for acquiring property & interest paid can be allowed as deduction.

LIMIT ON DEDUCTIONS OF INTEREST FOR SELF OCCUPIED PROPERTIES

Loan is taken for ↓	Max. Interest Allowed
Acquisition/Construction/Repair/Renovation/Reconstruction before 1.4.1999	(Maximum of Rs. 30,000)
Repair or Renovation of House property on/after 1.4.1999	Actual Interest payable (Maximum Rs. 30,000)
Acquisition or Construction of House Property on/after 1.04.1999 & such acquisition or construction is completed within 5 years from the end of the PY in which capital was borrowed.	Actual interest payable (Maximum Rs. 2,00,000)

PC Note:

1. Above-mentioned Limits are applicable **combinedly for 2 SOP & not for each SOP.**
2. **No such limit** is applicable in case of **Let-out property or Deemed Let out property.**
3. **No Deduction of Interest u/s 24(b) for SOP/UOP u/s 115BAC.**
4. **Interest u/s 24(b) for LOP/DLOP is allowed in both regimes (New & Old).**

CQ7. Mr. Manas owns two house properties one at Bombay, wherein his family resides and the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Bombay, he has taken a loan of Rs. 30 lakh@10% p.a. on 1.4.2023. He has not repaid any amount so far. i.r.o. house property at Delhi, he has taken a loan of Rs. 5 lakh@11% p.a. on 1.10.2023 towards repairs. Compute the deduction which would be available to him u/s 24(b) for AY 25-26 i.r.o. interest payable on such loan if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q3]**

CQ8. Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is Rs. 25,000 p.m. Municipal valuation is Rs. 2,80,000 p.a.. Municipal taxes paid is Rs. 8,000. The house construction began in April 2018 with a loan of Rs. 20,00,000 taken from SBI Housing Finance Ltd. @ 9% p.a. on 1.4.2018. The construction was completed on 30.11.2020. The accumulated interest up to 31.3.2020 is Rs. 3,60,000. On 31.3.2025, Poorna paid Rs. 2,40,000 which included Rs. 1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from house property for AY 25-26 assuming that she has exercised the option of shifting out of default tax regime. **[SM Q6]**

UNREALISED RENT & ARREARS OF RENT RECEIVED SUBSEQUENTLY [SECTION 25A]

Unrealized Rent	Arrears of Rent
<ul style="list-style-type: none"> ▪ Rent which could not be realized from the Assessee. ▪ If such amount is realized subsequently, it gets taxed in the PY of Receipt. ▪ However, deduction shall be allowed @ 30% of such unrealized rent. ▪ Taxable @ 70% of received amount. 	<ul style="list-style-type: none"> ▪ If assessee has increased the rent payable by the tenant retrospectively & there is a dispute over such increase; & later on the assessee receives the increased rent as arrears, it is called arrears of rent. ▪ It is taxable in the PY of Receipt. ▪ Deduction of 30% is allowed from such arrears. ▪ Taxable @ 70% of received amount.

PC Note: It does not matter whether the assessee is the owner of such house property in the PY of receipt.

PC Analysis:

COMPOSITE RENT

➤ **Meaning:** The owner of a property may sometimes receive rent i.r.o. building as well as

- (i) Other assets [Ex: Furniture, plant and machinery] or
- (ii) for different services provided in the building [Ex: Lifts; Security; Power backup].

➤ **Tax Treatment**

Two lettings are separable	Two lettings are not separable
<ul style="list-style-type: none"> ▪ Rent from HP → Taxable u/h HP. ▪ Rent from Use of other services → Taxable u/h PGBP or IFOS. 	<ul style="list-style-type: none"> ▪ Taxable u/h PGBP or IFOS. Ex: Hotel business/PG Accommodation or warehousing or auditorium

PC Note: All the expenses for other facilities → Deducted while computing its income u/h PGBP or IFOS.

Space for PC Class Note:

***CQ9.** Mr. Sanju aged 50 years owns a house property at Gwalior which is let out for residential purposes:

Rent of house and amount charged for different amenities	Rs. 2,40,000
Note: Rs. 2,40,000 includes charges for the following amenities - water charges: Rs. 12,000, electricity charges: Rs. 18,000, lift charges: Rs. 15,000 & security charges: Rs. 18,000)	
Rent of 1 month could not be collected (1/12 of Rs. 2,40,000)	Rs. 20,000
Municipal taxes paid by the tenant	Rs. 15,000
Municipal valuation	Rs. 1,60,000
Fair rent	Rs. 1,50,000
Standard Rent	Rs. 1,90,000
Repairs (met by the tenant)	Rs. 10,000
Insurance	Rs. 9,000
Collection charges and litigation expenses for collection of rent	Rs. 7,000

For providing different amenities, the following expenses are incurred by Sanju:

Depreciation	Rs. 2,000
Electricity bills	Rs. 20,000
Lift maintenance	Rs. 5,000
Salary of liftman	Rs. 9,000
Depreciation of lift	Rs. 3,000
Salary of guard	Rs. 21,000

During PY 22-23, Sanju had claimed deduction of unrealized rent of Rs. 20,000 out of which Rs. 15,000 was allowed as deduction for that year. Sanju recovers Rs. 9,000 from defaulting tenant (expenditure on recovery of rent: Rs. 1,000) in this PY. Find his taxable Income & state the heads under which it is taxable.

INCOME FROM HOUSE PROPERTY SITUATED OUTSIDE INDIA

1. ROR in India (Note)	Always Taxable (whether or not such income is received in India).
2. RNOR/NR in India	Taxable only if it is received in India.

PC Note: Municipal Taxes Paid o/s India – Deductible if Tax has been deducted at source.

CQ10. Rajesh, a British national, is a resident and ordinarily resident in India during the PY 24-25. 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 PY 24-25. The value of one £ in Indian rupee to be taken at Rs. 95. Compute Rajesh's Net Annual Value of the property for the AY 25-26. **[SM Q2]**

***CQ11.** Mrs. Rohini Ravi, a citizen of USA is ROR in India during PY 24-25. She owns a house property at Los Angeles, USA which is used as her residence. Annual value of the house is \$20,000. [1\$ = Rs. 75].

She took ownership & possession of a flat in Chennai on 01.07.2024, which is used for self-occupation, while she is in India. Flat was used by her for 7 months only during PY 24-25. MV = Rs. 32,000 p.m. & FR = Rs. 4,20,000 p.a. She paid the following to Corporation of Chennai: (i) Property Tax – Rs. 16,200; (ii) Sewerage Tax – Rs. 1,800.

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

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

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

Compute the income u/h house property of Mrs. Rohini Ravi for AY 25-26 is she has exercised the option of shifting out of the default tax regime u/s 115BAC. **[Ex. Q4 + May 2009 + Mod. CMA Inter PYQs]**

TREATMENT OF INCOME FROM CO-OWNED PROPERTY [SECTION 26]

Co-owned HP is Self-occupied	Co-owned HP is Let out
For Each Co-owner: <ul style="list-style-type: none"> Annual Value → NIL Deduction of Rs. 30,000/2 Lacs u/s 24(b) separately for each co-owner. 	<ul style="list-style-type: none"> Income from such HP shall be computed as if property is owned by one owner & then Income so computed shall be apportioned amongst each co-owner as per their share.

Note: Maximum deduction of interest to each co-owner i.r.o interest payable on loan taken for co-owned house property & interest payable on loan taken for another SOP cannot exceed Rs. 30,000/Rs. 2,00,000.

Note: If Shares of co-owners are not definite → Income from HP is taxed as income of AOP (Co-owners).

TREATMENT OF INCOME FROM PROPERTY OWNED BY A PARTNERSHIP FIRM

➤ Income is assessable in the hands of firm & not in the hands of partners.

***CQ12.** Two brothers Arun & Bimal are co-owners of a house property with equal share. The property was constructed during PY 16-17. The property consists of 8 identical units and is situated at Cochin.

During PY 24-25, each co-owner occupied 1 unit for residence & balance of 6 units were let out at a rent of Rs. 12,000 p.m. per unit. MV of house property is Rs. 9,00,000 & municipal taxes of 20% were paid during PY. Other expenses:

Repairs	Rs. 40,000
Insurance premium (paid)	Rs. 15,000
Interest payable on loan taken for construction of house	Rs. 3,00,000

One of the let-out units remained vacant for 4 months. Arun could not occupy his unit for 6 months as he was transferred to Chennai. He does not own any other house. The other income of Mr. Arun and Mr. Bimal are Rs. 2,90,000 and Rs. 1,80,000, respectively, for PY 24-25.

Compute income u/h House Property' & total income of two brothers for AY 25-26 if they pay tax under default tax regime u/s 115BAC. Also, show computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[Ex. Q5 + Nov 12 + Mod. CS Professional]**

***CQ13.** Assessee owns 4 houses. Following are the particulars i.r.o properties. Compute assessee's income from HP.

Particulars	A	B	C	D
Municipal Value	80,000	1,60,000	1,15,000	1,20,000
Rent p.m.	10,000	6,000	10,000	
Local taxes paid	8,000	16,000	15,000	1,00,000
Used for	Let-out for business	½ used for own business, ½ given to the manager	Let-out for residential purpose	Self-occupied
Actual repairs	5,000	12,000	3,000	6,000
Ground rent due	2,000	-	3,000	-
Insurance Premium	-	2,000	-	4,000
Vacancy	2 months	-	1 month	-
Annual charges	-	2,000	-	-

CQ14. Can Net Annual Value be negative? **Ans:** Yes, only if MT paid by the owner are more than GAV.

CQ15. Can there be any loss under the head income from house property?

HOUSE PROPERTY HELD AS SIT

- If house property constitutes SIT of a business, rental income from such house property is to be taxed u/h 'Income from House Property'. [Since specific head has been given for income from house property, it cannot be taxed under any other head].
- **HP held as SIT → Annual value = NIL for 2 years** from the end of FY in which completion certificate is obtained from competent authority, if such property is not LOP during such period. [Sec 23(5)]

PC Note: Rental Income earned by an assessee engaged in the business of letting out of properties on rent would be taxable as Business Income. [SC ruling in Rayala Corporation (P) Ltd. v. Asstt. CIT]

Ex: If a Public school has let out a part of its building to a Bank. Rent received shall be considered to be income u/h "PGBP" & all the expenses of such house property shall be debited to P&L A/c.

CQ16. Write a note on letting out of building which is supplementary to the business.

Answer:

- If any assessee has let out any house property for any purpose which is supplementary to his business,
- in such cases rental income from such house property shall be taxable u/h 'PGBP' &
- all expenses of such house property will be allowed as deduction u/h 'PGBP' (if admissible).

DEEMED OWNERSHIP [SECTION 27]

- 1 Transfer to a spouse:** If an Individual transfer any house property to his/her spouse for **Inadequate** consideration, such transferor is deemed to be the owner of the transferred House property.

Exception: If a property is transferred to a spouse in connection with an agreement to live apart.

Ex: Mr. X has two house property each having income of Rs. 10 lacs and Mr. X has gifted one house property to Mrs. X. In this case, income from such house property shall be taxable in the hands of Mr. X but if Mr. X has sold the house property to Mrs. X and has taken full payment, income from house property shall be taxable in the hands of Mrs. X.

Note: Where an individual gives cash to his/her spouse or minor child & such transferee acquires HP from such cash, transferor shall not be treated as deemed owner. It will attract **clubbing** provisions.

- 2 Transfer to Minor Child:** If an Individual transfer any house property to minor child for inadequate consideration, transferor is deemed to be the owner of transferred house property.

Exception: Where a property is transferred to a minor married daughter.

- 3 Holder of an Impartible estate:** Holder of an Impartible estate (Impartible estate is a property which is not legally divisible) shall be deemed to be owner of all properties in the estate.

Ex: A Property could not be divided at the time of partition since it was occupied by the temple. Mr. X being the eldest son is the owner of the property as per the family convention. Property is given to Mr. X because the property could not be divided amongst the younger brother. Mr X in this case if not the beneficial owner of the property. He holds the property as a trustee on behalf of his younger brothers since all members of the family have right to enjoy benefits of the property. Mr. X is deemed as owner of property.

- 4 Member of a Co-operative Society, etc:** Member of a co-operative society, company or other AOPs to whom a building or part thereof is allotted or leased under a House Building Scheme of a society/company/association, shall be deemed to be owner of that building or part thereof allotted to him although the co-operative society/company/association is the legal owner of that building.

- 5 Person in possession of a property:** A person who is allowed to take possession of any building or part thereof in part performance of a contract of the nature referred to in section 53A of the TOPA shall be deemed owner of that house property. This would cover cases where -

- (a) Possession of property has been handed over to the buyer,
- (b) Sale consideration has been paid or promised to be paid to the seller by the buyer,
- (c) Sale deed has not been executed in favour of the buyer.

Buyer would be deemed to be the owner of the property although it is not registered in his name.

Ex: Mr. X has sold his house property to Mr. Y for Rs. 50 lacs & has taken full payment and possession has been given to Mr. Y but conveyance deed is not prepared in the name of Mr. Y. Mr. Y is the deemed owner.

- 6 Person having right in a property by way of Lease for 12 years or more:** A person who acquires any building by way of lease for a period of **12 years** or more shall be deemed to be the owner of that building or part thereof.

Exception: This will not cover the case where any Lease is acquired from **month-to-month** basis or for a **period not exceeding one year**.



INCOME FROM SALARY



SALARY

❖ Every payment made by an employer to his employee for **service rendered** during the course of **employment** would be taxable as Income from Salaries.

❖ **Employer-Employee Relationship:** To be taxable u/h “Salaries”:

- There should be Employer-Employee relationship.
- Employee may be full-time or part-time employee.
- Employer may be operating in India or Abroad.

PC Note: Amount received by an Individual shall be treated as salary only if relationship b/w payer & payee is of **Employer & Employee/Master & Servant/Principal & Agent**.

Examples:

1. Commission received by director:

- Taxed u/h “Salaries” if the director is an employee of the company.
- If he is not Employee → Such commission may be taxed u/h **PGBP/IFOS** as the case may be.

2. Member of Parliament/State Legislature → MPs & MSL are not employees of the Government & thus their salary is not taxable u/h salaries. It is taxable u/h **IFOS**.

3. Salary paid to a Partner by a Firm: It is an appropriation of profits. It is not treated as Salary since no Employer-Employee relationship exists b/w the partner & firm. It is taxed u/h **PGBP**.

❖ Salary includes both **Monetary & Non-Monetary facilities**.

- Monetary Facilities: Basic salary, Bonus, Commission, Allowances etc.
- Non- Monetary facilities: Accommodation, Medical facility, Interest free loans etc.

❖ **Salary & wages** are same (**not different**) terms for the purpose of Income Tax Act.

❖ **Salary from more than one source:** Salary from each source is taxable u/h Salaries.

Definition of Salary [Sec 17(1)]

- Meaning of ‘salary’ for income-tax is much wider than what is normally understood.
- Salary includes the following:

Wages.

Annuity or Pension.

Gratuity.

Any fees, Commission, Perquisite or Profits in lieu of or in addition to any salary.

Advance Salary.

Payment received i.r.o. any Period of Leave not availed by him.

Leave Salary or Leave Encashment.

Portion of the annual accretion in any PY to the balance at the credit of an employee participating in a recognised PF to the extent it is taxable.

Transferred balance in recognized PF (only taxable portion)

Contribution made by the employer under a pension scheme u/s 80CCD.

Contribution made by CG in PY, to Agniveer Corpus Fund A/c of an individual enrolled in Agnipath Scheme referred to in section 80CCH.

- It is an inclusive definition & includes monetary as well as non-monetary items.

BASIS OF CHARGE [SECTION 15]

- 1 Salary is taxable on **Due or Receipt basis** whichever is **earlier**.
- 2 **Advance Salary:** Advance salary is **taxable on Receipt basis** (whether it is due or not).
 - Advance Salary which has been taxed on Receipt basis in earlier PYs (in which it is received) cannot be taxed again on due basis in the PY in which it becomes due.
 - Relief u/s 89(1) is available in this case.
- 3 **Salary in Arrears:** Salary in Arrears becomes **taxable on due basis** (whether it is paid or not).
 - Since salary in arrears is already taxed on due basis, it cannot be taxed again on payment basis.
 - **But in some circumstances, it may not be possible to tax salary on due basis.**
Ex: If 'Pay Commission' is appointed by Central Government & it recommends revision of salaries of employees, arrears received in that connection will be charged on receipt basis.
 - Relief u/s 89(1) is available in this case.

Examples:

- (i) A draws his salary in advance for April 2024 in March 2024 itself. Salary of April 2024 is taxable on receipt basis & is to be taxed as income of PY 23-24. However, salary for PY 24-25 will not include salary of April 2024.
- (ii) If salary due for March 2024 is received later in April 2024, it is still chargeable as income of PY 23-24 i.e. AY 24-25 on due basis. Obviously, salary for PY 24-25 will not include salary of March 2024.

ANALYSIS OF SECTION 15

Nature of Salary	Taxable in
Salary becomes due in PY 24-25 (Paid in Subsequent Year)	PY 24-25
Salary is received in PY 24-25 (becomes due Subsequent Year)	PY 24-25
Arrears of salary received during PY 24-25 although it pertains to one of the earlier years & same were not taxed on due basis.	PY 24-25
Arrears of salary received during PY 24-25 although it pertains to one of the earlier years but same were taxed on due basis.	PY in which it was due

PLACE OF ACCRUAL OF SALARY [SECTION 9(1)]

General Rule: Salary is deemed to **accrue or arise** at the **place** where the **services are rendered**.

Place of Service	Place of Payment	Deemed to accrue in India ?	Taxable ?
India	India	Yes	Yes
India	Abroad	Yes	Yes
India	Pension is paid Abroad	Yes	Yes
Leaves Earned in India	Leave salary is paid abroad	Yes	Yes

PC Note: If an employee gets pension outside India for the services rendered in India, such pension will be deemed to accrue in India. [Same will apply for Leave Salary paid outside India].

Exception to General Rule - Sec 9(1)(iii)

- **Salary paid by Government to Citizen of India (R/NR)** for the services rendered **outside India** to the Government is **deemed to accrue/arise in India**.
- However, **Allowance or Perquisites** paid **outside India** by **GOI** to a **citizen of India** for rendering services outside India will be **fully exempt**. [Section 10(7)].

CQ1. Mr. A, a citizen of India, is posted in USA as our Ambassador. Obviously, he renders his services outside India. He also receives his salary outside India. He is also a NR. The question, therefore, arises whether he can claim exemption i.r.o. his salary paid by GOI to him outside India.

As per general rule, such salary cannot be taxed in his hands because services are rendered outside India.

But section 9(1)(iii) provides that salaries payable by GOI to a citizen of India for services outside India shall be deemed to accrue or arise in India & thus it will be Indian Income. However, Allowance/Perquisites paid outside India by government to a citizen of India for rendering services outside India will be exempt u/s 10(7).

TABULAR SUMMARY of Sec 9(1)(ii) & Sec 9(iii)

	Who is employee	Employer	Place of Service	Is it taxable in India	
				Salary	Allowance/Perquisite
1	Indian Citizen (R/NR)	GOI	Outside India	Yes	No
2	NR (Other than 1)	Any	Outside India	No	No
3	ROR (Other than 1)	Any	Anywhere	Yes	Yes

SALARY PAID TAX-FREE

- Salary paid tax-free does not mean that tax is not levied on such salary.
- It means that **Employer bears the burden of the tax** on salary of employee.
- It does not matter whether employer pays the tax under T&Cs of the employment contract or voluntarily.
- In such case, **Income from salaries = Salary Income + Tax on employee's Salary paid by the employer.**
- However, as per section 10(10CC), **Income-tax paid** by the employer on **Non-Monetary Perquisites** on behalf of the employee would be **exempt in the hands of the employee.**

LOAN OR ADVANCE AGAINST SALARY

- Loan is different from salary. It **cannot be taxed as Salary.**
- Advance against salary is different from advance salary.** It is an advance taken by the employee from his employer. This advance is generally **adjusted with his salary** over a specified time period.
- When an employee takes a loan from his employer, which is repayable in certain specified instalments, the loan amount cannot be brought to tax as salary of the employee.

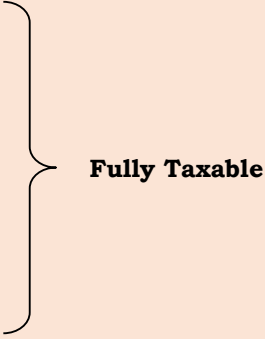
Space for PC Note:

FOREGOING OF SALARY

- Salary is chargeable to tax on **due or receipt basis** (whichever is earlier).
- If employee foregoes his salary, it does not mean that salary foregone is not taxable.
- Once salary accrues, subsequent waiver by the employee does not make it exempt.
- Such waiver is only an application & hence, is taxable.**
- Surrender of Salary to Central Govt:** If an employee surrenders his salary to u/s 2 of Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961 → It is **Exempt.**

CQ2. Mr. A, an employee instructs his employer that he is not interested in receiving salary for April 2024 & salary for April 2024 shall be donated to a charitable institution. In this case, Mr. A cannot claim that he cannot be taxed i.r.o salary for April 2023. It is only due to his instruction that donation was made to a charitable institution by his employer. It is only an application of income. Hence, salary for April 2024 will be taxable in hands of Mr. A. However, he is entitled to claim a deduction u/s 80G for amount donated.

COMPONENTS OF SALARY & THEIR TAXABILITY

RECEIPTS	TREATMENT
Basic Salary Dearness allowance/pay Leave encashment while in service Salary in lieu of Notice Fees & Commission Monthly Pension (uncommuted) Annuity from Employer Profits in lieu of Salary	 Fully Taxable
Advance Salary	Taxable in PY of Receipt
Arrears of Salary	Taxable in PY in which it becomes due.
Bonus	Taxable on Receipt Basis [if not taxed earlier on due basis].
Annual Accretion to the credit balance in RPF (Taxable Amount)	<ul style="list-style-type: none"> ▪ Excess of Employer's contribution over 12% of salary ▪ Excess of Interest over 9.5% is taxable.
Leave Encashment on Retirement Gratuity/Commuted Pension	<ul style="list-style-type: none"> ▪ Government employees: Exempt ▪ Non-Government employee: Exempt in some cases.
Salary to Partner	Not taxable under "Salaries", but taxable under "PGBP"
Salary/Pension from UNO	Not chargeable to tax.
Compensation received under VRS	Exempt in some cases.
Pension under NPS	Taxable at the time of receipt.

MEANING OF "SALARY" FOR DIFFERENT PURPOSES

Allowance/Perquisites	Definition of Salary
Gratuity for Covered Employees	Basic Salary + DA (whenever DA is paid)
(a) Gratuity for other cases (b) National Pension Scheme (c) Employer's Contribution to RPF (d) Leave salary; (e) HRA (f) VRS	Basic Salary + Dearness Allowance (if it forms part of salary for computing all retirement benefits) + Commission (if paid as % of turnover). PC Class Note:
Rent-Free Accommodation	Basic Salary + Dearness Allowance (if it forms part of salary for computing all retirement benefits) + Bonus + Any Commission (Paid + Any other monetary payment by whatever name but Excludes: <ul style="list-style-type: none"> (a) Employer's contribution to PF of the employee; (b) Exempt Allowances; (c) Value of Taxable Perquisites u/s 17(2); (d) Medical Allowance to the extent it is not taxable. (e) Payment/Expenditure for allotment of shares or debentures or warrants under ESOP etc.

DIFFERENT FORMS OF ALLOWANCES & ITS TAXABILITY

Meaning of Allowance: Fixed quantity of money given regularly to employees in addition to salary to meet some particular requirements connected with service or compensation for unusual conditions of that service. It is fixed, predetermined & given irrespective of actual expenditure.

VARIOUS ALLOWANCES & THEIR TAXABILITY

Fully Taxable under both default & old regime	Fully Taxable under default regime & Partly Exempt under old	Fully Exempt under old regime
<ul style="list-style-type: none"> Dearness Allowance Overtime Allowance Fixed Medical Allowance City Compensatory Allowance Interim Allowance Servant Allowance Project Allowance Tiffin/Lunch Allowance Any other cash allowance Warden Allowance Non-practicing Allowance Transport Allowance <p>except Handicapped Employee</p>	<ul style="list-style-type: none"> House Rent Allowance Special Allowances u/s 10(14) <p>Except</p> <ul style="list-style-type: none"> (a) Travelling allowance (b) Daily allowance (c) Conveyance allowance (d) Transport allowance to handicapped employee <p>Note: Exceptions in (a) to (d) above are partly exempt under both the tax regimes.</p>	<ul style="list-style-type: none"> (a) Sumptuary allowance granted to HC/SC Judges. (b) Allowance paid by UNO. (c) Compensatory Allowance received by a judge (d) Allowance to the government employees outside India u/s 10(7). <p>Note: (a) – (c) are exempt under old regime & not under new regime. Only (d) is fully exempt under both the regimes.</p>

HOUSE RENT ALLOWANCE [SECTION 10(13A)]

► Least of the following is Exempt ↓

- Actual amount of **HRA received** for the Relevant Period.
- Excess of **Rent paid over 10% of salary** for the Relevant Period.
- City** of Residence:
 - Mumbai, Delhi, Kolkata, Madras (chennai): **50% of Salary** for Relevant Period.
 - Other cities: **40% of Salary** for Relevant Period.

PC Note:

- ✓ For HRA, Salary = Basic Salary + DA (Retirement benefits) + Commission (if paid as % of TO).
- ✓ Salary of the PY shall only be considered for calculating HRA Exemption. Salary of the period other than PY is not considered even if it is received in the PY & is taxable on receipt basis (Advance salary).
- ✓ Salary of the period during which rental accommodation is not occupied in PY is also not considered.
- ✓ No Exemption if employee lives in his own house/in a house where he does not pay rent.
- ✓ Relevant period means the period during which house was occupied by the assessee during PY.

PC Note: Exemption i.r.o. HRA is available only under Old Scheme. It is not available in new tax regime.

CQ3. Mr. Roy, staying at Chennai, receives Rs. 12,500 monthly as basic salary; Rs. 1,500 p.m as DA provided in terms of employment & 4% as commission on turnover achieved by him. He is paid HRA of Rs. 1,800 p.m. Turnover achieved by him for the year is Rs. 15 Lacs. House rent paid by him is Rs. 2,500 p.m. He received advance salary of Rs. 50,000 in March 2025 relating to the period April 2025 to July 2025. Find taxable HRA for AY 25-26.

Solution: Salary for HRA = Basic Salary + Dearness Allowance (Retirement Benefits) + Commission (% of TO)
 = (12,500 x 12 months) + (1,500 x 12 months) + 4% on 15,00,000 = **Rs. 2,28,000**

Computation of Taxable House Rent Allowance of Mr. Roy

Particulars	Rs.	Rs.
Actual House Rent allowance (Rs. 1800 x 12 months)		21,600
Less: Exempt u/s 10 (13A) to the extent of least of the following:		(7,200)
1. Excess of rent paid over 10% of the salary (30,000 – 22,800)	7,200	
2. 50% of salary (50% of 2,28,000)	1,14,000	
3. Actual HRA received	21,600	
Taxable HRA		14,400

PC Note: Though advance Salary is taxable in AY 25-26 on receipt basis, it should not be considered in computing Salary for the purpose of calculating exemption u/s 10(13A).

SPECIAL ALLOWANCES EXEMPT U/S 10(14) r/w Rule 2BB

1. Exemption depends upon actual expenditure incurred by the employee [Sec 10(14)(i)]

- **Actual Expenditure** incurred by the employee is **RELEVANT** for the purpose of exemption.
- Exemption = Lower of (a) Allowance Received or (b) Amount utilized/spent for specific purpose.

PC Note: There is no limit on the amount which employee can receive from the employer as allowance.

SN	Allowances	Nature of Allowance
(a)	Travelling /Transfer Allowance	Allowance granted to meet the cost of travel on tour or on transfer (including any sum paid for transfer, packing & transportation of personal effects on such transfer).
(b)	Daily Allowance	Allowance granted on tour or for journey in connection with transfer, to meet the ordinary daily charges incurred due to absence from his normal place of duty.
(c)	Conveyance Allowance	Granted to meet expenditure on conveyance in performance of duties of office . PC Note: Expenditure for journey between office & residence is not exempt.
(d)	Helper allowance	Any allowance to meet the expenditure on a helper where such helper is engaged for the performance of official duties.
(e)	Research Allowance	Any allowance granted for encouraging the academic research & other professional pursuits.
(f)	Uniform Allowance	Any allowance to meet expenditure on purchase or maintenance of uniform for wear during the performance of duties of an office.

Note: Allowances specified in (d) – (e) will not be exempt default (new) regime.

Allowances specified in (a) – (c) will be exempt in both the regimes.

CQ5. During PY 24-25, the following allowances are given to X by the employer company:

Nature of allowance	Amount of Allowance	Amount Actually spent	Amount taxable
Travelling allowance for official purposes	36,000	32,000	4,000
Transfer allowance given on transfer of X	40,000	41,000	Nil
Conveyance allowance for official purposes	50,000	42,000	8,000
Helper allowance of helper for official purposes	68,000	64,000	4,000
Research allowance	1,00,000	90,000	10,000
Uniform allowance for official purposes	18,000	17,000	1,000

(ii) Exemption does not depend upon Actual Expenditure incurred by the employee [Sec 10(14)(ii)]

- **Actual Expenditure** incurred by the employee is **IRRELEVANT** for the purpose of exemption.
- **Exemption = Lower of (a) Allowance actually received or (b) Amount specified in Rule 2BB.**

PC Note: There is a limit on the amount which employee can receive from the employer as allowance. Any amount received by employee in excess of these specified limits will be taxable in the hands of employee.

Name of Allowance	Nature & Given to & Conditions	Exemption	
Children Education Allowance	Given for children's education	Rs. 100 p.m per child upto Maximum of 2 children	
Hostel Expenditure	Given for meeting expenditure of child	Rs. 300 p.m per child upto Maximum of 2 children	
Transport Allowance	Expenses for communicating between place of his residence & place of duty.	Rs. 3,200 p.m; only handicapped employees	
	Note: Exemption available under both tax regimes.		
Allowance for Transport Employees	Granted to meet personal expenses during his duty if not in receipt of daily allowance.	(a) 70% of such Allowance; (b) Rs. 10,000 p.m (Lower)	
Tribal areas/Scheduled Areas Allowance	For MP, Tamil Nadu, UP, WB, Bihar, Orissa, Karnataka, Tripura, Assam	Rs. 200 p.m	
Special Compensatory (Hilly Areas) Allowance	High Altitude/Snow Area Allowance	Rs. 300 - Rs. 800 p.m [7,000 p.m in Siachen of J&K]	
Border Area Allowance	Border area/Remote locality Allowance	Rs. 200 – Rs. 1,300 p.m	
Compensatory Allowance (a) Field area (b) Modified Field Area	Employee cannot claim Border Area Allowance if this exemption is taken	(a) 2,600 p.m in some cases (b) 1,000 p.m in some cases	
Underground Allowance	Employee working in/under mines.	Rs. 800 p.m	
High Altitude Allowance	Granted to Members of Armed forces operating in High Altitude areas.	Altitude (fts)	Exemption
		9000-15000	Rs. 1,060 p.m
		Above 15000	Rs. 1,600 p.m
Highly Active Field Area	Granted to Members of Armed forces.	Upto Rs. 4,200 p.m	
Island Duty Allowance	Granted to Members of Armed forces in Andaman & Nicobar; Lakshadweep.	Upto Rs. 3,250 p.m	
Counter Insurgency Allowance	Members of armed forces operating in areas away from their permanent locations.	Rs. 3,900 p.m	

Note: Only Transport allowance is exempt for handicapped employees in default (new) tax regime. Other allowances are not exempt in default (new) tax regime.

CQ6. During PY 24-25, following allowance are given to X by the employer company:

Name of Allowance	Received	Spent	Exempt	Tax
1. Tribal area allowance for X posted in Assam for 2 months	1000	NA	200 p.m	600
2. Child education allowance for X's elder son	1800	NA	100 p.m	600
3. Child education allowance for X's younger son	900	NA	Nil	900
4. Child education allowance for X's daughter	1080	NA	100 p.m	Nil
5. Hostel expenditure allowance for X's elder son	6600	NA	300 p.m	3000

PC Note for (Pt. 2, 3, & 4): If Education allowance is received for more than 2 children, exemption of Rs. 100 p.m shall be taken for 2 children for whom highest allowance is received. Child for whom lowest allowance is received shall be made taxable (as it will be beneficial for the assessee).

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

Transport allowance: Rs. 1,800 p.m.

Tribal area allowance: Rs. 500 p.m.

Compute his taxable allowances

Answer: Mr. Srikant exercises the option of shifting out of default tax regime u/s 115BAC

Children Education Allowance:		
Elder son [(Rs. 150 - Rs. 100) p.m. × 12 months]	Rs. 600	
Younger son [(Rs. 70 - Rs. 70) p.m. × 12 months]	Nil	Rs. 600
Transport allowance (Rs. 1,800 p.m. × 12 months)		Rs. 21,600
Tribal area allowance [(Rs. 500 - Rs. 200) p.m. × 12 months]		Rs. 3,600
Taxable allowances		Rs. 25,800

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

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



VARIOUS PERQUISITES & THEIR TAXABILITY

Definition of Perquisite

- Any Casual Emolument or benefits attached to office/position in addition to salary.
- It is an extra benefit in addition to the basic salary. It may be provided in cash or kind.
- It is not necessary that a recurring or regular receipt is alone perquisites; even a casual or non-recurring receipt can be perquisite.

Any Sum received shall be taxed as Perquisite only if following conditions are satisfied:

- (a) Given by Employer. (If received from other person → Taxed u/h PGBP/IFOS)
- (b) Given during the **continuance of employment** & must be directly related to service
- (c) Resulting in personal advantage to an employee;
- (d) Derived by virtue of employer's authority
- (e) Perquisite may be given for the **benefits of employee or his Member of household.**

PC Note:

- ❖ Reimbursement of Expenses incurred in official discharge of duties → Not a Perquisite.
- ❖ Perquisite will become taxable only if it has a **legal origin**. An unauthorized advantage taken by an employee without his employer's sanction cannot be considered as a perquisite. Such unauthorized amount would be chargeable u/h IFOS.
Ex: Suppose Mr. A is given a house by his employer. On 31.3.2024, he is terminated from service. But he continues to occupy the house without the permission of the employer for 6-months after which he is evicted by the employer. The question arises whether the value of the benefit enjoyed by him during 6-month period can be considered as a perquisite & be charged to salary for PY 24-25. It cannot be taxed u/h 'Salaries' since the relationship of employer- employee ceased to exist after 31.3.2024. It will be taxable u/h "IFOS".
- ❖ Income-tax paid by the employer out of his pocket on the salary of the employee is a perquisite in the hands of the employee whether payment is contractual or voluntary.
- ❖ Member of Household shall include:
(a) Spouse (b) Children & their spouses (c) Parents (d) Servants & Dependents.
- ❖ Children includes step child & adopted child.
- ❖ Children born out of multiple birth after 1st child will be treated as "one child only."

PERQUISITE I.R.O 'FREE EDUCATION'

Nature of Expenditure		Taxable Perquisite
1	Training of employees	Not Taxable
2	Education facility provided to family members Payment/reimbursement of tuition fees.	Fully Taxable. No Exemption is available.
3	Education facility provided to children of Employee	Reasonable cost of education is taxable. Exemption → Rs 1,000 p.m per child.

PC Note: Scholarship given by an employer to the children of its employees → Not a perquisite.

CQ7. The employer has made arrangements for education of 3 childrens of his employee in his own school & has incurred Rs. 1,500 p.m per child & has recovered Rs. 300 p.m per child from the employee. Calculate the value of taxable perquisite.

Solution: Exemption of Rs. 1,000 p.m is available irrespective of number of children.

- Value of perquisite per children = Rs. 1,500 – Rs. 300 – Rs. 1,000 (Exemption) = Rs. 200 p.m.
- Value of taxable perquisite = Rs. 200 p.m × 12 months × 3 children = Rs. 7,200.

PERQUISITE I.R.O 'RENT-FREE UNFURNISHED ACCOMODATION'

'Accommodation' includes a house, flat, farm house (or part), or accommodation in a hotel, motel, service apartment, guest-house, caravan, mobile home, ship or other floating structure.

Employee	Value of perquisites	
(a) CG or SG employees	License fee determined by CG or SG.	
(b) Other than Government Employee		
❖ Accommodation is owned by Employer	Population of place of Accommodation	Perquisite
	➡ Upto 15 lacs	5% of salary
	➡ More than 15 lacs – Upto 40 lacs	7.5% of salary
	➡ More than 40 lacs	10% of salary
❖ Accommodation is taken on rent/lease by employer (not owned by employer)	Lower of: (i) 10% of salary or (ii) Actual rent paid by employer for occupied period.	
(c) Accommodation Provided in Hotel (Gov/Non-Government Employer)	Lower of (i) 24% of salary or (ii) Actual Hotel charges paid by employer.	

VALUATION OF FURNISHED ACCOMODATION

Valuation shall be done as if employer has provided **unfurnished accommodation**

Add: 10% p.a of original cost of furniture (if furniture is owned by employer).

Add: Lease charges/Rent paid for hiring furniture (If furniture is hired by employer).

Note: If Accommodation is provided **≤ 15 days on his transfer** from one place to another → **No Perquisite**

Accommodation provided at two places:

If any employee has been transferred & employer has provided him accommodation at the new place also, in such cases only one of the accommodations having **lower perquisite value** shall be taxable **upto 90 days** (3 months) & **after 90 days, both** of the accommodations shall be **taxable as perquisite**.

PC Note: Rent-free official residence provided to a Judge of HC/SC & Officer of Parliament → Not taxable.

Value of perquisite shall be restricted to CII: If the same accommodation is provided to same employee for more than one PY, value of perquisite as calculated above shall not exceed the amount so calculated for first PY, as multiplied by the amount which is a ratio of the CII for PY for which the value is calculated & CII for PY in which the accommodation was initially provided to the employee.

"First previous year" means PY 23-24 or PY in which accommodation was provided (whichever is later).

Q2. 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	Rs. 8,500 p.m.
Dearness Allowance	Rs. 2,000 p.m. (30% is for retirement benefits)
Bonus	Rs. 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 AY 25-26.

Answer: Value of the rent free unfurnished accommodation

- (a) 10% of salary for the relevant period
- (b) 10% of [(Rs. 8,500 × 5) + (Rs. 2,000 × 30% × 5) + (Rs. 1,500 × 5)] [See Note below]
- (c) 10% of Rs. 53,000 = Rs. 5,300.

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

Q3. Using the data given in the previous question, compute the value of the perquisite if Mr. C is required to pay a rent of Rs. 1,000 p.m. to the company, for the use of this accommodation.

Answer: First of all, we have to see whether the accommodation is provided at a concessional rate. If the value of accommodation computed in prescribed manner exceeds the rent recoverable, or payable by, the assessee, the accommodation would be deemed to have been provided at a concessional rate.

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

Value of the accommodation	Rs. 5,300
Less: Rent paid by the employee (Rs. 1,000 × 5)	Rs. 5,000
Perquisite value of accommodation given at a concessional rent	Rs. 300

Q4. Using the data given in above question, compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of Rs. 1,025 p.m. and Mr. C is required to pay a rent of Rs. 1,000 p.m. to the company, for the use of this accommodation.

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

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

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

Value of the accommodation [PC Note]	Rs. 5,125
Less: Rent paid by the employee (Rs. 1,000 × 5)	Rs. 5,000
Value of accommodation given at a concessional rent	Rs. 125

PC Note: Value of the accommodation is lower of

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

Q5. Using the data given in above question, compute the value of the perquisite if ABC Ltd. has provided a television (WDV Rs. 10,000; Cost Rs. 25,000) and two air conditioners. The rent paid by the company for the air conditioners is Rs. 400 p.m. each. The television was provided on 1.1.2025. However, Mr. C is required to pay a rent of Rs. 1,000 p.m. to the company, for the use of this furnished accommodation.

Answer: Here again, we have to see whether the accommodation is provided at a concessional rate. In the case of accommodation owned by the employer in a city having a population exceeding 40 lakhs, the accommodation would be deemed to have been provided at a concessional rate, if 10% of salary exceeds rent recoverable from the employee. In case of furnished accommodation, the excess of hire charges paid or 10% p.a. of the cost of furniture, as the case may be, over and above the charges paid or payable by the employee has to be added to the value arrived

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

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

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

Q6. Using the data given in illustration 17 above, compute the value of the perquisite if Mr. C is a government employee. The licence fees determined by the Government for this accommodation was Rs. 700 p.m.

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

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

Value of the accommodation (Rs. 700 x 5)	Rs. 3,500
Add: Value of furniture provided by the employer (computed earlier)	Rs. 4,625
Value of furnished accommodation	Rs. 8,125
Less: Rent paid by the employee (Rs. 1,000 x 5)	Rs. 5,000
Perquisite value of furnished accommodation given at concessional rent	Rs. 3,125

CQ8. Mr. Lakshman informs you the particulars of salary for previous year ending 31.03.2025: Basic pay: Rs. 36,000; DA: Rs. 4,800 (not forming part of salary); Bonus: Rs. 6,000; Commission: Rs. 4,000; City Compensatory Allowance: Rs. 3,600. Calculate the value of perquisite i.r.o. rent-free furnished house if Mr. Lakshman stays in a city with a population (a) more than 40 Lacs, (b) less than 15 Lacs, (c) between 15 Lacs & 40 Lacs. Cost of furniture provided is Rs. 16,000. Sofa was taken on rent for Rs. 300 p.m.

Ans: Salary = BS + Bonus + Commission + City Compensatory Allowance = 36000 + 6000 + 4000 + 3600 = 49600

Value of Rent-free unfurnished Accommodation

(a) Population: More than 40 Lacs	→ 10% of salary	= 10% of Rs. 49,600	= Rs. 4960
(b) Population: 15 lac – 40 lacs	→ 7.5% of salary	= 7.5% of Rs. 49,600	= Rs. 3,720
(c) Population: Less than 15 lacs	→ 5% of salary	= 5% of Rs. 49,600	= Rs. 2480

Value of Furnished Accommodation

Particulars	Population > 40L	15 Lacs – 40 Lacs	Population < 15L
Value of unfurnished accommodation	4,960	3,720	2,480
Add: Perquisites for value of furniture [(10% of Rs. 16,000) + (300 x 12)]	5,200	5,200	5,200
Value of furnished accommodation	10,160	8,920	7,680

PERQUISITE I.R.O 'MEDICAL FACILITIES'

A. Medical Facilities in India

Place of Provision of Medical Treatment	Value of Taxable Perquisite
(a) Hospital owned/maintained by employer; (b) Government Hospital; (c) Private Hospital (if recommended by Government for treatment of its employees). (d) Specified facility for prescribed diseases in hospital approved by PCC/CC. (e) Illness relating to COVID 19	Nothing shall be Taxable in such cases
Any other facility in India (Ex: Family doctor)	Fully Taxable

B. Medical Facility outside India

Type of Expenditure	Value of Taxable Perquisite
(a) Medical treatment in Abroad	<ul style="list-style-type: none"> Exempt to the extent permitted by the RBI. Perquisite = Amount exceeding RBI limit.
(b) Cost of Stay in Abroad (including 1 attendant)	
(c) Cost on Travel (including 1 attendant)	Exempt only if GTI of employee computed before deducting (including) this expenditure \leq Rs. 2 lacs.

PC Note:

- Medical Facilities may be provided to an employee or any member of his family.
- Family \rightarrow Spouse + Children (Maximum 2) + [Parents + Brothers + Sisters – Dependent].
- Fixed Medical Allowance \rightarrow Always taxable.

CQ9. Compute taxable perquisite i.r.o. medical facilities received by Mr. G from his employer:

[SM Q13]

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

Solution:

Medical Facilities outside India

Total Expenditure on Treatment + Expense of Stay = Rs. 50,000 + Rs. 30,000	Rs. 80,000
Less: Exempt to the extent permitted by RBI (Limit specified by RBI)	Rs. 75,000
Value of Taxable Perquisite	Rs. 5,000

Medical Facilities in India

Medical premium paid for insuring health of Mr. G	Exempt
Treatment of Mr. G by his family doctor	Rs. 5,000
Treatment of Mrs. G in a Government hospital	Exempt
Treatment of Mr. G's grandfather in a private clinic	Rs. 12,000
Treatment of Mr. G's sister (dependant) in a nursing home	Rs. 3,000
Treatment of Mr. G's brother (independent)	Rs. 6,000
Perquisite of Medical facilities in India	Rs. 26,000

PC Note: Grandfather & Independent brother are not included within the meaning of family of Mr. G.

INTEREST-FREE LOAN OR CONCESSIONAL LOAN

- If a loan is given by the employer to employee/member of his household, it is a taxable perquisite.

How to value the amount of Perquisite when loan is given ?

1. Find out the **Maximum outstanding Monthly balance** on last day of every month.
2. Find out **Differential Interest** for each month on the outstanding amount. [SBI rate on loan of same kind – Concessional rate given by employee]
3. Value of Perquisite on loan = **Sum of Differential Interest of all months.**

- **Maximum outstanding monthly balance** = Aggregate outstanding balance for each loan as on the last day of each month.

- **Exceptions:** In following cases, Interest-free Loan is not treated as perquisite:

(a) If the amount of total **loans** ≤ **Rs. 20,000.**

(b) If **Loan** is given for **Medical Treatment of Prescribed Diseases** (Cancer, tuberculosis, etc).

However, any amount reimbursed (given) to the employee by insurance company shall be considered for valuation of Perquisite. [**PC Note:** Insurance company ne reimburse kiye hue paisa = Perquisite]

Class Note:

CQ10. Mr. Raju is employed in Kangana Ltd. and he has taken a loan of Rs. 5 lacs from employer on 20.04.2024 at a rate of 4% p.a. but SBI rate is 10% p.a. and loan was repaid in monthly instalment of Rs. 1 lac each starting from 10.07.2024. Find the value of taxable perquisite.

Solution:

April 2024	$5,00,000 \times 6\% \times 1/12$	Rs. 2,500
May 2024	$5,00,000 \times 6\% \times 1/12$	Rs. 2,500
June 2024	$5,00,000 \times 6\% \times 1/12$	Rs. 2,500
July 2024	$4,00,000 \times 6\% \times 1/12$	Rs. 2,000
August 2024	$3,00,000 \times 6\% \times 1/12$	Rs. 1,500
September 2024	$2,00,000 \times 6\% \times 1/12$	Rs. 1,000
October 2024	$1,00,000 \times 6\% \times 1/12$	Rs. 500
Taxable amount		Rs. 12,500

PERQUISITE I.R.O TRAVELLING, TOURING, ACCOMMODATION

Circumstances	Value of perquisite
Facility is provided uniformly to all employees	Actual Expenditure incurred by the employer
Facility is not available uniformly to all employees	Actual value offered to public by other agencies
Employee is on official tour & he takes his family member with him	Amount of expenditure incurred for such family member
Any official tour is extended as a vacation.	Expenses incurred for extended period.

VALUATION OF LEAVE TRAVEL CONCESSION IN INDIA [SECTION 10(5)]

Different situations of Journey	Amount of exemption (LOWER OF 1 or 2)
1. Journey by Air	(a) Fare of Economy class by shortest route or (b) Amount spent
2. Journey by Rail or by other mode even if Routes of journey are connected by rail	(a) Fare of AC 1st class rail by shortest route or (b) Amount spent.
3. If origin & destination of journey (or part) are not connected by rail :	
(a) If recognised public transport Exists	1 st /Deluxe fare by shortest route
(b) If no recognised public transport Exist	AC 1 st class rail fare by shortest route

PC Note:

- ❖ **Exemption is available only in old tax regime.**
- ❖ Exemption is available only for going anywhere **in India along with family**.
- ❖ **Family:** Spouse & children (Max 2 children), Dependent Parents, brothers, sisters.
- ❖ **Only 2 journeys in a block of 4 years are Exempt:** Block of 4 years applicable for AY 25-26 is **2024-2026** (1 Jan 2024 - 31 Dec 2026). Earlier blocks were 2019-2023 & so on.
- ❖ **Exemption is based on Actual Expenditure:** No Exemption without performing any journey.
- ❖ **Exemption is available only on Bus fare, Rail fare, Air fare** → No exemption of taxi charges, loading charges, boarding expenses is available.
- ❖ **CARRY FORWARD OF EXEMPTION**

If **any** of the **LTC available** in earlier block has **not been availed** by the assessee, then assessee can claim carry forward of such unavailed exemption (**ONLY ONE**) in 1st calendar year of the next block. Such Carried forward exemption availed will not be counted i.r.o 2 journey in next block.

Ex: Employee does not avail any LTC for the block 2018-21. He is allowed to carry forward maximum one unavailed LTC to be used in the succeeding block of 2022-25. Accordingly, if he avails LTC in April 2024, the same will be treated as having availed in respect of the block 2018-2021. Therefore, he will be eligible for exemption i.r.o. that journey and two more journeys can be further availed in respect of the block of 2022-25.

CQ11. Mr. D went on a holiday on 25.12.2024 to Delhi with his wife & 3 children (one son – age 5 years; twin daughters – age 2 years). They went by flight (economy class) & total cost of tickets reimbursed by his employer was Rs. 60,000 (Rs. 45,000 for adults & Rs. 15,000 for the three minor children). Compute the amount of LTC exempt if Mr. D exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Solution: 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 & journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt.

CQ12. Will there be any difference if among his three children the twins were 5 years old & son 3 years old?

Solution: Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his 3 children. LTC exemption can be availed i.r.o. only two children. **Taxable LTC = 15000 × 1/3 = Rs. 5000.**

PERQUISITE I.R.O 'GIFT, VOUCHER OR TOKEN'

- Value of perquisite = Actual cost to the employer.

Cash gifts	Fully taxable without any exemption.
Gifts in Kind	Aggregate Exemption of Rs. 5,000 in a year.

PC Note: Gift or voucher or token may be received by the employee or by member of his household.

Ex: Employer provides a cash gift of Rs 3,000 to X. Beside this, X gets a wrist watch of Rs. 8,000 from his employer.

Answer: Rs. 3,000 being cash is fully taxable. Further Rs. 3,000 (Rs. 8,000 – Rs. 5,000) is taxable for gift-in-kind.

PERQUISITE I.R.O. 'TELEPHONES/MOBILE PHONES BILLS'

- If employer pays/reimburses telephone bills or mobile charges of employee → No Perquisite.

PERQUISITE I.R.O. "FREE DOMESTIC SERVANTS"

- Taxable Amount = **Actual Cost** (Total salary paid by employer – amount recovered from employee)

PC Note: When a house owned by employer is given to employee & employer incurs expenditure on maintenance of garden → Not a perquisite.

As per CBDT circular, provisions of gardener (when gardener is provided **along with a house** owned by the employer) cannot be taken as a perquisite, as employer in any case would have maintained the garden irrespective of the fact whether building was occupied by employee or lying vacant.

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

(1) For Mr. X, who engaged a domestic servant for Rs. 500 per month, his employer reimbursed the entire salary paid to the domestic servant i.e. Rs. 500 per month.

(2) For Mr. Y, he was provided with a domestic servant @ Rs. 500 per month as part of remuneration package.

You are required to comment on the taxability in the hands of Mr. X & Mr. Y, who are not specified employees.

Answer:

In the case of Mr. X, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. Hence, the perquisite will be covered u/s 17(2)(iv) and will be taxable in the hands of Mr. X. This is taxable in the case of all employees.

In the case of Mr. Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by section 17(2)(iii). Hence, there is no perquisite element in the hands of Mr. Y.

CQ13. Mr. X employed in XYZ Ltd. as a computer analyst gives you the list of perquisites provided by the company to him for PY 24-25:

- Domestic servant was provided at the residence of Mr. X. Salary of domestic servant is Rs. 1,500 p.m. The servant was engaged by him and the salary is reimbursed by the company (employer).
- Free education was provided to his two children Y & Z in a school maintained and owned by the company. The cost of such education for Y is computed at Rs. 900 p.m and for Z at Rs. 1,200 p.m. No amount was recovered by the company for such education facility from Mr. X.
- A gift voucher worth Rs. 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- Telephone provided at the residence of Mr. X & bill aggregating to Rs. 25,000 paid by the employer.

Compute the chargeable perquisite in the hands of Mr. X for AY 25-26.

Solution:

- Domestic servant was employed by the employee & salary of such domestic servant was paid/reimbursed by the employer. It is taxable as perquisite for all employees. Taxable perquisite value = Rs. 1,500 × 12 = Rs. 18,000.
- Where the educational institution is owned by the employer, value of perquisite i.r.o 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 ≤ Rs. 1,000 p.m.
Therefore, there would be no perquisite i.r.o. cost of free education provided to his child Y.
However, the cost of free education provided to his child Z would be taxable, since the cost exceeds Rs. 1,000 p.m. The taxable perquisite value would be Rs. 2,400 (Rs. 200 × 12).
- The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding Rs. 5,000 in aggregate during the previous year is exempt. Value of perquisite would be Rs. 5,000.
- Telephone provided at the residence of the employee & payment of bill by the employer is a tax-free perquisite.

FREE FOOD & NON-ALCOHOLIC BEVERAGES

Nature of expenditure	Taxability of perquisite.
1. Tea or snacks provided during working hours	Not a perquisite
2. Meal provided in office	Cost to employer (in excess of Rs 50) – Amount recovered from the employee

Following would not be treated as a perquisite:

- (a) Free food and non-alcoholic beverages provided by such employer
- during working hours at office or business premises or
 - through paid vouchers which are not transferable and usable only at eating joints,
to the extent the value does not exceed Rs. 50 per meal.
- (b) tea or snacks provided during working hours
- (c) free food and non-alcoholic beverages during working hours in remote area or off-shore installation.

PC Note: Working hours include overtime & working on holidays.

Note: Exemption i.r.o. free food & non-alcoholic beverage provided by such employer through paid voucher would not be available in case an employee pays tax under the default tax regime u/s 115BAC.

Ex: Mr. X is employed in the office of Chartered Accountant and during the year he was given free lunch on many occasions and value per lunch is Rs. 175. In such case Rs. 125 (Rs. 175 – Rs. 50) per lunch is taxable.

PERQUISITE I.R.O 'CREDIT CARD EXPENSES'

Perquisite = Total expenditure incurred (including Membership fees) by the employer

Less: Expenditure incurred for **official purposes** [Complete details should be maintained]

Less: Amount recovered from employee.

PERQUISITE I.R.O 'CLUB EXPENDITURE'

➤ **Perquisite** = Total expenditure incurred (including annual fees) for club facilities

Less: Expenditure incurred for official purposes [Complete details should be maintained]

Less: Amount recovered from employee.

➤ Expenditure pertaining to **health club, sports facilities** etc. → **Not a perquisite.**

PC Note: Where the employer has obtained corporate membership of the club, value of perquisite shall not include the initial fee paid for acquiring such corporate membership.

PERQUISITE I.R.O 'FREE/CONCESSIONAL TICKETS' [Employer in Transportation Business]

▪ **Employer** is engaged in the business of carriage of passengers or goods;

▪ **Service given:** Free/concessional tickets for Personal Journey/Goods of employee or member of household;

▪ **Taxable Perquisite** = Value at which such benefit or amenity is offered by such employer to the public.

PC Note: In case of Employees of Airline or Railways → **No Perquisite.**

PERQUISITE I.R.O 'USE OF MOVEABLE ASSETS'

Asset given	Value of benefit
(a) Laptops & computers	NIL
(b) Other Movable assets	10% p.a. of Actual Cost (Hire/Rent Charges)

PC Note: Completed years of Use is not required. Even use of asset for part of year will be perquisite.

TRANSFER OF MOVEABLE ASSETS AT DISCOUNTED/NOMINAL PRICE

- **Perquisite** = WDV [Actual Cost – Depreciation] – Sale Consideration paid by employee.
- Depreciation shall be calculated only if asset has been used by employer for business purpose.
- Depreciation shall be calculated as follows for completed years of use only. (Fraction of years → Ignored)

1. Computer & electronics items	50% on WDV for each completed year of usage.
2. Motor car	20% on WDV for each completed year of usage.
3. Any other Asset	10% on SLM for each completed year of usage

- Electronics items do not include household electronic appliances.

CQ14. Find out the taxable value of the perquisite in the following cases for AY 25-26:

- Mr. X is given a laptop by his employer for using it for private purpose. Cost of the laptop is Rs. 96,000.
- On 18.10.2024, the company gives its music system to Mr. X for domestic use. Ownership is not transferred. Cost of music system (in 2015) to the employer is Rs. 30,000.
- The employer sells the following assets to the employees on 1.1.2025:

Name of employee	W	X	Y
Asset sold	Car	Computer	Fridge
Cost of the asset to employer	Rs. 8,50,000	Rs. 95,000	Rs. 30,000
Date of purchase [put to use on the same day]	14.5.2018	14.5.2018	14.5.2018
Sale price	Rs. 3,00,000	Rs. 19,000	Rs.10,000

Before sale on 1.1.2025, these assets were used for business purpose by the employer.

Solution:

- Free use of laptop is not a taxable perquisite.
- S is provided a music system by the employer. Taxable perquisite is determined @ 10% p.a. of cost for the period of use (From 18.10.2024 – 31.3.2025). Thus, Taxable perquisite = Rs. 1,356 [Rs. 30,000 x 10% x $\frac{165}{365}$].
- The taxable value of the perquisite in the hands of W, X & Y shall be determined as follows-

Particulars	Car	Computer	Fridge
Cost of the asset on 14.5.2022	8,50,000	95,000	30,000
Less: Normal wear & tear for 1 st year ending 13.5.2023 (20% of Rs. 8,50,000; 50% of Rs. 95,000; 10% of Rs.30,000)	1,70,000	47,500	3,000
Balance on 14.5.2023	6,80,000	47,500	27,000
Less: Normal wear & tear for 2 nd year ending 13.5.2024 (20% of Rs. 6,80,000; 50% of Rs. 47,500; 10% of Rs. 30,000)	1,36,000	23,750	3,000
Balance on 14.5.2024	5,44,000	23,750	24,000
Less: Sale consideration	3,00,000	19,000	10,000
Taxable value of the perquisite	2,44,000	4,750	14,000

PC Note: Depreciation is deductible for completed years of use only. (Fraction of years → Ignored).

CQ15. Mr. X is employed with ABC Ltd. His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for Rs. 60,000 on 1.5.2021 & given him on the same date. The motor cycle was finally sold to him on 1.8.2024 for Rs. 30,000. Compute the taxable perquisite in the hands of Mr. X.

Solution:

(a) **Perquisite for Use of motor cycle** = $60,000 \times 10\% \text{ p.a. for 4 months } [1.4.2024 - 31.7.2024] = \text{Rs. } 2,000.$

Note: Only the period of use in this previous year shall be considered for valuation of perquisite. Because we are determining the taxability for this PY. Students generally make mistake on this point.

(b) **Perquisite i.r.o. Transfer of motor cycle:**

Depreciated value of the motor cycle = Original cost - Depreciation @ 10% p.a. for 3 completed years
 = Rs. 60,000 - (Rs. 60,000 \times 10% p.a. \times 3 years) = Rs. 42,000.

Taxable Perquisite = Rs. 42,000 - Rs. 30,000 = Rs. 12,000.

PAYMENT OF PREMIUM ON PERSONAL ACCIDENT INSURANCE POLICIES

- **No immediate benefit** & benefit will accrue at a future date only if certain events take place.
- Moreover, employers would be taking such policy in their **business interest only**, so as to indemnify themselves from payment of any compensation.
- Therefore, premium so paid will **not** be a **taxable perquisite** in the **employees' hands**.

PERQUISITE I.R.O 'GAS, ELECTRIC ENERGY OR WATER SUPPLY'

- Taxable amount = Actual Cost (Total Expenditure of Employer – Amount Recovered from Employee)
- If Employee himself is **manufacturer** → Perquisite = **Manufacturing cost** incurred by employer.

CQ16: Mr. X is employed in Bisleri and the company has provided him free water facility for which manufacturing cost of the company is Rs. 1,000 & its market value is Rs. 1,100, in this case, perquisite value shall be **Rs. 1,000**.

ANY OTHER BENEFIT/AMENITIES PROVIDED BY EMPLOYER (Residual provision)

- Perquisite = Cost to Employer (Arms length price) – Amount recovered from employee.

PERQUISITE I.R.O "USE OF MOTOR CAR"

Owned by	Expenses by	Purpose of use	Taxable Perquisite	
1. Employer	Employer	Fully Official	No Perquisite	
2. Employer	Employer	Fully Personal	(a) Actual expenditure on car + (b) Remuneration to driver + (c) Depreciation @ 10% p.a on actual cost.	
Expenses recovered from employee are deductible. No limit of Rs. 900 for driver's salary.				
3. Employer	Employer	Partly official & Partly Personal	CC of Engine	Perquisite
			Upto 1600 CC	1,800 p.m + 900 p.m for driver = Rs 2,700 p.m
			Above 1600 CC	2,400 p.m + 900 p.m for driver = Rs 3,300 p.m
Rs. 900 p.m shall be taxable if driver is provided. Expenses recovered from employee are NOT deductible.				
4. Employer	Employee	Partly official & Partly Personal	CC of Engine	Perquisite
			Upto 1600 CC	600 p.m + 900 p.m for driver = Rs 1,500 p.m
			Above 1600 CC	900 p.m + 900 p.m for driver = Rs 1,800 p.m
Rs. 900 p.m shall be taxable if driver is provided. Expenses recovered from employee are NOT deductible.				
5. Employee	Employer	Partly official & Partly Personal	Actual Expenditure incurred Less ↓	
			CC of Engine	Perquisite
			Upto 1600 CC	1,800 p.m + 900 p.m for driver = Rs 2,700 p.m
			Above 1600 CC	2,400 p.m + 900 p.m for driver = Rs 3,300 p.m
Rs. 900 p.m shall be taxable if driver is provided. Expenses recovered from employee are NOT deductible.				
6. Employee	Employer	Official use	Not a perquisite.	
7. Employee owns other conveyance but not car	Employer	Partly official & Partly Personal	Actual Expenditure incurred by Employer Less: Rs. 900 p.m	
8. Employer	Employee	Fully Personal	10% p.a on actual cost of Car/hire charges	

PC Note:

- ❖ **Meaning of Month:** Month means **completed months**.
- ❖ **When two or more cars are provided by employer to the employee:** If an employer provides two or more cars (which falls in category 3), taxable value of only one such car (at employee's option) shall be determined according to the rules given in category 3. For other cars, value of perquisite shall be calculated under category 2.
- ❖ **Car facility between residence & office: Not taxable.**
- ❖ Facility for HC/SC Judges/Chairman/members of UPSC: **Not taxable.**
- ❖ Transport allowance provided to serving chairman/members of UPSC is also **not taxable.**

Q7. X Ltd. provided the following perquisites to its employee Mr. Y for the PY 2024-25

- Accommodation taken on lease by X Ltd. for Rs. 15,000 p.m. Rs. 5,000 p.m. is recovered from the salary of Mr. Y.
- Furniture, for which the hire charges paid by X Ltd. is Rs. 3,000 p.m. No amount is recovered from the employee in respect of the same.
- 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.
- A gift voucher of Rs. 10,000 on his birthday.

Compute the value of perquisites for AY 25-26, assuming his salary for perquisite valuation to be Rs. 10 lakh.

Answer: Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for AY 25-26

	Particulars	Amount (in Rs)	
1	Value of accommodation at concessional rate		
	Actual amount of lease rental paid by X Ltd.	1,80,000	
	10% of salary i.e., 10% of Rs. 10,00,000	1,00,000	
	Lower of the above		1,00,000
	Less: Rent paid by Mr. Y (Rs. 5,000 × 12)	60,000	
	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (Rs. 3,000 × 12)	36,000	76,000
2	Perquisite value of Santro car owned by X Ltd. & provided to Mr. Y for his personal & official use [(Rs. 1,800 + Rs. 900) × 12]		32,400
3	Value of gift voucher*		10,000
	Value of perquisites chargeable to tax		1,18,400

Alternate view possible is that only sum in excess of Rs. 5,000 is taxable. In such a case, perquisite = Rs. 5,000.

CQ17. Mr. X is employed in ABC Ltd. getting basic pay of Rs. 22,000 p.m. Employer has provided him RFA which is owned by employer himself (Population of 5,00,000).

Employer has provided him 3 motor cars for official as well as personal use with particulars as given below:

Particulars	I	II	III
Actual cost	4,00,000	3,00,000	2,50,000
Engine capacity	1.8 litres	1.6 litres	1.4 litres
Petrol expenses	3,000	10,000	15,000
Repairs	5,000	4,000	3,000
Driver	4,000 p.m.	3,000 p.m.	no driver

All the expenses are met by the employer. Compute his gross salary. **[CA Exam – Only for better understanding]**

Solution:

Basic Pay (22,000 × 12)	Rs. 2,64,000
Rent free accommodation (Sec 17(2)(i) Rule 3(1)) [7.5 % of Rs. 2,64,000]	Rs. 19,800
Motor Car {Sec 17(2)(iii) Rule 3(2)} [See working Note]	Rs. 1,62,600
Gross Salary	Rs. 4,46,400

Working Note:

Option I: Car I is for official & personal purposes; Car II & III for personal purposes; perquisite value shall be:

Car I = (Rs. 2,400 + Rs. 900) x 12	Rs. 39,600
Car II = Rs. 30,000 + Rs. 10,000 + Rs. 4,000 + Rs. 36,000	Rs. 80,000
Car III = Rs. 25,000 + Rs. 15,000 + Rs. 3,000	Rs. 43,000
Perquisite value	Rs. 1,62,600

Option II: Car II is for official & personal purpose; Car I & Car III is for personal use; perquisite value shall be:

Car I = Rs. 40,000 + Rs. 3,000 + Rs. 5,000 + Rs. 48,000	Rs. 96,000
Car II = (Rs. 1,800 + Rs. 900) x 12	Rs. 32,400
Car III = Rs. 25,000 + Rs. 15,000 + Rs. 3,000	Rs. 43,000
Perquisite Value	Rs. 1,71,400

Option III: Car III is for official & personal purpose; Car I & Car II is for personal use; perquisite value shall be:

Car I = Rs. 40,000 + Rs. 3,000 + Rs. 5,000 + Rs. 48,000	Rs. 96,000
Car II = Rs. 30,000 + Rs. 10,000 + Rs. 4,000 + Rs. 36,000	Rs. 80,000
Car III = Rs. 1,800 x 12	Rs. 21,600
Perquisite Value	Rs. 1,97,600

Conclusion: 1st option is better.

PERQUISITE I.R.O 'SWEAT EQUITY SHARES/ESOP [SPECIFIED SECURITY]

- Perquisite = FMV on Exercise Date – Amount Actually paid by the Employee.
- Year of taxability: Taxable in the year of Allotment of Shares.

PC Note: If shares have been sold by employee, Cost of Acquisition = FMV on Exercise Date [Sec 49(2AA)]

CQ18. AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2024. Shares were allotted at Rs. 200 per share as against FMV of Rs. 300 per share on the date of exercise of option by Sri Chand.

- 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 COA of those sweat equity shares?

Solution: Value of sweat equity shares = FMV on Exercise Date – Amount Actually paid by the Employee.

Perquisite = (Rs. 300 – Rs. 200) x 1000 shares = Rs. 1,00,000

As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation u/s 17(2)(vi). (The provisions of section 49 are discussed in Unit 4: Capital Gains of this chapter).

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, COA would be Rs. 3,00,000.

TYPES OF PERQUISITES

A PERQUISITES TAXABLE IN THE CASE OF ALL EMPLOYEES	
Rent Free/concessional Accommodation	Already Discussed [Sec 17(2)(i)]
Payment by employer i.r.o. an obligation of employee [Sec 17(2)(iv)]	Amount paid by the employer i.r.o. any obligation of the employee.
Ex: If a domestic servant is engaged by employee & employer reimburses the salary paid to the servant, it becomes an obligation which the employee would have discharged even if employer did not reimburse it. This perquisite will be covered by section 17(2)(iv) & will be taxable in the hands of all employees.	
Amount payable by the employer directly or indirectly to effect an assurance on the life of the assessee (employee) [Section 17(2)(v)]	Amount payable by an employer directly or indirectly to effect an assurance on the life of the assessee or to effect a contract for annuity, other than payment made to RPF or approved SAF or deposit-linked insurance fund established under Coal Mines PF & Miscellaneous Provisions Fund, 1948 or Employees' PF & Miscellaneous Provisions Act, 1952. However, there are schemes like group annuity scheme, employees state insurance scheme & fidelity insurance scheme, under which insurance premium is paid by employer on behalf of the employees. Such payments are not regarded as perquisite in view of the fact that employees have only an expectancy of the benefit in such schemes.
Aggregate amount of any contribution made by employer	Aggregate contribution made by the employer to the account of the assessee in (i) RPF ; (ii) NPS ; (iii) Approved SAF to the extent it exceeds Rs. 7,50,000 [Sec 17(2)(vii)].
Annual accretion to the balance in RPF/NPS/approved SAF which relates to employer's contribution & included in TI (on account of the same having exceeded Rs. 7,50,000)	Annual accretion by way of interest, dividend or any other amount of similar nature during PY to the balance at the credit of RPF/NPS/Approved SAF to the extent it relates to the employer's contribution which is included in TI in any PY u/s 17(2)(vii) [Sec 17(2)(vii)]. [Given in Detail Below]
B TAX FREE PERQUISITES IN CASE OF ALL EMPLOYEES	
Telephone at employee's residence: Telephone provided by the employer at employee's residence.	
Free/concessional Transport facility provided by employer (being airline or railways) for transportation of passengers or goods.	
In case of other employers – Such perquisite is a taxable perquisite.	
Employer's contribution to staff group insurance scheme	
Annual premium by employer on personal accident policy on life of employee.	

MANNER FOR COMPUTATION OF TAXABLE PERQUISITE U/S 17(2)(viiia) [Rule 3B] [NN 11/2021]

- (1) Amount or **aggregate** of amounts of any **contribution** made by employer to the account of the assessee
- in RPF
 - in NPS referred to in section 80CCD(1) &
 - in Approved Superannuation Fund

to the extent it exceeds Rs. 7,50,000 would be perquisite in the hands of employee [Section 17(2)(vii)]

- (2) Any **annual accretion** by way of **interest, dividend or any other amount of similar nature** during PY to the balance at the credit of RPF or NPS or SAF to the extent it relates to the employer's contribution which is included in total income in any PY u/s 17(2)(vii), **computed in prescribed manner** would also be perquisite taxable u/h 'Salaries' [Section 17(2)(viiia)]

In other words, interest, dividend or any other amount of similar nature on the amount which is included in total income u/s 17(2)(vii) would also be treated as a perquisite.

Space for PC Analysis**How to compute the annual accretion by way of interest, dividend etc. during current PY**

$$\text{Taxable Perquisite} = \frac{PC}{2} \times R + (PC1 + TP1) \times R$$

TP	Taxable perquisite u/s 17(2)(viiia) for current PY (i.e PY 24-25)
TP1	Aggregate of taxable perquisite u/s 17(2)(viiia) for PY or PYs commencing on/after 01.04.2021 other than the current previous year (See Note). [PC Note: पुराने PYs ka Taxable Perquisite u/s 17(2)(viiia)]
PC	Aggregate of employer's contribution in excess of Rs. 7.5 lacs to specified funds during current PY. PC Note: PY ka Employer's contribution in excess of Rs. 7,50,000.
PC1	Aggregate amount of employer's contribution in excess of Rs. 7.5 lacs to specified fund or scheme for the previous year or years commencing on/after 1 st April 2022 other than current PY (See Note). PC Note: पुराने PYs ka excess contribution above Rs. 7,50,000.
R	$\frac{I}{F_{avg}} = \frac{\text{Aggregate Interest accrued for current PY}}{(\text{Opening Balance of Fund} + \text{Closing Balance of Fund})/2}$
I	Aggregate amount of income accrued during current PY in specified fund or scheme account.
F _{avg}	Aggregate amount of balance to credit of specified funds on 1 st day of current PY (1 st April 2024) + Aggregate amount of balance to credit of specified funds on last day of current PY (31 st March 2025)/2 PC Note: (Opening Balance of Fund + Closing Balance of Fund)/2

Note: Specified fund/scheme → RPF, NPS referred to in section 80CCD(1) & approved superannuation fund.

CQ19. Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 01.09.2022. His basic salary is Rs. 6,00,000 p.m. He is paid 8% as DA. He contributes 10% of his pay & DA towards his RPF & company contributes the same amount. Accumulated balance in RPF as on 1.4.2023, 31.3.2024 & 31.3.2025 is Rs. 9,81,137, Rs. 27,43,048 & Rs. 46,48,555 respectively. Compute the perquisite value chargeable in the hands of Mr. X u/s 17(2)(vii) and 17(2)(vii) for AY 24-25 & AY 25-26. Prior to 1.9.2022, he was a consultant, whose professional fees was taxable u/h PGBP.

Solution: Computation of perquisite value of Mr. X u/s 17(2)(vii) & 17(2)(vii) for AY 24-25

1	Perquisite value taxable u/s 17(2)(vii) = Rs. 27,600 [Rs. 7,77,600 - Rs. 7,50,000]
2	Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2) \times R + (PC1 + TP1) \times R$ = $(27,600/2) \times 0.111 + 0 = \text{Rs. } 1,532$
PC	ABC Ltd.'s contribution in excess of Rs. 7.5 lacs to RPF during PY 23-24 = Rs. 27,600
PC1	Nil since employer's contribution < 7.5 lacs to RPF in PY 22-23 & no employer contribution in PY 21-22.
TP1	Nil
R	$I/F_{avg} = 2,06,711/18,62,093 = 0.111$
I	RPF balance as on 31.3.2024 – Employee's & employer's contribution during PY – RPF balance as on 1.4.2022 = Rs. 2,06,711 (Rs. 27,43,048 – Rs. 7,77,600 – Rs. 7,77,600 – Rs. 9,81,137)
F _{avg}	Balance to the credit of RPF as on 1st April, 2023 + Balance to the credit of RPF as on 31st March, 2024)/2 = (Rs. 9,81,137 + Rs. 27,43,048)/2 = Rs. 18,62,093.

Note: Interest on aggregate of following will also be chargeable to tax during AY 24-25

- Rs. 2,03,600 [Employee's contribution exceeding Rs. 2,50,000 during PY 22-23]
- Rs. 5,27,600 [Employee's contribution exceeding Rs. 2,50,000 during PY 23-24]
- Interest accrued on Rs. 2,03,600 being excess employee's contribution of PY 22-23.

Computation of perquisite value of Mr. X u/s 17(2)(vii) & 17(2)(vii) for AY 25-26

1	Perquisite value taxable u/s 17(2)(vii) = Rs. 27,600 [Rs. 7,77,600 - Rs. 7,50,000]
2	Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2) \times R + (PC1 + TP1) \times R$ = $(27,600/2) \times 0.09479 + (27,600 + 1,532) \times 0.09479 = \text{Rs. } 1,308 + \text{Rs. } 2,761 = \text{Rs. } 4,069$
PC	ABC Ltd.'s contribution in excess of Rs. 7,50,000 to RPF during PY 24-25 = Rs. 27,600.
PC1	Employer's contribution in excess of Rs. 7,50,000 to RPF in PY 21-22 & PY 22-23 = Rs. 27,600
TP1	Taxable perquisite u/s 17(2)(vii) for PY 23-24 = Rs. 1532.
R	$I/F_{avg} = 3,50,307/36,95,802 = 0.09479$.
I	RPF balance as on 31.3.2025 – Employee's and employer's contribution during the year – RPF balance as on 1.4.2024 = Rs. 3,50,307 (Rs. 46,48,555 – Rs. 7,77,600 – Rs. 7,77,600 – Rs. 27,43,048)
F _{avg}	Balance to the credit of RPF as on 1st April, 2024 + Balance to the credit of RPF as on 31st March, 2025)/2 (Rs. 27,43,048 + Rs. 46,48,555)/2 = Rs. 36,95,802

Note:

- Rs. 2,03,600 [Employee's contribution exceeding Rs. 2,50,000 during PY 22-23]
- Rs. 5,27,600 [Employee's contribution exceeding Rs. 2,50,000 during PY 23-24]
- Rs. 5,27,600 [Employee's contribution exceeding Rs. 2,50,000 during PY 24-25]
- Interest accrued on Rs. 2,03,600 being excess employee's contribution of PY 22-23
- Interest accrued on Rs. 5,27,600 being excess employee's contribution of PY 23-24

C PERQUISITES TAXABLE ONLY IN HANDS OF SPECIFIED EMPLOYEES [SECTION 17(2)(iii)]

- **Monetary perquisites are taxable in the hands of all employees [Specified + non-specified].**
- **Non-Monetary perquisites are taxable in the hands of specified employees only.**
- **Following Perquisites will be taxable in the hands of Specified Employees only. [V. IMP]**
 - Provision of **Sweeper, gardener, watchman or personal attendant**
 - Facility of use of **Gas, Electricity or Water** supplied by employer
 - Free or Concessional **tickets**; Free or concessional **Educational Facilities** & **Use of Motor Car.**

MEANING OF 'SPECIFIED EMPLOYEE & NON-SPECIFIED EMPLOYEES'

Specified Employee	Director Employee	Any Director of the company.
	Substantial Interest	Person has substantial interest in a company if he is a beneficial owner of equity shares carrying $\geq 20\%$ of voting power in the company.
	Salary > Rs. 50,000	Employee drawing a salary of more than Rs. 50,000 p.a. While calculating limit of 50,000, following payment shall be ignored : (a) All non-monetary benefits; (b) Exempt Monetary benefits u/s 10. (c) Standard deduction of Rs. 50,000/ 75,000 ; (d) Entertainment allowance & Professional tax deduction <i>if assessee exercises option of shifting out of default tax regime u/s 115BAC(1A).</i>

Non-Specified Employee: Employees other than specified employees.

CQ20. Mrs. Roma, an employee of XYZ Ltd., submits the following information for AY 25-26:

Salary: Rs. 1,86,000; City compensatory allowance: Rs. 8,000; Bonus: Rs. 10,200; Education allowance: Rs. 4,000 (for her grandchildren); Income tax penalty paid by the employer: Rs. 2,000; Medical expenses reimbursed by employer: Rs. 12,000; Leave travel concession: Rs. 1,000 (expenditure incurred by employee is nil); Free telephone: Rs. 4,000; Free refreshment during office hours: Rs. 4,000; reimbursement of electricity bill by the employer: Rs. 1,060; reimbursement of gas bills: Rs. 1,000; Professional tax paid by the employer: Rs. 300 on behalf of Roma; Professional tax paid by Mrs. Roma: Rs. 150. Determine Total Income of Mrs. Roma in old regime.

Solution: **Computation of Salary Income of Mrs. Roma**

Basic Salary		Rs. 1,86,000
City Compensatory Allowance		Rs. 8,000
Bonus		Rs. 10,200
Education Allowance	[Fully taxable since given for grandchildren]	Rs. 4,000
Income tax Penalty paid by employer	[Income tax paid by employer on non-monetary perquisites is exempt. In this case, penalty is paid. Thus, it is a taxable perquisite]	Rs. 2,000
Medical Reimbursement	[other medical facilities are fully taxable]	Rs. 12,000
Leave Travel Concession	[taxable since actual expenditure is not incurred]	Rs. 1,000
Residential Telephone		Nil
Refreshment	[Since during office hours]	Nil
Payment of electricity bills by employer	[It is a taxable perquisite]	Rs. 1060
Reimbursement of gas bills	[It is a taxable perquisite]	Rs. 1000
Professional tax paid by employer [First included in salary & then allowed as deduction u/s 16(iii)]		Rs. 300
Gross Salary		Rs. 2,25,560
Less: Standard deduction u/s 16(ia)		(Rs. 50,000)
Less: Professional Tax paid by employee as well as employee [Rs. 300 + Rs. 150]		(Rs. 450)
Taxable salary		Rs. 1,75,110

TREATMENT OF PROVIDENT FUND FOR INCOME-TAX

Particulars	SPF	RPF	URPF	PPF
Employer's contribution	Fully Exempt	Exempt upto 12% of salary. Amount in excess of 12% of salary is taxable.	Not taxable to employee at the time of contribution	NA as there is only assessee's own contribution.
Employee's contribution	Deductible u/s 80C.	Deductible u/s 80C	No deduction.	Deductible u/s 80C
Interest on Employer's Contribution	Fully Exempt	<input checked="" type="checkbox"/> Exempt upto 9.5% p.a. <input checked="" type="checkbox"/> Excess over 9.5% p.a. is taxable.	Not taxable at the time of credit of interest	NA.
Interest on Employee's Contribution	Exempt upto certain limit of contribution [Note 1]	<input checked="" type="checkbox"/> Exempt upto 9.5% p.a. <input checked="" type="checkbox"/> Excess over 9.5% p.a. is taxable. [Note 2]	Not taxable at the time of credit of interest	Fully Exempt
Amount withdrawn on retirement or termination	Exempt u/s 10(11)	Exempt u/s 10(12) subject to certain conditions [Note 3]		Exempt u/s 10(11)

PC Note: Interest credited on Employee's contribution:

- As per section 10(11), any payment from PF or PPF would be exempt.
- Accumulated balance in RPF payable to an employee is exempt u/s 10(12).
- However, exemption u/s 10(11) or 10(12) would not be available i.r.o. interest accrued during PY to the extent it relates to the aggregate amounts of contribution made by that employee exceeding Rs. 2,50,000 in any previous year in that fund, on/after 1st April 2022. **(In simple words, interest accrued during PY on employee's contribution above Rs. 2.5 Lacs in any PY on/after 1.4.2022 would not be exempt).**

PC Note:

- If contribution by such employee is in a fund in which there is no employer's contribution (i.e., PPF), then, a higher limit of Rs. 5 Lacs would be applicable for such contribution, & interest accrued in any PY in that fund on/after 1.4.2022 would be exempt upto that limit.**

PC Note:

- Interest accrued on contribution to such funds upto 31.03.2022 is exempt without any limit, even if the accrual of income is after that date.**
- Interest income accrued during PY which is not exempt (taxable interest) shall be computed as the interest accrued during PY in the taxable contribution account.
- For this purpose, separate accounts within PF A/c shall be maintained during PY 23-24 & all subsequent previous years for taxable contribution and non-taxable contribution made by a person.

(a)	Non-taxable contribution account – Aggregate of <ul style="list-style-type: none"> (i) closing balance in the account as on 31.03.2023; (ii) any contribution made by the person in the account during the PY 23-24 & subsequent previous years, which is not included in the taxable contribution account; and (iii) interest accrued on (i) and (ii), as reduced by the withdrawal, if any, from such account.
(b)	Taxable contribution account – Aggregate of <ul style="list-style-type: none"> (i) contribution made by the person in the account during the PY 23-24 & subsequent previous years, which is in excess of the yearly threshold limit; and (ii) interest accrued on (i) as reduced by the withdrawal, if any, from such account.

PC Note: URPF

- Accumulated Employee's contribution is not taxable.
- Accumulated Employer's contribution + its interest → Taxable as "profit in lieu of salary".
- Interest on Employees Contribution is taxable u/h IFOS.

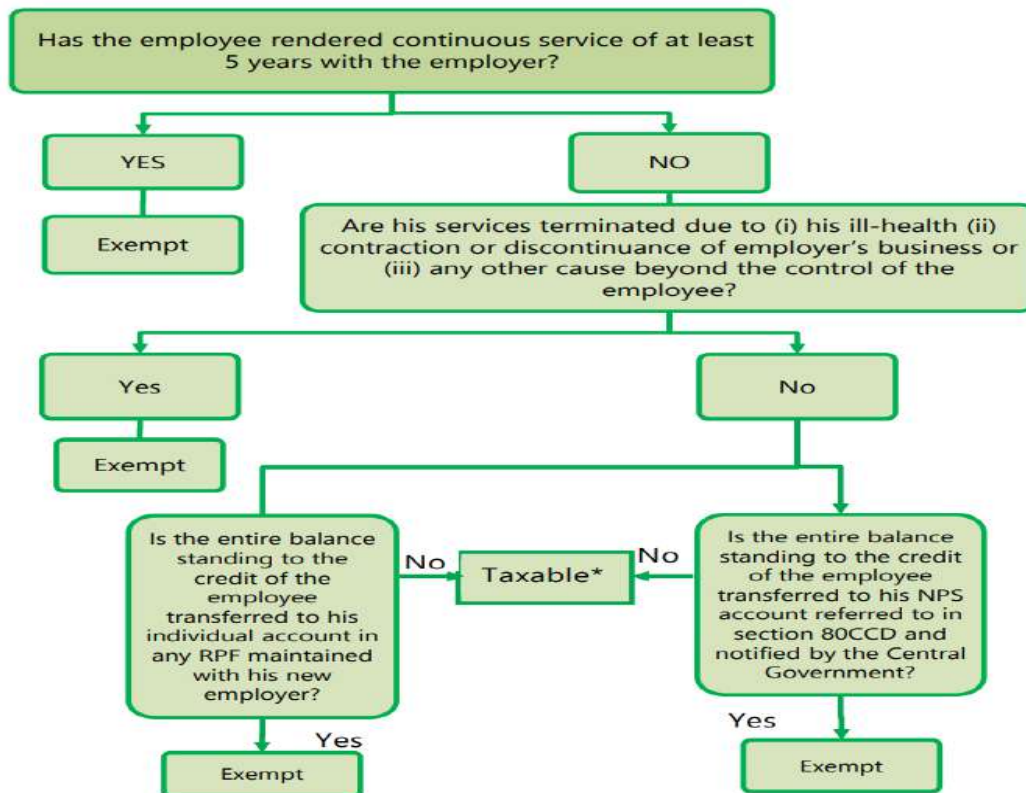
PC Note: RPF - Withdrawal of accumulated balance by employee from RPF is exempt in following cases:

- If employee has rendered continuous service with his employer for a period of 5 years/more.
- If service has been terminated by reason of (a) employee's ill health, (b) discontinuance of employer's business, (c) reasons which are beyond employee's control. [even if continuous service < 5 years].
- If employee joins new employment on cessation of his old employment & accumulated balance in his PF A/c (due to him) is transferred to his individual A/c in any RPF maintained by new employer. In such case, for calculating period of service for (i) & (ii) above, period for which employee rendered continuous service under his former employer shall be included.

If accumulated balance is paid to employee otherwise than in circumstances referred above (Ex: where employee voluntarily resigns before 5 years of service, amount paid is taxable. In such cases, deduction allowed shall be withdrawn.

☑ Employer's contribution + Interest on it (which was not taxed earlier) → Taxed as Profit in lieu of salary.

☑ Interest on employee's contribution → Taxable u/h IFOS.



CQ21. Mr. A retires from service on 31st Dec 2024 after 25 years of service. Particulars for PY 24-25 are as follows:

Basic pay @ Rs. 16,000 per month for 9 months	1,44,000
Dearness pay (50% forms part of the retirement benefits) for 9 months [Rs. 8,000 p.m × 9 months]	72,000
Lumpsum payment received from UPPF	6,00,000
Deposits in PF A/c	40,000

Out of the amount received from PF, employer's share was Rs. 2,20,000 & interest thereon Rs. 50,000. Employee's share was Rs. 2,70,000 & interest thereon Rs. 60,000. What is the taxable portion of the amount received from URPF in the hands of Mr. X for AY 25-26?

Solution: Taxable portion of the amount received from URPF in the hands of Mr. X for AY 25-26

1. Amount taxable u/h 'Salaries' [Profit in lieu of salary]		
Employer's share in the payment received from URPF	Rs. 2,20,000	
Interest on the employer's share	Rs. 50,000	
Total		Rs. 2,70,000
2. Amount taxable u/h 'IFOS'		
Interest on Employee's contribution		Rs. 60,000
Total taxable amount in the hands of Mr. X		Rs. 3,30,000

PC Note: Since the employee is not eligible for deduction u/s 80C for contribution to URPF at the time of such contribution, the employee's share received from the URPF is not taxable at the time of withdrawal as this amount has already been taxed as his salary income.

Q8. Mr. Goyal receives the following emoluments during the previous year ending 31.03.2025:

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

Mr. Goyal contributes Rs. 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for AY 25-26, if Mr. Goyal is a State Government employee.

Answer: Computation of salary of Mr. Goyal for AY 25-26 under default tax regime u/s 115BAC

Particulars	Rs.
Basic Salary	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment Allowance received	40,000
Employee's contribution to RPF [PC Note]	-
Medical expenses reimbursed	25,000
Professional tax paid by the employer	1,000
Gross Salary	7,16,000
Less: Deductions u/s 16(ia) - Standard deduction of upto Rs. 75,000	75,000
Income from Salary	6,41,000

PC Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C. However, such deduction shall not be available under the default tax regime u/s 115BAC.

Computation of salary of Mr. Goyal for the AY 25-26 under optional tax regime

Particulars	Rs.	Rs.
Basic Salary		4,00,000
Dearness Allowance		1,50,000
Commission		1,00,000
Entertainment Allowance received		40,000
Employee's contribution to RPF [PC Note]		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
Gross Salary		7,16,000
Less: Deductions u/s 16		50,000
u/s 16(ia) - Standard deduction of upto Rs. 50,000		
u/s 16(ii) - Entertainment allowance being lowest of :		
(a) Allowance received	40,000	
(b) One fifth of basic salary [$1/5 \times \text{Rs. } 4,00,000$]	80,000	
(c) Statutory amount	5,000	5,000
u/s 16(iii) - Professional tax paid		2,000
Income from Salary		6,59,000

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

CQ22. Mr. B is working in XYZ Ltd. & has given the details of his income for PY 24-25. You are required to compute his gross salary from the details given below:

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

Solution: **Computation of Gross Salary of Mr. B for AY 25-26**

Particulars	Rs	Rs
Basic Salary [$\text{Rs. } 10,000 \times 12$]		1,20,000
Dearness Allowance [$\text{Rs. } 8,000 \times 12$]		96,000
Commission on turnover [$0.1\% \times \text{Rs. } 50,00,000$]		5,000
Bonus		40,000

Gratuity [Note 1]		25,000
Employer's contribution to RPF [20% of Rs. 1,20,000]	24,000	
Less: Exempt [Note 2]	(20,760)	3,240
Interest accrued in the RPF @ 13% p.a.	13,000	
Less: Exempt @ 9.5% p.a.	(9,500)	3,500
Gross Salary		2,92,740

Note:

1. Gratuity received during service is fully taxable.
2. Employer's contribution in the RPF is exempt up to 12% of the salary. i.e., 12% of [Basic Salary + Dearness Allowance forming part of retirement benefits + Commission based on turnover] = 12% of [Rs. 1,20,000 + (50% × Rs. 96,000) + Rs. 5,000] = 12% of Rs. 1,73,000 = Rs. 20,760
3. Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.

PROFITS IN LIEU OF SALARY [SECTION 17(3)]

(i)	Compensation due/received by employee on account of termination of his employment
(ii)	Compensation on account of modification of the terms and conditions of employment <ul style="list-style-type: none"> Usually, such compensation is treated as a capital receipt. However, by virtue of this provision, the same is treated as a revenue receipt and is chargeable as salary. Note: It is to be noted that merely because a payment is made by an employer to a person who is his employee does not automatically fall within the scope of the above provisions. The payment must be arising due to master-servant relationship b/w payer & payee. If it is not on that account, but due to considerations totally unconnected with employment, such payment is not profit in lieu of salary.
(iii)	Payment from provident fund or other fund <p>Any payment due to or received by an assessee from his employer or former employer from a provident or other fund except</p> <ul style="list-style-type: none"> Gratuity [Section 10(10)] Pension [Section 10(10A)] Compensation received by a workman under Industrial Disputes Act, 1947 [Section 10(10B)] from provident fund or public provident fund [Section 10(11)] from recognized provident fund [Section 10(12)] from approved superannuation fund [Section 10(13)] any House Rent Allowance [Section 10(13A)], <p><i>to the extent to which it does not consist of employee's contributions or interest on such contributions.</i></p> <p>Note: If any sum is paid to an employee at the time of maturity from URPF, it is to be dealt as follows:</p> <ul style="list-style-type: none"> Accumulated Employee's contribution is not taxable (no deduction at the time of contribution) Accumulated Employer's contribution + its interest → Taxable as "profit in lieu of salary". Interest on Employees Contribution is taxable u/h IFOS.
(iv)	Keyman Insurance policy
(v)	Lump sum Payment or otherwise <p>Any amount due to the assessee or received by him, from any person -</p> <ul style="list-style-type: none"> before joining employment with that person, or after cessation of his employment with that person.

RETIREMENT BENEFITS

1. LEAVE SALARY [SECTION 10(10AA)]

- Amount received by encashment of **unutilized leave** on retirement/termination of employment.
- Leave salary received during the **period of service** → Fully Taxable. (Gov/Non-Gov. Employees)
- **Taxability** of leave salary received **at** the time of **retirement is different**. It is as follows:
 - ☞ **Government Employees** (at the time of retirement): **Fully Exempt**.
 - ☞ **Non-Government Employees** (at the time of retirement): **Partly Exempt**.

TAXABILITY FOR NON-GOVERNMENT EMPLOYEES (on retirement) Least of the following is **EXEMPT**↓

1. Leave Salary Actually received.
2. **Rs. 25,00,000**
3. $10 \times \text{AMS}$ (on the basis of average salary of last 10 Months)
4. Leaves Earned (in No. of Months) \times AMS.

⇒ Leaves Earned = [Completed years of service \times No. of leaves credited/month (Maximum 30 days allowed in a year)] – Leaves actually taken/ availed.

⇒ AMS = Average Salary of 10 months immediately preceding date of retirement.

⇒ Leave entitlement credited cannot exceed 30 days for every year of actual service rendered.

PC Note:

- ✗ **Exemption u/s 10(10AA) i.r.o. leave salary is available in both the tax regimes.**
- ✗ Receipt of Leave salary from two or more employers: in the same year/ different year, then the **aggregate amount of leave salary exempt from tax cannot exceed Rs. 25,00,000**.
- ✗ If Leave salary is received in any earlier year from former employer & again received from another employer in later year, limit of Rs. 25,00,000 will be reduced by amount of leave salary exempt earlier.
- ✗ Leave salary paid to legal heir & family of government servant who died in harness (on duty) → **Exempt**.

CQ23. X was employed by PQR Ltd. upto March 15, 2009. At the time of leaving PQR Ltd, he was paid Rs. 3,50,000 as leave salary out of which Rs. 57,000 was exempt from tax u/s 10(AA)(ii). Thereafter he joined ABC(P.) Ltd. & received Rs. 4,12,200 as leave salary at the time of his retirement on 31st Dec 2024. Determine taxable leave salary:

1	Salary at the time of retirement (p.m)	Rs. 22,900
2	Average salary received during 10 months ending on December 31, 2024	
	- From March 1, 2024 to July 31, 2024 (p.m)	Rs. 22,600
	- From August 1, 2024 to December 31, 2024 (p.m)	Rs. 22,900
3	Duration of service (a)	14.75 years
4	Leave entitlement for every year of service (b)	45 days
5	Leave availed while in service (c)	90 days
6	Leave at the credit of employee at the time of retirement [(14 years \times 45 months - 90)/30]	18 months
7	Leave salary paid at the time of retirement @ Rs. 22,900 p.m (i.e., Rs. 22,900 \times 18)	Rs. 4,12,200

Solution:

1	Leave Salary Received	Rs. 4,12,200
2	Leave Salary Exempt u/s 10(10AA) [Lower of the following]	
	(i) Amount actually received = Rs. 4,12,200	

	(ii) 25 Lacs – 57,000 (Amount already exempted from previous employer) Rs. 24,43,000	(Rs. 2,27,500)
	(iii) $10 \times 22,750$ (Note 1) = Rs. 2,27,500	
	(iv) $11 \times 22,750$ (Note 2) = Rs. 2,50,250	
3	Taxable Leave Salary [1 – 2]	Rs. 1,84,700

Note 1: AMS = $[(Rs. 22600 \times 5) + (Rs. 22900 \times 5)] \div 10 = Rs. 22750$.

Note 2: Leaves Earned = {Completed years of service \times No. of leaves credited/month (Max. 30 days allowed in a PY)} – Leaves actually taken $\div 30$ days. = $[(14 \times 30) - 90] \div 30 = 11$ months.

CQ. Mr. Gupta retired on 1.12.2024 after 20 years of service and received leave salary of Rs. 5,00,000. Other details:

- Basic Salary: Rs. 5,000 p.m. (Rs. 1,000 was increased w.e.f. 1.4.2024)
- Dearness Allowance: Rs. 3,000 p.m. (60% of which is for retirement benefits)
- Commission: Rs. 500 p.m & Bonus: Rs. 1,000 p.m.
- Leave availed during service: 480 days. He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

(a) He is a government employee. (b) He is a non-government employee. **[Source: Illustration 5]**

2. GRATUITY [SECTION 10(10)] → [Payable at time of cessation of employment]

Type of Employee	Exemption
1. Government Employees	Fully Exempt u/s 10(10)(i)
2. Non-Government Employees	
EMPLOYEES COVERED BY GRATUITY ACT Exempt Gratuity = Least of →	1. Gratuity Actually Received 2. Rs. 20 Lacs 3. Length of Service (LOS) \times 15 days Salary
(a) How to calculate LOS: More than half year = Full year [Ignore less than half part]	
(b) 15 days salary = $\frac{\text{Salary last drawn} \times 15}{26}$	
EMPLOYEES NOT COVERED BY GRATUITY ACT Exempt Gratuity = Least of →	1. Gratuity Actually received. 2. Rs. 20 Lacs 3. $\frac{1}{2}$ Month's Average Salary \times Completed YOS
AMS: Average salary for 10 months immediately preceding Retirement Month (& not date).	

PC Note:

- ❖ **Exemption u/s 10(10) i.r.o. gratuity is available in both the tax regimes.**
- ❖ Gratuity Received during the period of Service → Fully Taxable.
- ❖ Gratuity received by the members of defense services → Fully Exempt.
- ❖ Retirement Gratuity received by Employees of CG/Members of Civil Services/LA → Fully Exempt.
- ❖ Gratuity is received by Widow, Children or Dependents of Deceased Employee → Fully Exempt.
- ❖ Completed YOS will include period of earlier employment if employee was not entitled to gratuity during that employment.
- ❖ **Exemption Limit of Rs. 20 Lacs is maximum amount of gratuity exempt.** If gratuity is received in any earlier year from former employer & again received from another employer in later year, limit of Rs. 20 Lacs will be reduced by the amount of gratuity exempt earlier.

CQ24. Mr. Raj not being covered by Payment of Gratuity Act, 1972 retires during PY 24-25 from XYZ Private Ltd & receives Rs. 45,000 as gratuity after service of 40 years 11 months. His average monthly salary during last 10 months of services was Rs. 2,200. Determine taxable gratuity for AY 25-26.

Solution:

Computation of taxable gratuity of Mr. Raj

1	Amount of Gratuity Received	Rs. 45,000
2	Amount of Gratuity exempt u/s 10(10) [Least of the following] (1) Amount of Gratuity actually received = Rs. 45,000 (2) Specified Amount = Rs. 20 Lacs (3) Rs. 2,200 x $\frac{1}{2}$ x 40 = Rs. 44,000	Rs. 44,000
3	Taxable gratuity [1 – 2]	Rs. 1,000

CQ25. Mr. Ravi retired on 15.6.2024 after completion of 26 years 8 months of service and received gratuity of Rs. 15,00,000. At the time of retirement, his salary was:

- Basic Salary: Rs. 50,000 p.m.
- Dearness Allowance: Rs. 10,000 p.m. (60% of which is for retirement benefits)
- Commission: 1% of turnover (turnover in the last 12 months was Rs. 1,20,00,000)
- Bonus: Rs. 25,000 p.a.

Compute his taxable gratuity assuming:

- He is private sector employee & covered by the Payment of Gratuity Act, 1972.
- He is private sector employee & not covered by Payment of Gratuity Act, 1972.
- He is a Government employee.

[Source: Illustration 4]

3. PENSION [SECTION [10(10A)]

1 Uncommuted pension (Monthly pension)	<ul style="list-style-type: none"> ▪ It is periodical payment of pension. ▪ It is always TAXABLE to both Gov & Non-Gov Employees. <p>Ex: If a person is entitled to receive a pension of Rs. 10,000 p.m. for the rest of his life. He may commute 50% of this amount & get a lumpsum of Rs. 3 lacs (random amount). After commutation, his monthly pension will now be the balance 50% of Rs. 10,000 p.m. = Rs. 5,000 p.m.</p> <p>Tax treatment: It is always TAXABLE in the hands of both government & non-government employees.</p>		
2 Commuted pension [Commutation = Inter-Change]	<ul style="list-style-type: none"> ▪ Converting future right to receive monthly pension into lumpsum amount receivable immediately on retirement. ▪ It is lumpsum payment in lieu of periodical payment. <p>Tax treatment: Taxable Pension = Pension Received – Exempt Pension.</p>		
Government	Always EXEMPT		
Non-Government Employees	A	If Gratuity is received by Employee	Exemption = 1/3rd of the Pension which he would have been normally entitled to receive had he not commuted the pension (Total Pension).
	B	If Gratuity is not received by Employee	Exemption = 1/2th of the Pension which he would have been normally entitled to receive had he commuted the pension (Total Pension).
Total Pension = $\frac{\text{Commuted Pension}}{\% \text{ of commutation}}$			

PC Note:

✳ **Exemption u/s 10(10A) i.r.o. commuted pension is available in both the tax regimes.**

- ✳ Commuted Pension to Judges of HC/SC → Fully Exempt.
- ✳ Commuted Pension received by Individual out of annuity plan of LIC → Exempt.
- ✳ Family Pension received by the family members of Armed forces → Exempt u/s 10(19).

CQ25. Mr. X retires from PQR Ltd. on 31.3.2023. He is paid Rs. 1,800 p.m. as pension. On his request, RG Co. pays Rs. 36,000 to Mr. X in lieu of 50% of his monthly pension on 1.12.2025. Calculate taxable pension in the hands of Mr. X for AY 25-26 assuming that (i) Gratuity is paid, (ii) Gratuity is not paid.

Solution: Mr. X has commuted his pension on 1.12.2024. Till 31.11.2024 (i.e for 8 months), he was receiving monthly pension of Rs. 1,800. Now from 1.12.2024, he will receive only Rs. 900 as monthly pension since he has commuted 50% of his monthly pension. Total pension = $\frac{\text{Rs. } 36,000}{50\%} = \text{Rs. } 72,000$ for exemption.

Case I: Gratuity is paid to Mr. X		Amount	Total
1	Uncommuted Pension (Always Taxable to all employees)		
	- Before commutation (Rs. 1,800 x 8 months)	14,400	
	- After commutation (Rs. 900 x 4 months)	3,600	18,000
2	Taxable Commuted Pension [A – B]		
	A. Commuted Pension Received	36,000	
	B. Exempt u/s 10(10A) = 1/3 rd of Total Pension [1/3 x Rs. 72,000]	(24,000)	12,000
Total Taxable Pension [1 + 2]			30,000

Case II: Gratuity is not paid to Mr. X		Amount	Total
1	Uncommuted Pension (Always Taxable to all employees)		
	- Before commutation (Rs. 1,800 x 8 months)	14,400	
	- After commutation (Rs. 900 x 4 months)	3,600	18,000
2	Taxable Commuted Pension [A – B]		
	C. Commuted Pension Received	36,000	
	D. Exempt u/s 10(10A) = 1/2 of Total Pension [1/2 x Rs. 72,000]	(36,000)	Nil
Total Taxable Pension [1 + 2]			18,000

RETRENCHMENT COMPENSATION [SECTION 10(10B)]

Any compensation received by workman at the time of his retrenchment shall be **exempt to the extent of - Lower of the following:**

- (a) Actual Amount Received.
- (b) Rs. 5,00,000.
- (c) 15 days Average Pay × Length of service (More than half year shall be treated as full year).

PC Note: Compensation received by workman as per the scheme approved by CG → Exempt u/s 10(10B).

CQ26. Mr. Garg received retrenchment compensation of Rs. 10 Lacs after 30 years 4 months of service. He was drawing basic salary Rs. 20,000 p.m.; DA - Rs. 6,000 p.m. Compute his taxable retrenchment compensation.

Solution:❖ **Calculation of Exempt Retrenchment compensation =****Lower of**

(a) Actual Amount Received = Rs. 10 lacs

(b) Rs. 5,00,000.

(c) 15 days Average Pay × LOS (More than half is treated as full) = Rs. 26000 × 15/26 × 30 years = Rs. 4,50,000.

❖ Taxable Retrenchment compensation = Rs. 10 lacs – Rs. 4,50,000 (Refer WN below) = Rs. 5,50,000

COMPENSATION RECEIVED ON VOLUNTARY RETIREMENT [SECTION 10(10C)]➤ Maximum Exemption upto **Rs. 5,00,000** is available if following condition is satisfied:**Condition:** Amount payable for VRS should not exceed [Higher of (a) or (b)](a) **3 Month Salary** for each completed year of service.

(b) Salary at the time of retirement × Balance months of service left before retirement or superannuation.

PC Note:

- ❖ Relief u/s 89 is not available if exemption is taken in this section.
- ❖ Exemption u/s 10(10C) shall be allowed once in a lifetime.
- ❖ It applies to an employee who has completed 10 years of service or completed 40 years of age. [Except employee of a public sector company under voluntary separation scheme framed by the company].
- ❖ It applies to all employees except directors of a company or a cooperative society.

CQ27. Mr. Dutta received voluntary retirement compensation of Rs. 7,00,000 after 30 years 4 months. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary Rs. 20,000 p.m.; Dearness allowance (which forms part of pay) Rs. 5,000 p.m. Compute taxable VRS.

Solution:

- ❖ Exemption of Rs. 5,00,000 is available if the amount payable for VRS does not exceed higher of (a) or (b).
 - (a) 3 Months Salary for each completed year of service = 3 × Rs. 25,000 × 30 years = Rs. 22,50,000;
 - (b) Salary @ time of retirement × Balance months of service left before retirement = Rs. 25,000 × 72 = Rs. 18 lacs;
- ❖ Thus, if VRS Compensation received does not exceed Rs. 22.50 lacs, exemption of Rs. 5,00,000 will be available.
- ❖ Amount of VRS Compensation received = Rs. 7,00,000. Thus Rs. 5,00,000 will be Exempt.
- ❖ Taxable VRS = Rs. 2,00,000.

NATIONAL PENSION SCHEME [Age limit extended to 70 Years]

Applicability	Only to new employees of government or any other employer.
Scheme	Every employee is required to contribute 10% of his salary every month towards NPS. A matching contribution is made by the employer.
Tax Treatment	<ol style="list-style-type: none"> Employer's contribution: First included in salary income of the employee & deduction (upto 10%/14% of salary) is given u/s 80CCD(2). Employee's contribution: Deductible (upto LOWER OF 10% of salary or Rs. 1.5 lacs) u/s 80CCD(1).
Maturity amount	Pension received out of the aforesaid amount → Taxable to recipient.

DEDUCTION ALLOWED FROM SALARY

Standard Deduction [Sec 16(ia)]	<ul style="list-style-type: none">Lower of (i) Rs. 50,000 or (ii) Amount of Salary [Old Regime]Lower of (i) Rs. 75,000 or (ii) Amount of Salary. [New Regime]			
Entertainment Allowance [Section 16(ii)]	<ul style="list-style-type: none">It is first included in salary income & then deduction is available u/s 16.Least of the following is Exempt for GOVERNMENT EMPLOYEES only.<table><tr><td>Amount of entertainment allowance actually received during PY.</td></tr><tr><td>Rs. 5,000.</td></tr><tr><td>20% of basic salary.</td></tr></table>Actual expenditure towards entertainment is NOT RELEVANT.Non-Government Employee → Entertainment allowance is not deductible.	Amount of entertainment allowance actually received during PY.	Rs. 5,000.	20% of basic salary.
Amount of entertainment allowance actually received during PY.				
Rs. 5,000.				
20% of basic salary.				
Professional Tax [Section 16(iii)]	<ul style="list-style-type: none">It is levied by a State under Article 276 of the Constitution. SG cannot impose more than Rs. 2,500 as profession tax.It is deductible only when it is actually paid by the Employee during PY.<p>PC Note: Student should note that the Limit of Rs. 2,500 is for the levy of professional tax in a previous year by the State Government. However, under Income Tax Act, there is no such limit on claiming deduction in a PY. Thus, if Rs. 5,000 is paid as professional tax during the PY, whole of Rs. 5,000 will be deductible in the PY in which it is paid.</p>If an Employer pays Professional Tax on behalf of Employee, it shall be first included in salary of the employee as perquisite & then shall be allowed as deduction on payment basis.			

Note: Deduction for Entertainment Allowance & Professional Tax is available only in Old Scheme.

CQ28. Mr. D, a government employee gets Rs. 20,000 per year as entertainment allowance out of which he spends Rs. 2,000 for official purpose; Rs. 3,200 for personal purposes & save the balance Rs. 14,800. Basic salary amounts to Rs. 60,000. Compute the taxable entertainment allowance.

Solution:

Computation of taxable entertainment allowance

1	Entertainment allowance actually received for the year	20,000
2	Least of the following will be deductible u/s 16(ii) <ol style="list-style-type: none"> Specified Amount (i.e. Rs. 5,000); 20% of basic salary: Rs. 60,000 × 20% = Rs. 12,000 Actual entertainment allowance: Rs. 20,000 	(5,000)
3	Taxable Entertainment Allowance [1 – 2]	15,000

RELIEF [SECTION 89] (Only for INDIVIDUALS)

➤ If any individual receives any portion of his salary in arrears or in advance or receives profits in lieu of salary (gratuity, commuted pension), family pension & as a result of such receipt, his income is assessed at a higher rate than the rate at which it would have been assessed if there was no such aforesaid receipts, he can claim relief u/s 89.

➤ Procedure for computing relief as given in Rule 21A is as follows:

1	Calculate the tax payable of PY in which the arrears/ advance salary is received on (a) Total Income including of advance salary/ salary in arrears. (b) Total Income excluding of advance salary/ salary in arrears Difference between (a) & (b) is the tax on additional salary included in the total income.
2	Calculate the tax payable of PY to which the advance salary/salary in arrears relates. (a) Total Income including of advance salary/ salary in arrears (b) Total Income excluding of advance salary/ salary in arrears. Calculate the difference between (a) & (b) for every PY to which the additional salary relates.
3	Excess tax on additional salary as calculated in 1 & 2 shall be Relief admissible u/s 89.

CQ29. Mr. Hari, who turned 72 years on 28.3.2025, salary (computed) for PY 24-25 is Rs. 10,20,000 & arrears of salary received is Rs. 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Previous year	Taxable Salary	Arrears now received
2010 – 2011	7,10,000	1,03,000
2011 – 2012	8,25,000	1,17,000
2012 – 2013	9,50,000	1,25,000

Compute relief u/s 89 & tax payable for AY 25-26. Assume that Mr. Hari exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Note: Rates of Taxes:

AY	Slab rates of income-tax for Resident Individual			
	For Senior		For Others	
2011-12	Upto 2,40,000	Nil	Upto Rs. 1,60,000	Nil
	2,40,001 - 5,00,000	10%	Rs. 1,60,001 - Rs. 5,00,000	10%
	5,00,001 - 8,00,000	20%	Rs. 5,00,001 - Rs. 8,00,000	20%
	Above 8,00,000	30%	Above Rs. 8,00,000	30%
2012-13	Upto 2,50,000	Nil	Upto Rs. 1,80,000	Nil
	2,50,001 - 5,00,000	10%	Rs. 1,80,001 - Rs. 5,00,000	10%
	5,00,001 - Rs. 8,00,000	20%	Rs. 5,00,001 - Rs. 8,00,000	20%
	Above Rs. 8,00,000	30%	Above Rs. 8,00,000	30%
2013-14	Upto Rs. 2,50,000	Nil	Upto Rs. 2,00,000	Nil
	2,50,001 - 5,00,000	10%	Rs. 2,00,001 - Rs. 5,00,000	10%
	5,00,001 - 10,00,000	20%	Rs. 5,00,001 - Rs. 10,00,000	20%
	Above 10,00,000	30%	Above Rs. 10,00,000	30%

Note: Education cess @ 2% & SHEC @ 1% was attracted on the income-tax for all above preceding years.

Solution: Computation of tax payable by Mr. Hari for AY 25-26

Particulars	Incl. arrears of salary	Excl. arrears of salary
Current year salary	10,20,000	10,20,000
Add: Arrears of salary	3,45,000	-
Taxable Salary	13,65,000	10,20,000
Income-tax thereon	2,19,500	1,16,000
Add: HEC @ 4%	8,780	4,640
Total payable	2,28,280	1,20,640

Computation of tax payable on arrears of salary if charged to tax in respective AYs

Particulars	AY 2011-12		AY 2012-13		AY 2013-14	
	Incl. arrears	Excl. arrears	Incl. arrears	Excl. arrears	Incl. arrears	Excl. arrears
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Arrears of salary	1,03,000	-	1,17,000	-	1,25,000	-
Taxable salary	8,13,000	7,10,000	9,42,000	8,25,000	10,75,000	9,50,000
Tax	97,900	76,000	1,34,600	99,500	1,47,500	1,15,000
Add: Cess@3%	2,937	2,280	4,038	2,985	4,425	3,450
Tax payable	1,00,837	78,280	1,38,638	1,02,485	1,51,925	1,18,450

Computation of Relief u/s 89

Particulars	Rs.	Rs.
Tax payable in AY 25-26 on arrears:		
Tax on income including arrears	2,28,280	
Less: Tax on income excluding arrears	1,20,640	1,07,640
Tax payable in respective years on arrears:		
Tax on income including arrears (Rs. 1,00,837 + Rs. 1,38,638 + Rs. 1,51,925)	3,91,400	
Less: Tax on income excluding arrears (Rs. 78,280 + Rs. 1,02,485 + Rs. 1,18,450)	2,99,215	92,185
Relief [Difference b/w tax on arrears in AY 25-26 & tax on arrears in respective years]		15,455

-----THE END-----



PROFIT & GAINS OF BUSINESS & PROFESSION



MEANING OF 'BUSINESS & PROFESSION'

Business [Sec 2(13)]	<ul style="list-style-type: none"> Business = Any 'Recurring Economic Activity' done with the objective of earning profit. However, 'Isolated Activity' (which has an element of trade) can also be termed as 'business' depending on the facts & circumstances of the case. Thus, Profit from single venture which has the element of trade may be treated as business. Business includes any Trade, Commerce, Manufacture or any adventure or concern in the nature of TCM. Adventure: Doing an activity for first time without knowing its outcome.
Profession	<ul style="list-style-type: none"> The term "Profession" has not been defined in the act. In general sense, it means an occupation requiring some degree of learning. The term 'Profession' includes Vocation also [Section 2(36)]. <p>Ex: Painter, a sculptor, an author, an auditor, a lawyer, a doctor, an architect & even an astrologer are persons who can be said to be carrying on a profession.</p>

PC Note: For the purpose of Income tax, it is immaterial whether a person is carrying on a 'Business' or 'Profession' or 'vocation'. Profits from all these sources are treated & taxed alike.

MEANING OF "PROFIT"

Cash or Kind	<ul style="list-style-type: none"> Profits may be realized in money or in money's worth (cash or in kind). Profit is realized in any form other than cash → Cash Equivalent (FMV) of the received item/thing on the date of receipt is taken as value of the Income.
Capital Receipt	<ul style="list-style-type: none"> Capital receipts are generally not taxable u/h PGBP.
Voluntary Receipts	<ul style="list-style-type: none"> Voluntary Payment received in the course of a business/profession would be treated as income in the hands of the Recipient. (There should be Nexus between the Business & Payment received). <p>Ex: Any amount paid to a lawyer by a person who was not a client, but who has been benefited by the lawyer's professional service to another would be assessable as the lawyer's income.</p>
Application of Profit (use)	<ul style="list-style-type: none"> Purpose for which the profits earned in business/profession are use is immaterial. It will be taxed irrespective of the manner & reason of application.
Legality	<ul style="list-style-type: none"> Even the profit earned from illegal source is taxable.
Distinct Businesses	<ul style="list-style-type: none"> Tax is chargeable on the Aggregate profits of all the business carried on by the assessee even though the computation of profit is done separately.
Computation of Profits	<ul style="list-style-type: none"> Tax is levied on the 'profits & gains' & not on gross receipts. Profits should be computed after deducting losses & expenses incurred for earning the income in the regular course of the business/profession unless the loss or expenses is expressly disallowed by the Act.

BASIS OF CHARGE [SECTION 28]

1 Profits & Gains of any business or profession carried on at any time during PY by the assessee.

- Capital Receipts → Not Taxable. (Subject to certain exceptions)
- Capital Expenditures → Not Deductible.

PC Note: Income from business of Renting Residential HP → Taxable u/h HP & not PGBP.

2 Compensation for Loss of Office / Compensation to management agencies.

Any compensation or other payment due to or received by any person in relation to -

- (a) Termination/Modification of Managing agent's agreement in relation to an Indian Company
- (b) Termination/Modification of Managing agent's agreement in relation to any other company in India;
- (c) Termination/Modification of contract relating to an Agency in India;
- (d) Vesting of management of any property or business with Government/their Corporation.
- (e) Termination or Modification of terms & conditions, of any contract relating to his business.**

PC Note:

3 Income of Trade/Professional Association from Specific Activities for its Members.

- This is an exception to "Principle of Mutuality" since association & its members are treated as Same Person. **[Ex: Chambers of commerce, stock brokers' associations etc]**
- As a result, association performing specific services for its members is deemed to be carrying on business i.r.o these services & Income arising from such specific activities is Taxable.

4 Export Incentives.

- (a) Profit on sale of import entitlements.
- (b) Cash assistance against exports under any scheme of Government of India.
- (c) Customs duty or excise re-paid or repayable as drawback.
- (d) Profit on transfer of Duty Entitlement Passbook Scheme/Duty-Free Replenishment Certificate.

5 Remuneration to Partners is taxable in the hands of Partner to the extent it is deductible to firm.

Ex: The allowable rate of interest is 12% p.a. u/s 40(b). Now if a firm pays interest to a partner at 15% p.a, excess 3% paid will be disallowed to firm u/s 40(b). Thus 12% which is allowed as deduction to the firm u/s 40(b) shall be taxed in the hands of partner. Excess interest of 3% which has been disallowed to the firm u/s 40(b) will not be taxed in the hands of the partner again.

6 Amount received for Non-Competence Fees are taxable [even if they are capital receipts].

Any sum received under an agreement,

- For **not carrying out any activity** in relation to any **business or profession**.
- **Not to share any know-how**, patent, copyright, trade mark likely to assist in the manufacture or processing of goods or provision for services etc.

7 Keyman Insurance Policy (including Bonus) is taxable in the hands of employer if maturity Amount is Received by Employer.

8 FMV of Inventory (SIT) on its conversion into Capital Asset → **FMV** of Inventory on the date of its conversion into capital asset would be taxable as business income.

9 Value of Benefit arising from Business/Profession. (Whether Convertible into Money or not).
(There should be Nexus between the business & the benefits received).

10 Sum received or receivable on demolition, destruction or transfer of any Capital Asset (Except Land/GW/Financial Instrument), whole cost of which was allowed as deduction u/s 35AD.

FOLLOWING INCOMES ARE ALSO TAXED U/H 'PGBP'

Deemed Income (Section 41)	<ul style="list-style-type: none"> Items which normally do not have the character of income; but are deemed as income as they have been allowed as deduction in the earlier years irrespective of whether the business/profession is continued or not.
Discontinued Business (Section 176)	<ul style="list-style-type: none"> This relates to a situation where the income is earned after discontinuance of business/profession. Income from discontinued business is also taxable.

SPECULATION BUSINESS

- ❖ 'Speculative transaction' means a transaction in which a contract for purchase or sales of any commodity (including stocks & shares) is **periodically/ultimately settled otherwise than by the Actual delivery or transfer of the commodity/Scripts** [section 43(5)].
- ❖ Deeming provision: Where any part of the business of a company consists of purchase & sale of the shares of other companies, such company is deemed to be carrying on speculation business to the extent of such business of the purchase & sale of such shares.

However, this Deeming Provision does not apply to the following companies: [Read once]

1. A company whose GTI consists of mainly income taxable u/h IFOS, House property, Capital gains.
2. A company whose principal business is:
 - (i) Trading in shares;
 - (ii) Banking;
 - (iii) Granting of loans & advances.

Thus, if these companies carry on the business of purchase & sale of shares of other companies, they would not be deemed to be carrying on speculation business. [Explanation to sec 73]

Profits/Losses resulting from Speculative Transaction must be treated as separate & distinct from other profits & gains of business & profession because Loss from Speculative Business can be set off only against Profit of Speculative Business & no other business (Section 73). [Very IMP]

TRANSACTIONS NOT DEEMED TO BE SPECULATIVE TRANSACTIONS

[READ ONCE]

1. **Hedging Contract i.r.o Raw Materials or Merchandise:** A contract i.r.o raw materials or merchandise entered into by a person in the course of his manufacturing or merchandising business to guard against loss through future price fluctuations i.r.o his contracts for the actual delivery of goods manufactured by him or merchandise sold by him.
2. **Hedging contract i.r.o Stocks & Shares:** A contract i.r.o Stocks & Shares entered into by a dealer/investor to guard against loss in his holdings of stocks & shares.
3. **Forward Contract:** A Contract entered into by a Member of a Forward Market or Stock Exchange in the course of any transaction in the nature of Jobbing or Arbitrage to guard against any loss which may arise in the ordinary course of his business as a member.
4. **Trading in Derivatives:** Eligible transaction carried i.r.o Trading in Derivatives in RSE.
5. **Trading in Commodity Derivatives:** Eligible transaction i.r.o trading in commodity derivatives carried out in a recognized association, which is chargeable to CTT.

RELEVANCE OF METHOD OF ACCOUNTING [Section 145(1)]

- ❖ Income chargeable u/h 'PGBP' or 'IFOS' shall be computed in accordance with the **method** of accounting **regularly followed** by the Assessee.
- ❖ If Assessee follows **Mercantile System** of Accounting → Income will be taxed on "Due" basis.
- ❖ If Assessee follows **Cash basis** of Accounting → Income will be taxed on "Receipt" basis.

A. SPECIFIC DEDUCTIONS [SECTION 30 – 36]

- ❖ We know that Profit = Receipts – Expenditures.
- ❖ However, there may be some expenditures which are deducted by the Assessee while computing his income, but they are not allowable as deduction under Income Tax Act.
- ❖ Section 30 - 36 gives the list of the expenditures which are allowed as deductions while calculating income under this head.
- ❖ Let us study each of them in detail.

RENT, RATES, TAXES, REPAIRS & INSURANCE FOR BUILDING [SEC 30]

Nature of Expenditure	Conditions
Rent	Paid by the Tenant for Building occupied by him for his business.
Revenue Repairs	Done by Owner/Tenant . [Capital Repairs are not covered in this section]
Rates & Taxes	Land Revenue, Local Rates & Municipal Tax [Section 43B will Apply]
Insurance Premium	Paid by the owner .

PC Note:

- ✓ **Premises used partly for Business & partly for other purposes:** Proportionate Expenditure of the premises used for Business will be allowed as a deduction.
- ✓ **Deduction in case of Subletting of rented premises** = Rent paid – Rent recovered from sub-tenant.
- ✓ **No Deduction for Notional Rent:** If the owner uses his own premises for his business, No Notional Rent shall be allowed as deduction.
But if firm runs its business in the premises owned by one of its partners, rent payable to the partner will be an allowable deduction to the extent it is reasonable & is not excessive.
- ✓ **Cesses, Rates & Taxes levied by a Foreign Government** → Allowed as deduction.

REPAIRS & INSURANCE OF PLANT, MACHINERY & FURNITURE [SECTION 31]

Nature of Expenditure	Conditions
Revenue Repairs	Done by Owner & Tenant.
Insurance Premium	Paid by Owner.

PC Note:

1. **Insurance & Repair** charges of the Assets which have been discarded (though owned by the assessee) or have not been used for the business during the PY → **Not Allowed as Deduction**.
2. To Claim Deduction u/s 31 → Asset must be used (atleast for 1 day) for assessee's business.
3. Repairs **include Renewal or Renovation** of an asset but **not its Replacement or Reconstruction**.

DEPRECIATION [SECTION 32]

- ❖ Depreciation is to be claimed on the BLOCK OF ASSETS & Not on Individual Asset.
- ❖ Claiming Depreciation is Mandatory. Assessee does not have any option to not claim it.
- ❖ Only WDV Method of charging depreciation is recognized under the Act. However, Power Generation units have option to claim depreciation on SLM.

CONDITIONS FOR CLAIMING DEPRECIATION

1 Ownership of Asset

- Assessee must be the owner of the asset (fully or partly owned).
- Registered ownership is not necessary (It can be a beneficial ownership).
- To claim depreciation on building, ownership of land on which building is constructed is not necessary. Land may be lease-hold.

PC Note: If Tenant has incurred any Capital Expenditure on construction, renovation, extension of the building taken on lease/rent, he can take depreciation on such capital expenditure.

2 Asset must be used by the assessee for his business/profession during relevant PY

- **Asset must be put to use at any time during the previous year.**
 - ☞ Even if the asset is used for a single day during the year, full depreciation shall be allowed Except for first year of use of asset.
 - ☞ Use of Asset in 1st year of Asset: Asset must be used for at least 180 days to get full depreciation. If it is used for less than 180 days in 1st year, only 50% of the allowable depreciation can be claimed.

Ex: If Assessee acquires the asset in PY 24-25 on 15.12.2024, only 50% of allowable depreciation can be claimed in PY 24-25 since it is used for less than 180 days. However, from next PY i.e PY 25-26, full depreciation can be claimed even if the asset has been used even for a single day.

However, if asset is acquired in PY 24-25 & it is not put to use in PY 24-25, no depreciation can be claimed in PY 24-25. Now next PY i.e PY 25-26 cannot be said to be the first year of asset. Thus 100% depreciation will be allowed from the next PY.
- Use includes 'Passive use' also [Asset is said to be in use even when it is 'kept ready for use']

PC Note:

1. **Asset used Partly for Business & partly for Personal purposes** → Depreciation proportionate to business is allowed as deduction u/s 32 & only such amount is deducted from WDV.
2. **Asset used Partly for Business & partly for Agricultural purposes** → Depreciation proportionate to business shall be allowed as deduction u/s 32, but 100% depreciation is deducted from WDV.

PC Note: Allowability of Depreciation in case of Letting of assets on hire (Under Which Head)

If <u>letting</u> of Assets on Hire is the business of the assessee & <u>asset is let out</u> .	<u>Depreciation</u> on such let out assets is allowed as deduction <u>u/s 32</u> to the assessee
If letting of assets on Hire is <u>NOT the business of the assessee & asset is let out</u> .	<u>Depreciation</u> on such let out assets is allowed as deduction <u>u/s 57(ii)</u> to the assessee

3 Asset must fall under the eligible class of Asset

- (a) Class A: Tangible assets. It included building, machinery, plant or furniture.
- (b) Class B: Intangible assets.
It includes know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature not being goodwill of a business or profession.

BLOCK OF ASSETS → Group of assets falling within **Same Class** & having **Same Rate of Depreciation**Points to be considered while forming block of asset

[For Better Understanding]

- ✍ **Building** includes Roads, bridges & tubewells attached to the building or forming part of it.
- ✍ **Machinery:** Asset which is directly connected with Production/Manufacture/ processing.
- ✍ **Furniture:** Asset used for Convenience & Decoration.
- ✍ **Plant:** Any Asset not falling under any other classification, but which are Essential to carry out the business.
 - **Includes:** Ships, vehicles, books, scientific apparatus & surgical used for business.
 - **Excludes:** Tea bushes or livestock etc.; animal, human body or stock- in-trade; Buildings.

However, Theatre buildings, hospital buildings & hotel buildings though specially equipped for business are still buildings & **cannot be treated as plant.**

PC Note:

- Assets Ineligible for depreciation [**Land/Personal assets**] will **not** form part of **any block.**
- While calculating Depreciation on Building, **Cost of Land is to be Excluded.**

A STEPS TO DETERMINE BLOCK OF ASSET

1. Classify assets into (i) Tangible Assets & (ii) Intangible Assets (except GW of business/profession).
2. All the Tangible Assets shall further be classified into
 - (a) Building,
 - (b) Plant & Machinery &
 - (c) Furniture
3. Group the classified assets in each category separately on the basis of Rate of depreciation.
4. Assets having same rate of depreciation should be grouped together.

B STEPS TO CALCULATE DEPRECIATION

[V. IMP]

1. Find Closing WDV of each block for PY.
 Opening WDV as on 1st April of current PY
 Add: **Actual Cost of Assets purchase during PY (not being GW of business/profession)**
 Less: **Sale Value of assets sold, discarded, demolished or destroyed during PY**
2. Bifurcate Closing WDV of each block into two categories:
 - (i) WDV of the assets used for less than 180 days during PY
 - (ii) Balance WDV. **[Note that it is not always equals to WDV of Assets used for > 180 days]**
3. Apply Rate of depreciation on (i) Assets used for less than 180 days. [50% Rate Depreciation]
4. Apply Rate of depreciation on (ii) Balance WDV. [100% depreciation (as per the rates)].

RATES OF DEPRECIATION

	TANGIBLE ASSETS	(%)
Building		
1	Residential Building (Except hotels & boarding houses)	5
2	Buildings which are not used mainly for residential purposes & not covered by (1) & (3) Office, factory, Godowns & other buildings	10
3	Building used for installing P&M forming part of water supply project/water treatment system. It should be used for the business of providing Infrastructure facilities.	40
4	Any temporary erections (wooden structures)	40
	Furniture: Any furniture & fittings including electrical fittings.	10
Plant & Machinery		
1	Motor Cars (Except Cars used in the business of running them on hire)	15
2	Motor cars other than those used in a business of running them on hire, acquired during the period from 23.8.2020 to 31.03.2021 and put to use on or before 31.03.2021	30
3	Motors buses, motor lorries, motor taxis used in a business of running them on hire, acquired during the period from 23.8.2020 to 31.03.2021 and put to use on or before 31.03.2021	45
4	Buses, Lorries & Taxi used in the business of running them on hire	30
5	Moulds used in rubber & plastics goods factory	30
6	Aeroplanes & Aeroengines.	40
7	Specified Pollution control equipments (air/water); Solid waste control equipment etc.	40
8	P&M used in semi-conductor industry covering all Integrated Circuits (ICs)	30
9	Life saving medical equipments.	40
10	P&M in water supply project/water treatment system. It should be used for the business of providing Infrastructure facilities.	40
11	Containers made of glass or plastic used as re-fills	40
12	Renewable Energy Saving Devices	
13	Windmills & any specially designed devices which run on windmills (including any special devices including electric generators & pumps running on wind energy) (a) installed on/after 1.4.2014 (b) installed before 1.4.2014	40 15
14	Computers & computer software.	40
15	Books (Annual publication/not) owned by assessee carrying on profession	40
16	Books owned by assessee carrying on business of running Libraries	40
17	Any other Plant & Machinery (General Rate)	15
Ships – 20%		
1	Ocean-going ships	20
2	Vessels ordinarily operating on inland waters not covered by Block (3) below	20
3	Speed boats operating on inland water	20
	All Intangible Assets (Know-how, patents, copyrights, TMs, licences, franchises or any other business or commercial rights of similar nature, not being goodwill of business/profession)	25

ADDITIONAL DEPRECIATION [SECTION 32(1)(iia)] → [Allowed in Old Scheme Only]

Eligibility	The Assessee must be engaged in the business of: (a) Manufacturing or production of any article or thing, or (b) Generation, transmission or Distribution of Power
Benefits	Additional depreciation is available @ prescribed rates to the eligible assessee for Investment in New Plant & Machinery . [No Land & Building or OLD P&M]
Ineligible Investments	<ol style="list-style-type: none"> 1. Ships & Aircrafts 2. Any second-hand P&M (in/out of India) 3. Any P&M installed in office premises, residential house or guest house. 4. Any other office appliances or road transport vehicles. 5. Any P&M whose whole of Actual cost has been allowed as deduction.
Rate	20% of Actual cost of new P&M

Assets put to use for less than 180 days in 1st PY: Additional depreciation will be allowed as:

1st PY = Restricted to 50% (i.e. 10%); Next PY = Remaining 50% that was disallowed in the 1st PY

- ☞ Addition depreciation will be over & above normal depreciation allowed.
- ☞ It should be reduced from WDV of the asset.
- ☞ **PC Note:** Additional depreciation is available only when normal depreciation is claimed on WDV basis.

Additional Depreciation is allowed only in old Tax Regime. Not Allowed in Default (New) Tax Regime.

Circular No. 15/2016: Printing or Printing & Publishing amounts to **manufacture** & thus an Assessee engaged in such business is **eligible** for Additional Depreciation u/s 32(1)(iia).

CQ1. Rajan Ltd. has 2 machines [S & M] in the block as on 01.04.2024 [WDV = Rs. 3 Lacs]. Machine L was acquired on 12.11.2024 for Rs. 1,50,000 & put to use on same date. Same machine L is sold on 24.03.2024 for Rs. 2 Lacs.

- (a) Compute the depreciation allowable u/s 32 for AY 25-26 on the block. **[Concept Question]**
 (b) What will be the depreciation allowed, if machine S is sold instead of machine L.
 (c) What will be the depreciation allowed if both S & M are sold instead of machine L.
 (d) What will be the depreciation allowed, if machine S is sold at Rs. 3,20,000 instead of L.

CQ2. Rama Ltd. has started a new business of manufacturing paints on 1.4.2024. The company has purchased the following assets during PY 24-25.

Asset	Actual COA	ROD	Date when it is put to use
Furniture	6,00,000	10%	20.04.2024
AC installed in office	3,00,000	15%	22.06.2024
Motor Car	24,00,000	15%	16.07.2024
Plant A	1,50,00,000	15%	25.04.2024
Plant B	60,00,000	15%	14.11.2024
Plant C	2,40,000	100%	18.09.2024
Computer installed in office	3,00,000	40%	09.07.2024
Computer for factory	4,50,000	40%	12.07.2024

Compute normal & additional depreciation allowable for AY 25-26 to Rama Ltd.

DEPRECIATION ON SLM BASIS [SECTION 32(1)(i)]

Applicability	For Undertakings engaged in Generation, transmission, Distribution of Power.
Time to Exercise	Before DD of Filing ROI u/s 139(1) relevant to the PY in which they begin to generate power. The option once exercised shall be Final.
Option of SLM → Tangible Assets only	For Intangible Assets, only WDV method shall be applicable. Such undertakings can charge depreciation on tangible assets individually , i.e. SLM or WDV whichever is beneficial for assessee.
New Assets used for < 180 days	Newly acquired assets put to use < 180 days → Depreciation is allowable at 50% of ROD ; Remaining 50% will be allowed in next AY.
Sale in Year of First Use	Profit/Loss arising shall be treated as STCG/STCL.

TRANSFER OF DEPRECIABLE ASSETS BY POWER SECTOR UNITS [V. IMP]

SN	Conditions	Treatment
1	NSC < WDV	Terminal Depreciation = WDV – NSC. It shall be Deductible u/s 32.
2	NSC > WDV but < COA	Balancing Charge (Profit) = NSC – WDV. It shall be Taxable u/s 41(2).
3	NSC > COA	Capital Gain = NSC – Original COA. Balancing Charge = Original COA – WDV. It shall be Taxable u/s 41(2).

CQ3. Bijii Ltd. a power generating unit purchased a machinery of Rs. 15,00,000 on 01.01.2024 on which depreciation rate is 7.84% on SLM. Machinery is sold on 31.12.2024 for: (i) Rs. 7,50,000; (ii) Rs. 14,41,200; (iii) Rs. 18 Lacs. Calculate depreciation for PY 24-25 & the tax implications on transfer of the asset in each of the above cases.

DETERMINATION OF ACTUAL COST [SECTION 43(1)]

Cost of Acquisition/Construction of Asset		Rs.
Less:		
(a) Excise Duty i.r.o which CENVAT credit is Allowed	xxx	
(b) Subsidy or Grant received by any Authority (Directly/Indirectly)	xxx	(xxx)
Add:		
(a) Expenses incurred in connection with the Instalment of Asset.	xxx	
(b) Expenses incurred for acquiring Asset [Freight, Insurance, loading, unloading]	xxx	
(c) Interest on loan borrowed payable upto date of commencement of production.	xxx	
(d) FOREX Fluctuations arising i.r.o asset acquired from abroad [Sec 43A]	xxx	xxx
ACTUAL COST for the purpose of computing Depreciation		Xxx

PC Note: Any **Expenditure** for **Acquisition** of any Asset for which aggregate payments made to a person in a day, **otherwise than by A/c Payee Cheque or A/c Payee Draft or Electronic clearing system exceeds Rs. 10,000**, such expenditure shall **not be included in** Cost of such asset.

'ACTUAL COST' IN SPECIAL CASES [Explanation to Section 43(1)]

SN	Cases	Actual Cost
1.	Scientific Asset/Specified business Asset u/s 35AD brought into business.	Actual cost – deduction allowed u/s 35 = Nil
1A	Conversion of Capital Asset into SIT	FMV of Capital Asset on the date of conversion of capital asset into SIT
	Conversion of SIT into Capital asset & used into business	FMV of SIT on the date of conversion of SIT into capital asset.
2.	Asset acquired by Gift, Will or Inheritance	WDV to the previous owner .
3	Second hand asset	If AO is satisfied that main purpose was to reduce the Income Tax Liability by claiming depreciation on enhanced cost, he may, with the previous approval of JCIT , determine the Actual Cost having regard to all the circumstances of the case.

CQ4. Mr. A transfers P&M used in his business for several years for Rs. 20,00,000 to Mr. B. WDV in the books of Mr. of the said asset was Rs. 5,00,000. FMV of the asset on the date of transfer was Rs. 4,00,000. Determine the Actual cost of asset in the case of Mr. B for computing depreciation u/s 32.

4	Re-acquisition of asset used for Business/profession earlier.	(a) WDV at the time of original transfer or (b) Cost of re-acquisition [whichever is Lower]
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CQ5. Mr. A acquired an asset on 15.04.2023 for Rs. 2 Lacs on which depreciation is charged @ 10%. He sold the asset to Mr. B for Rs. 2 Lacs on 01.04.2024. Again on 16.09.2024, it was reacquired by Mr. A for Rs. 2 Lacs. Compute the actual cost in the hands of Mr. A for AY 25-26.

4A	Sale & Leaseback transactions	WDV of the asset in the hands of transferee = WDV of the asset in the hands of the person to whom it has been leased back .
	(Assets previously used by transferor for his B/P are acquired by the transferee & let out or hired or leased back to the same transferor)	

CQ6. Mr. A owns an asset & uses it for the purpose of his business/profession. A has claimed depreciation i.r.o such asset. The said asset is transferred by A to Mr. B. Mr. A then acquires the same asset back from B on lease, hire or otherwise. B being the new owner will be entitled to depreciation.

Cost of acquisition of transferred assets in hands of B = WDV of the said assets at the time of transfer.

5	Building (now brought into business) which was used for non-business purpose earlier . [PC Note: Only for Building]	Actual cost of building – Deemed Depreciation @ rate on that date) that would have been allowed had the asset been used for business since the date of acquisition. Note: Other assets should be recorded @ original COA.
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CQ7. Mr. A converted the following assets used for personal purposes into his business assets on 1.4.2024:

Particulars	COA	DOA	FMV on 1.4.2024	Value recorded in books on 1.4.2024
Building	20,00,000	1.4.2022	30,00,000	30,00,000
Land	10,00,000	1.4.2022	50,00,000	10,00,000

CQ8. Dr. X purchased a house property on 1.12.2022 for Rs. 10 lacs. Till 01.05.2024, the same was self-occupied as a residence. On this date, the said building was brought into use for the purpose of his medical profession. What would be the depreciation allowable for AY 25-26 assuming that he owns no other building & ROD is 10%.

(b) What if house property had been gifted by his mother, who had purchased the same on 01.05.2021 for Rs 9 lacs?

(c) What if the asset would have been a car?

6	Interest on capital borrowed	Interest relating to a period after the asset is first put to use will NOT form part of Actual cost.
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7	Adjustments of ITC of GST	Where ITC on capital goods has been availed i.r.o GST, it shall not form part of cost.
8	Subsidy on capital investment	Specific Subsidy: Deducted from Actual COA. General subsidy: Proportionate Subsidy relatable to the asset shall be deducted from COA.
9	Asset acquired outside India by NR & brought to India & used for the purpose of his business/profession.	Actual cost – depreciation calculated @ rate in force that would have been allowable had the asset been used in India since the date of acquisition.
10	Capital asset is acquired under a scheme for corporatization of RSE.	Amount which would have been regarded as actual cost had there been no such corporatization.

CASES WHEN NO DEPRECIATION IS ALLOWED [Refer Section 50 in Cap. Gains]

➤ In the following cases, no depreciation will be allowed to the Assessee during PY:

WDV is Zero but Block is not Empty	No Depreciation & STCG u/s 50(1) will arise.
Block is empty but WDV is not Zero	No Depreciation & STCL u/s 50(2) will arise.

Space for PC Class Note:

SET OFF & CARRY FORWARD OF DEPRECIATION [SECTION 32(2)]

- Where depreciation is not fully deductible u/h 'PGBP' because of absence or inadequacy of profits, it is deductible from other heads of Income for the same AY. If depreciation is still unabsorbed, it can be c/f to subsequent AY without any time limit. In the subsequent years, unabsorbed depreciation can be set off against any income whether chargeable under the head PGBP or under any other head of income.
- In the matter of **set off**, the **following priority** is followed in the subsequent years
 - Current year Depreciation
 - Brought Forward Business Loss
 - Unabsorbed Depreciation.

PC Note: Set off will be allowed even if the said business to which it related has been discontinued.

If assessee is paying tax under default tax regime u/s 115BAC & there is a depreciation allowance i.r.o. a block of asset from any earlier AY attributable to additional depreciation u/s 32(1)(ia), which has not been given full effect to prior to AY 25-26 and which is not allowed to be set-off in AY 25-26, corresponding adjustment shall be made to the WDV of such block of assets as on 1.4.2024 in the prescribed manner (i.e. **WDV as on 1.4.2024 will be increased by unabsorbed additional depreciation not allowed to be set-off**).

Example: Mr. X, carries on business of manufacturing of steel. He has unabsorbed depreciation as on 1.4.2024, which includes amount attributable to additional depreciation u/s 32(1)(ia) of PY 22-23 or any earlier PY i.r.o. P&M block. If he is paying tax under default tax regime u/s 115BAC for PY 24-25 relevant to AY 25-26, amount so attributable to additional depreciation of earlier years remaining unabsorbed as on 1.4.2024 would not be eligible for set-off against current year income. Accordingly, WDV of the block as on 1.4.2024 has to be increased by the said amount not allowed to be set-off.

EXPENDITURE ON SCIENTIFIC RESEARCH [SECTION 35]

1. SCIENTIFIC RESEARCH CARRIED ON BY ASSESSEE [Related to business]

REVENUE EXPENDITURE [Sec 35(1)(i)] - [100 % Deduction]

Pre-commencement Period Expenditure [only 3 years prior to Commencement]	Only following expenditures will be allowed as deduction: (i) Salary (excluding perquisites) to research personnel. (ii) Purchase of Materials used in scientific research.
Post-commencement	Any Revenue Expenditure incurred on scientific research is allowed as deduction.

CAPITAL EXPENDITURE [Sec 35(1)(iv) & 35(2)] - [100 % Deduction]

Pre-commencement Period Expenditure	Any Capital Expenditure incurred will be allowed as deduction (Except Land). [only of 3 years prior to Commencement]
Post-commencement	Any Capital Expenditure incurred will be allowed as deduction (Except Land).

2. CONTRIBUTION MADE TO OUTSIDER [Related to business or not] → [Deduction in Old Scheme]

Purpose	Sec	Contribution to whom	Deduction
Scientific Research	35(2AA)	National laboratory/ National university/ IITs/ IIMs	100%
	35(1)(ii)	Approved Research association/University/College/Institutions	100%
	35(1)(iia)	Company Registered in India having scientific research as its main business objective.	100%
Social or Statistical Research	35(1)(iii)	Approved Research association/University/College/institutions	100%

PC Note: Deduction of contribution made shall not be denied merely on the ground that the approval granted to such institutions was withdrawn after payment of such sum by the assessee to them.

PC Note:

- Deduction specified in (1) above is available in both new & old scheme.
- However, deductions specified in (2) is available only in old scheme.

HEAD-TO-HEAD: Expenditure incurred for in-house scientific research related to business & Contribution to outsiders for scientific research/social science/statistical research

Nature	Default tax regime u/s 115BAC		Under Optional tax regime (old)	
	Allowability of deduction	Treatment while computing income u/h PGBP		Allowability of deduction
		If debited to P&L A/c	If given additionally	

1. In-house Research Expenditure on scientific research related to assessee's business

Revenue Exp [35(1)(i)]	Yes	Do Nothing	Less	Yes	Do Nothing	Less
Capital Exp [35(1)(iv) r/w 35(2)]	Yes	Do Nothing	Less	Yes	Do Nothing	Less

2. Donation to Outsiders

No	Add Back	Do Nothing	Yes	Do Nothing	Less
No	Add Back	Do Nothing	Yes	Do Nothing	Less

CQ9. Mr. A, furnishes the following particulars for PY 24-25. Compute the deduction allowable u/s 35 for AY 25-26, while computing his income u/h PGBP if:

(i) he is paying tax under default tax regime u/s 115BAC

(ii) he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

	Particulars	Amount
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 COA of land Rs. 5,00,000) on scientific research	7,50,000

PC Note:

- ❖ Deduction of **Pre-commencement expenditure** shall be allowed **in the year of commencement of business** to the extent certified by the prescribed authority.
- ❖ Assessee must incur the expenditure on scientific research. Actual payment is not compulsory.
- ❖ Assessee is not eligible for deduction by mere transfer of asset from business purpose to scientific research purpose [i.e Merely by transfer entry in books of accounts].
- ❖ **No depreciation** will be allowed on any capital asset whose cost has been allowed as deduction u/s 35.
- ❖ It is not necessary that capital asset must be complete & used for scientific purpose in the PY itself. It is also irrelevant that construction of building is not completed & the building has not been used in the PY.
- ❖ No deductions u/s 35(2AB) shall be allowed to company accepting donations u/s 35(1)(iia).
- ❖ **UNABSORBED CAPITAL EXPENDITURE ON SCIENTIFIC RESEARCH:** Treated same as unabsorbed depreciation (can be carried forward for infinite years without any time limit).

SALE OF SCIENTIFIC ASSET

- Assessee may use scientific research asset for his other business purpose after completion of scientific research. [Conversion of scientific research asset into normal business asset] OR
 - Assessee may sell SR asset without using it for another purpose after completion of scientific research.
- In both cases, tax liability could arise.

- Asset is sold after using it for Business [Section 41(1)]**
 - Such asset will form part of the block of asset. COA = Nil (Since whole cost is allowed as deduction)
 - No amount will be added in block value as COA = Nil.
 - On sale of such asset, sale value of such asset will be taxed in the hands of assessee.
- Asset is sold without using it for business [Section 41(3)]**
 - If sale proceeds + deduction u/s 35 > Capital Expenditure; Taxable Amount = Lower of (i) or (ii)
 - (i) Sale Price + Deduction allowed u/s 35 – Capital Expenditure; (ii) Deduction allowed u/s 35.

INVESTMENT IN SPECIFIED BUSINESS [SECTION 35AD]

❖ Only **Capital Expenditures** are covered u/s 35AD [Other than Land/GW/Financial Instrument]

Nature of Specified Business

1	Setting up & operating a Cold chain facility	<div style="border: 1px solid black; border-radius: 50%; padding: 10px; text-align: center;"> Deduction u/s 35AD is available in Old Scheme only </div>
2	Warehousing facility for storage of agricultural produce.	
3	Affordable Housing project	
4	Production of Fertilizer	
5	Hospital (at least 100 Beds)	
6	Cross country pipeline for petroleum or crude oil, natural gas	
7	Hotel (2 Star +)	
8	Slum Re-development Housing	
9	Setting up & operation ICDs or CFS notified or approved under the customs act, 1962	
10	Bee-keeping & production of honey & bees wax	
11	Warehousing facility for storage of sugar	
12	Laying & Operating Slurry Pipeline for the transportation of iron ore.	
13	Setting & operating Semiconductor Wafer Fabrication Manufacturing unit	
14	Developing or/& maintaining or/& operating a new infrastructure facility.	

PERMISSIBLE EXPENDITURE FOR DEDUCTION

1	Prior Period Expenses	If they are capitalized in the books of accounts.
2	Post Commencement Expenses	Any Capital Expenditure incurred during the PY.

PC Note: Any Expenditure for Acquisition of any Asset for which the aggregate payments made to a person in a day, **otherwise than by A/c Payee Cheque** or A/c Payee Draft or Electronic clearing system **exceeds Rs. 10,000** would **not be eligible** for deduction.

PC Note: Assessee is deemed to be carrying on the specified business of building & operating hotel if assessee builds a hotel of two-star or above category. After building the hotel, he transfers the operation of the hotel to another person; However, he should continue to own the hotel.

CONDITIONS

1	It is NOT set up by Splitting up or reconstruction of a business already in existence.
2	It is NOT set up by transfer of Second-hand Plant & Machinery. Exceptions: (a) Imported P&M will be treated as new for this section & (b) Used P&M upto 20% of Total value of P&M shall be allowed under this section.
3	No Deduction under any other section: (i.e 10AA & 80IA-80RRB) in any PY.
4	Set-off & carry forward of loss: [To be studied in respective chapter later]
5	Transfer, destruction, demolition, discarding of asset for which deduction was allowed: If any asset on which a deduction u/s 35AD has been claimed & allowed, is demolished, destroyed, discarded or transferred, Sum received on such transfer is taxable u/s 28(vii).
6	Use of specified business asset till 8 years for Specified Business only: Where such asset is used for any purpose other than specified business during 8 years, following amount shall be deemed to be the income of the assessee of the PY in which the asset is used for non-specified purpose. Income = Total Deduction Claimed & Allowed in one or more PYs - Depreciation allowable (as if no deduction was allowed u/s 35AD) Exception: If the company becomes a sick within 8 years, this provision will not be applicable.

CQ11. An assessee, who is already in the business of trading in textiles, commences the business of cold chain facility w.e.f. 01.07.2024 & has incurred the following expenditure:

Machinery purchased on 26.02.2024 & capitalized in the books of accounts	4,00,000
LAND purchased on 1.04.2024 & capitalized	6,00,000
Building constructed on 30.06.2024	10,00,000
Goodwill purchased on 05.06.2024	2,00,000
Machinery purchased on 20.01.2025	3,00,000

Calculate the deduction allowed u/s 35AD for AY 25-26.

CQ10. Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up & operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehouse for storage of edible oil. Unit A commenced operation on 1.4.2023 & it claimed deduction of Rs. 100 lacs incurred on purchase of 2 buildings for Rs. 50 lacs each (for operating a warehouse for storage of sugar) u/s 35AD for AY 24-25. However, in Feb 2025, Unit A transferred one of its buildings to Unit B. Examine the tax implications of such transfer to Mr. Arnav. **[ICAI Module Q8]**

CQ12. Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar & edible oil on 01.04.2024. He incurred capital expenditure of Rs. 80 lacs, Rs. 60 lacs & Rs. 50 lacs, respectively, on purchase of land & building during Jan. 2024 to March 2024 exclusively for the above businesses, and capitalized the same in its books of A/c as on 1st April, 2024. Cost of land included in above figures is Rs. 50 lacs, Rs. 40 lacs & Rs. 30 lacs respectively. During PY 24-25, he incurred capital expenditure of Rs. 20 lacs, Rs. 15 lacs & Rs. 10 lacs, respectively, for extension/reconstruction of the building purchased & used exclusively for the above businesses.

Compute income u/h “PGBP” for AY 25-26 & 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 has fulfilled all the conditions specified u/s 35AD and wants to claim deduction u/s 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 & edible oil (before claiming deduction u/s 35AD & section 32) for AY 25-26 is Rs. 16 lacs, Rs. 14 lacs & Rs. 31 lacs, respectively. Also, assume i.r.o expenditure incurred, the payments are made by A/c payee cheque or use of ECS through bank.

AMORTIZATION OF PRELIMINARY EXPENDITURE [SECTION 35D]

Assessee	(a) Indian Company or (b) Any other person Resident in India.	
Eligible Expenditure	(a) In case of New companies → Expenses for setting up any business. (b) In case of Existing companies → Expenses for Expansion of Business. <ul style="list-style-type: none"> ▪ Expenditure on Preparation of feasibility report, Project report, conducting market survey or engineering services relating to the business. ▪ Legal charges for drafting any agreement relating to the business. ▪ Legal charges for drafting the MOA & AOA of the company. ▪ Printing charges of the MOA & AOA of the company. ▪ Registration fees of the company. ▪ Expenditure on public issue of shares/debenture, underwriting commission, brokerage & charges for drafting, & advertising prospectus. 	
Maximum Limit	1. Indian Company	Higher of 5% of [Cost of Project OR Capital Employed]
	2. Any other Assessee	5% of Cost of Project.
Qualifying Expenditure	1. Eligible Expenditure incurred or 2. Maximum Limit (whichever is Lower)	
Deduction	1/5th of the Qualifying expenditure in 5 successive PYs.	
Audit	COMPULSORY AUDIT for the years in which expenditure is incurred.	
<p>PC Note: If Indian Co. is amalgamated with another Indian Co. before expiry of 10 years → Above provisions will apply to amalgamated company as if the amalgamation had not taken place.</p> <p>❖ Meaning of Cost of Project → Actual cost of Fixed assets [L & B, P & M, F & F etc];</p> <p>❖ Meaning of Capital Employed → Aggregate of Issued share capital, Debentures, Long-term borrowings; (as on the last day of PY in which business is commenced).</p>		

Q13. X Ltd. is incorporated in Mumbai on 6 September 2024. It commences production on 15 March 2025. Following expenses are incurred by the company before commencement of business. Calculate deduction u/s 35D.

(a) Expenses on incorporation, issue of shares: Rs. 92,000.

(b) Preparation of feasibility report & conducting market survey: Rs. 1,40,000.

(c) Engineering services (work is carried on by a concern which is unapproved by Board): Rs. 1,30,000.

Particulars as on last day of PY in which business is commenced are: Cost of fixed asset – Rs. 55 Lacs; Share capital - Rs. 40 Lacs; Debentures - Rs. 12 Lacs; Long-term borrowing from FIs (repayable for not less than 7 years) - Rs. 8 Lacs

AMORTIZATION OF COMPENSATION PAID UNDER VRS [SECTION 35DDA]

Eligible Assessee	Any Assessee
Eligible Expenditure	Payment of any sum to Employee for his voluntary retirement.
Deduction	<ul style="list-style-type: none"> ▪ 1/5th of Expenditure shall be deductible for 5 succeeding PYs. ▪ Each Part Payment of VRS is deductible in 5 Instalments. ▪ 1st Instalment is deductible in the PY in which such sum is Actually Paid.

PC Note: In case of any Business Re-organization → Deduction shall be allowed to resulting company (organisation) for **Remaining years.**

Q14. X Ltd. made payment of VRS to its employee Y as under: **PY 24-25:** Rs. 4,00,000; **PY 25-26:** Rs. 3,00,000; **PY 26-27:** Rs. 1,40,000. How much deduction will be allowed to X Ltd. for AY 25-26 to AY 27-28?

MISCELLANEOUS DEDUCTIONS [SECTION 36(1)]

INSURANCE PREMIUM PAID ON

- (i) Stocks or stores against risk of damage or destruction.
- (ia) Lives of Cattles owned by members & paid by primary milk co-operative society.
- (ib) Health of Employees → Paid by the employer [Any mode other than Cash].

BONUS OR COMMISSION [Sec 43B will Apply]

- (ii) Bonus/commission **PAID** to the Employees by the employer. [not payable as profit or dividend]

PC Note: Amount paid to the employees as bonus or commission shall not be payable to them as profits or dividends if it had not been paid as bonus or commission.

It is a provision intended to safeguard escaping tax by distributing a part of its profits by way of bonus amongst the members, or employees of their own concern instead of distributing the money as dividends or profits.

(iii) INTEREST ON BORROWED CAPITAL FOR BUSINESS

- Interest for the period **after the asset is put to use** is allowed as deduction.

PC Note: Interest payable for the period before the asset is put to use → Capitalized & added to COA of Asset & thus not deductible u/s 36(1)(iii).

PC Note:

- ❖ Interest on own capital → Not deductible.
- ❖ Guaranteed interest paid to shareholders on paid-up capital → Not Deductible.
- ❖ Interest paid on money borrowed for payment of dividends → Deductible.
- ❖ Interest paid on money borrowed for payment of Tax → Not Deductible.
- ❖ Interest paid by a firm to partners → Deductible; Interest paid by AOP to its members → Not Deductible.

AMORTIZATION OF EXPENDITURE ON ZERO COUPON BOND BY ISSUING COMPANY

- (iii)(a) Amortization of Discount on a Zero-Coupon Bond is deductible **over the life of such bond**.

Tax Treatment in the hands of Issuing Company

- Discount (Amount payable on Maturity – Issue Price) on ZCB is deductible on Pro rata basis.
- No TDS **u/s 194A** by the payer company.

Tax Treatment in the hands of Investor

- Maturity or redemption of ZCB will amount to **transfer** u/s 2(47)(iva).

EMPLOYER'S CONTRIBUTION towards

- (iv) **RPF or Approved SF**, Subject to section 43B.
- (iva) **Pension scheme** to the extent of **14% of salary** of the employee in PY. [Basic + DA of RB]
- (v) **Approved Gratuity Fund** subject to Section 43B.

EMPLOYEE'S CONTRIBUTION

(va) Employee's contribution towards RPF/SF/ESIC, if deposited by the employer before DD.

PC Note: Employee's contribution is **first included** in **total income** of the employer. Then **deduction** is given under this section if the sum received is **deposited before due date under relevant law**.

As per the Employees Provident Funds Scheme, 1952, amounts under consideration i.r.o. wages of the employees for any particular month shall be paid within 15 days of the close of every month.

PC Note: It is clarified that provisions of section 43B does not apply & would never be deemed to be applied on employee's contribution received by employer towards any welfare fund of such employee. In effect, extended time upto due date of filing of ROI is not available for credit of employee's contribution towards any welfare fund received by the employer.

(vii) BAD DEBTS (EXCLUDING PROVISIONS FOR BAD DEBT)**Conditions:**

- Debt (Loan) must be incidental to the business & must be **written off** in books of accounts.
- Such debt must be **charged as income** in computing the income if the assessee of any PY
- Debt may be money lent in the ordinary course of banking or money lending business

Second Proviso inserted by FA, 2015:

If whole or part of Debt has been included in the income of PY in which it becomes irrevocable or earlier PYs without recording the same in the books of accounts; such Debt amount shall be allowed in PY in which, it becomes irrevocable and it shall be deemed that such amount has been written off in A/cs

Other points:

1. In case of succession → Successor is entitled to claim the deduction when a debt originally due to the predecessor is written off as bad debt by the successor in his books of accounts.
2. **Recovery of Bad debts** is **taxable** as **business income** in the **PY of recovery**. [sec 41(4)]

(ix) EXPENSES ON FAMILY PLANNING [V. IMP]

- Any expenditure incurred by the company for promoting family planning amongst employees will be allowed as deduction in the hands of company.

Amount of Deduction will be as follows:

- Revenue Expenditure: Fully allowed in the PY in which it is incurred.
- Capital Expenditure: **1/5th of the expenditure allowed in 5 PY's**.

PC Note: **Treatment of Unabsorbed expenditure** is same as treatment of unabsorbed depreciation.

(xv)	Securities Transaction Tax [STT] paid by the assessee is deductible if the income arising from such a taxable securities transaction is included u/h "PGBP"
(xvi)	Commodity Transaction Tax [CTT] paid by the assessee is deductible if the income arising from such a taxable commodities transaction is included u/h "PGBP".

GENERAL DEDUCTIONS [SECTION 37]

- Section 30-36 provides for **Specific deductions** i.r.o certain expenditures.
- But still there can be Certain Expenditures which might not get covered in Section 30-36.
- Thus **Section 37** provides for **General deductions**.
- **Only Business Expenditure is Allowable u/s 37.**
- Deduction u/s 37 is limited only to the amount actually expended & does not extend to a reserve created against a contingent liability.
- Business losses such as those arising out of embezzlement, theft, destruction of assets, misappropriation by employees etc are allowable u/s 29 as losses incidental to the business.

CONDITIONS FOR ALLOWANCE U/S 37: Such expenditure shall

1. Not covered in Section 30 to 36.
2. **Not a capital expenditure** (Only revenue expenditure is deductible u/s 37).
3. Incurred during the PY.
4. It must have been incurred after the business was set up.
5. Incurred wholly & exclusively for business (**Personal Expenditure** is **NOT** deductible).
6. **Legal Purpose only:** Expenditure should not be for any purpose which is an offence or prohibited by law.

PC Note:

1. There should be Nexus between Expenses & business.
2. Exclusive benefit may or may not be derived by the assessee. Section 37 requires that expenditure should be wholly & exclusively incurred for business. AO cannot question the necessity of expenditure in allowing the deduction for such expense which was incurred for the purpose of the business but was unnecessary.

Some Important Decisions based on Case Laws:

Particulars	Deduction u/s 37(1)
Penalties imposed for Infraction of any Law.	Not Allowed
Penalty paid for failure to deduct TDS under Income Tax	Not Allowed
Any interest or penalty paid under Income Tax	Not Allowed
Interest paid to GST Department on Arrears of GST	Allowed
Interest paid under Employees PF & Misc. provision Act, 1952.	Allowed
Penalty paid by the assessee (contractor) for non-completion of contract within stipulated time.	Allowed as it is not a fine paid for infraction of law.
Demurrage paid to port authorities for releasing confiscated goods.	Allowed as it is not a fine.

CONTRIBUTION TO POLITICAL PARTIES [SEC 37(2B)]

- Any expenditure on advertisement in any souvenir, brochure, tract, pamphlet published by Political parties is **not deductible**.
- However, it can be claimed as deduction **u/s 80GGB & 80GGC** as **"Donations to PP"**.

Some Important Circulars:

1. **Expenditure incurred on keyman insurance policy:** Premium paid on the Keyman Insurance Policy is allowable as **business expenditure**.
2. **Expenses incurred in providing freebees to medical practitioner:** Such expense is in violation of the provisions of Indian Medical Council Regulations, 2002 & thus not allowed as deduction.
3. **Expenditure incurred on CSR:** Not deemed to be incurred for Business & thus **not deductible**.

SPECIFIC DISALLOWANCES

INTEREST, ROYALTY, FTS or ANY OTHER SUM to NR (on which Tax is Deductible at Source)
[Section 40(a)(i)]

- Payable **out of India** (to any person) or
- Payable in India (to **any NR** or Foreign Company)

Conditions for Disallowance	(i) Tax is not deducted before the end of the PY. OR (ii) Tax is deducted but not paid before due date of filing ROI u/s 139(1).
Consequences	100 % of such amount paid/payable is disallowed in that PY .
Deduction or Payment in Subsequent PY	(i) Where tax has been deducted in any subsequent PY OR (ii) has been deducted during the PY but paid after the Due date; then 100% of such sum shall be allowed as deduction in computing the income of PY in which such tax has been paid (PY of Payment of tax to government).

It is to be noted that to get deduction of any sum paid on which tax is deductible;

- (i) Tax should be deducted before the end of PY (i.e before 31st march of the relevant PY) AND
 - (ii) Such deducted tax should be paid to government before due date of filing ROI u/s 139(1).
- Both conditions should be satisfied together to get deduction in the relevant PY.

IMP CASE → There may exist a situation when tax is deducted after 31st march of relevant PY but such tax is paid to government before due date of filing ROI. In such case, amount paid shall be disallowed in the relevant PY since tax has not been deducted before 31st march. However, it will be allowed as deduction in the next PY. Both the conditions given above goes hand in hand — [Refer case 5 Below]

CQ15. For PY 24-25; Due date of filing ROI u/s 139(1) is 31st October 2025.

Case	Date of TDS	Date of Payment of TDS	Deductible in PY
1	26.07.2024	15.10.2025	
2	31.03.2025	12.12.2025	
3	16.05.2024	Not deposited	
4	20.04.2025	20.07.2025	
5	30.04.2025	10.05.2025	

Payment of Tax by the Payee of such sum [Sec 201]

If assessee fails to deduct the whole or any part of tax on any such sum but is not deemed as assessee in default under the first proviso to section 201(1) by reason that such payee:

- (a) has furnished his return of income u/s 139;
 - (b) has taken into account such sum for computing income in such return of income; &
 - (c) has paid the tax due on the income declared by him in such return of income, and the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed,
- it would be deemed that the assessee has deducted & paid the tax on such sum on the date on which ROI has been furnished by the payee.

PC Note: Since date of furnishing ROI by the payee is taken as the date on which payer has deducted tax at source & paid the same, such expenditure/payment i.r.o which the payer has failed to deduct tax at source shall be disallowed u/s 40(a)(i) in the year in which the said expenditure is incurred. However, such expenditure will be allowed as deduction in the subsequent year in which ROI is furnished by the payee, since tax is deemed to have been deducted & paid by the payer in that year.

PAYMENTS TO RESIDENT (on which Tax is Deductible at Source) [Sec 40(a)(ia)]

Conditions for disallowance	(i) Such tax is not deducted before the end of PY OR (ii) Tax is deducted but not paid before Due Date of ROI u/s 139(1)
Consequences	30% of such amount paid/ payable is disallowed as deduction in that PY.
Deduction or payment in subsequent PY	(i) Where tax has been deducted in any subsequent PY OR (ii) has been deducted during the PY but paid after the said DD, 30% of such sum shall be allowed as deduction in computing the income of the PY in which such tax has been paid .

Payment of Tax by Payee of such sum [Section 201]

- If **Tax** on such income has been **paid by the payee** by showing such sum as his income in his ROI, then it shall be deemed that Assessee has deducted & paid tax & thus **No disallowance** under this section.
- **Deemed Date of TDS & Payment of tax** → Date of filing ROI by the payee.

Since date of filing ROI by resident payee is deemed to be the date on which the payer has deducted & paid tax → 30% of such expenditure/payment shall be disallowed u/s 40(a)(ia) in the year in which the said expenditure is incurred. **However, 30% of such expenditure will be allowed as deduction in the subsequent year in which ROI is furnished by the resident payee.**

CQ16. Tax on royalty paid to Mr. A, a resident, has been deducted during PY 24-25 & it has to be paid by 31st July/31st October 2025, as the case may be. Otherwise, 30% of royalty paid would be disallowed in computing the income for AY 25-26. If i.r.o. such royalty, tax deducted during PY 24-25 has been paid after 31st July/31st October 2025, 30% of such royalty would be allowed as deduction in the year of payment.

SALARY PAID OUTSIDE INDIA/ TO NON-RESIDENT [SEC 40(a)(iii)]

- Payment of Salary on which tax has been **neither deducted** before the end of PY **nor paid** before DD of filing ROI u/s 139(1) will be disallowed.
 - Payable out of India (to any person) or ▪ In India (to any NR)
- **PC Note: It is a permanent disallowance.**

CQ17.

SN	Date of TDS	Date of Payment	PY in which Salary is Deductible
1	31.07.2024	10.11.2024	
2	31.03.2025	30.04.2025	
3	Not Deducted	12.05.2025	
4	31.03.2025	Not Deposited	
5	Not Deducted	Not Deposited	

TAX PAID BY EMPLOYER ON NON-MONETARY PERQUISITES [SECTION 40(a)(v)]

- Tax paid on non-monetary perquisites by the employer → **Not Deductible to Employer**.
- Such tax will be **exempt** in the **hands of employee** – [Sec 10(10CC)].

INCOME TAX

on income of business/profession is not deductible - Section 40(a)(ii)/(iia)

DISALLOWANCE IN CASE OF PARTNERSHIP FIRM/LLP [SECTION 40(b)]**A. REMUNERATION TO PARTNER [Salary/Bonus/Commission/by whatever name]**

Following payments to partners are **disallowed** in the hands of Partnership firm:

1. Remuneration to **Non- Working Partner**.
2. Remuneration to Working Partner if:
 - (a) Not Authorized by Partnership deed.
 - (b) Not in Accordance with T&C of partnership deed.
 - (c) For the **period prior** to the date of agreement.
 - (d) Exceeding the limit given below ↓**

Book Profit	Amount of Remuneration
Book Profit upto Rs. 6 Lacs OR Book Loss	Rs 3 Lacs OR 90% of Book Profit [Higher]
On the balance of Book Profit [Above 6 Lacs]	60% of the Book Profit

B. INTEREST PAID TO PARTNERS

Interest paid to the partners is disallowed to partnership firm in the following cases:

- (a) Not Authorized by the Partnership deed
- (b) For the period prior to the date of the Partnership Deed.
- (c) At a Rate **Exceeding 12% p.a.**

CQ. A firm has paid Rs. 8,50,000 as remuneration to its partners for the PY 24-25, in accordance with its partnership deed, and it has a book profit of Rs. 10 lakhs. What is the remuneration allowable as deduction?

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

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

The excess amount of Rs. 70,000 (i.e., Rs. 8,50,000 – Rs. 7,80,000) would be disallowed as per section 40(b)(v).

CQ18. Rao & Jain, a partnership firm consisting of two partners, reports a net profit of Rs. 17,00,000 before deduction of the following items:

1. Salary of Rs. 40,000 each p.m payable to 2 working partners of firm (as authorized by the deed of partnership).
2. Depreciation on plant & machinery u/s 32 (computed): Rs. 1,50,000.
3. Interest on capital at 15% p.a (as per p'ship deed). Amount of capital eligible for interest is Rs. 5,00,000.

Compute:

- (i) Book-profit of the firm u/s 40(b) of the Income-Tax Act 1961.
- (ii) Allowable working partner salary for AY 25-26 as per section 40(b) **[Nov 2011 + Illustration 12 + CMA Final]**

PC Note: Presently, there is no provision for TDS on payment of salary, remuneration, interest, bonus, or commission to partners by partnership firm. W.e.f. 1.4.2025, section 194T has been introduced by FA (No. 2), 2024 which requires partnership firms to deduct tax at source @ 10% on any sum paid to partners, such as salary, remuneration, commission, bonus or interest. No deduction is required if sum or aggregate of such sum ≤ Rs. 20,000 during FY. **Please note that the TDS provision u/s 194T would be effective from 1.4.2025.**

REMUNERATION PAID BY AOP/BOI TO ITS MEMBER [Section 40(ba)]

- Salary, Bonus, Commission paid by AOP/BOI to its Member → **Not Deductible.**

PAYMENT TO RELATIVES [SECTION 40A(2)]

Applicability: This section is applicable if:

- (a) **Payment** for any Expenditure is made to a **related person** &
- (b) Such payment is considered to be **excessive or unreasonable** by AO.

Disallowance: Expenditure to the extent it is **Excessive or unreasonable** is Disallowed.

Payer	Meaning of Relatives	Payments made to/received by (Payee)
Individual	(i) Relative (spouse, brother or sister or any lineal ascendant/descendant of that individual); (ii) Person in whose business individual or his relative has a substantial interest.	
Company	(i) Director of the company & their relatives (ii) Person in whose business Company, Director or his relative has substantial interest. (iii) Relative of such Director/Partner/Member or any other Company carrying on business or profession in which the first mentioned Company has substantial interest.	
Firm	(i) Partner & their relatives; (ii) Any Person in whose business, firm, partner or their relatives has SI.	
HUF/AOP	(i) Member & their relatives; (ii) Any Person in whose business, HUF/AOP, Member & their relatives has SI.	
Any other Assessee	(i) Individual who has a substantial interest in the Assessee's business/profession, or relatives of such individual, or (ii) Company/Firm/AOP/HUF/having substantial interest in the assessee's business or profession, or any director/partner/Member of such company/Firm/AOP/HUF, or any relative of such director/Partner/Member.	

PAYMENT IN CASH [OTHER THAN A/C PAYEE CHEQUE ETC] [SECTION 40A(3)]**Conditions for Disallowance u/s 40A(3)**

- Assessee incurs any expenditure exceeding Rs. 10,000 which is **deductible** u/h PGBP.
- A Payment or Aggregate of Payments** made to **A Person** in **A Day** for **an Expenditure** > **Rs. 10,000**.
[Rs. 35,000 in case of payment made for Plying, Hiring, Leasing Goods Carriages].
- Above Payment is made otherwise than by A/c payee cheque/draft/Specified Electronic Modes.

Then → NO DEDUCTION shall be allowed for such expenditure.

CQ19. If for an expenditure of Rs. 32,000 incurred by X Ltd, 4 cash payments of Rs. 8,000 each are made on a day to Mr. Y as: (1) Morning at 10 AM; (2) @ 12 Noon; (3) @ 3 PM & (4) @ 6 PM, Entire expenditure of Rs. 32,000 would be disallowed u/s 40A(3), since Aggregate cash payments made during a day to Mr. Y > Rs. 10,000.

PC Note:

- If any expenditure has been allowed as deduction in any earlier PY on accrual basis (if assessee is following accrual basis) & payment for such expenditure has been made in any subsequent PY exceeding Rs. 10,000/35,000 in cash to a person in a day, then such payment shall be deemed to be the income of the PY in which payment is made.
- In following cases, section 40A(3) does not apply:**
 - (a) Repayment of Loans (It is not an expenditure deductible in computing the taxable income). **But it applies to interest payments since interest is a deductible expenditure.**
 - (b) Payment made by commission agents for goods received by them for sale on commission basis (such payment is not a deductible expenditure in computing taxable income of commission agent).
However, where commission agent purchases goods on his own account but not on commission basis, section 40A(3) will apply.

Exceptions: [In the following cases, NO Disallowance even if amount paid > Rs. 10,000]

1	Payment made to Banks (including Private & Co-operative Bank, Credit Societies & LIC.)
2	Payment made to Government when such payment is required to be made in legal tender.
3	Payment through Banking System .
4	Payment by Book Adjustments against any liability incurred.
5	Payments made to the Cultivator, Grower or Producer of agricultural, forest, animal husbandry or dairy or poultry, fish, horticulture, apiculture products.
6	Payment to the producers of goods in cottage industry without the aid of power .
7	Payment made at the place which on the date of payments is not served by bank.
8	Any terminal benefits [Ex: Retirement or gratuity etc.] \leq Rs. 50,000.
9	Payment to Employees on temporary posting for continuous period of 15 days or more if such payment is made after TDS & such employee does not maintain any bank A/c at such place.
10	Payment made on a day on which Banks were closed due to holiday or strike .
11	Payments made by any person to his commission agent who is required to make payment in cash for goods or services on behalf of such person.
12	Payment made by Authorized Dealer or Money changer against purchase of foreign currency or Traveller's cheque in the normal course of his business.

CQ20. Determine the amount of disallowance in following cases:

- Salary of Dec. 2024 is paid to A, B & C by Bearer cheque (Rs. 6,000, Rs. 10,000 & Rs. 12,500, respectively).
- X Ltd. Purchases goods on credit from Y Ltd. on 06.05.2024 for Rs. 76,000 which is paid as follows:
(a) Rs. 5,000 in cash on 11.05.2024 (b) Rs. 30,000 by a bearer cheque on 5.6.2024 & remaining with net banking.
- Z Ltd. Purchases goods on credit from A Ltd. on 10.5.2024 for Rs. 6,000 & on 30.5.2024 for Rs. 5,000. The total amount is paid on 1.7.2024 in cash.
- A Ltd. purchase goods on credit from a relative of a director on 20.6.2024 for Rs. 50,000 (Market value; Rs. 42,000). The amount is paid in cash on 25.6.2024.
- A Ltd purchase raw material on credit from B Ltd. in which A Ltd. holds 20% equity shares, (amount of bill being Rs. 26,000, market price being Rs. 9,000). It is paid in cash on 26.07.2024 [PC Note: Most Beneficial to assessee]

CQ21. Please advise whether sec. 40A(3) will apply to cases given as below

- Advance for purchase of material was paid in cash Rs. 60,000 on 15.6.2024. Material was delivered on 07.08.2024 Balance payment of Rs. 2,00,000 was made by crossed cheque.
- Donations paid in cash Rs. 35,000.
- Cash payment of Rs. 80,000 made to a farmer for purchase of agriculture produce in a village served by bank.
- Purchase of Raw Material of Rs. 40,000 was made on 10.10.2024 from nephew, market price is rated Rs. 30,000.*
- (i) 1.11.2024 Cash - Rs. 5000 (ii) 1.12.2024 bearer cheque - Rs. 10000 (iii) 15.1.2025 Cash - Rs. 25000.
- Cash purchase of land Rs. 10,00,000 held as stock-in-trade by an estate dealer.*
- Cash payment of Rs. 70,000 made by the consignee for the goods received on consignment.
- Cash payment of Rs. 5,00,000 made by an authorized dealer against travelers cheque.

PROVISION FOR UNAPPROVED GRATUITY TO EMPLOYEES [SEC 40A(7)]

- Any **Provision** made for payment of **unapproved gratuity** which is **not yet due** → **Not Deductible**.

Exceptions:

1. Contribution towards **Approved Gratuity Fund**.
2. Provision for Gratuity that has **become due & payable during PY** by virtue of employee's retirement, Death, Termination of service etc.

CQ22. Discuss the amount deductible in the following cases:

- (i) X retires from the services of Y Ltd. on 31 May 2024. The company pays gratuity of Rs. 1,60,000, according to the provisions of payment of gratuity Act, 1972. Y Ltd. does not maintain any provision for gratuity account.
- (ii) Z Ltd. maintains an approved gratuity fund. A sum of Rs. 1,00,000 being employer's contribution towards the gratuity fund, is debited to the P & L A/c ending March 31, 2025.

CONTRIBUTION BY EMPLOYER TO UNRECOGNIZED PF [SEC 40A(9)]

Contribution to Any Fund which is not required by Law (Non-Statutory) is not allowed as deduction.

CQ23. X Ltd. contributes 20% of basic salary to the account of each employee under pension scheme referred in sec. 80CCD. DA = 40% of basic salary & it forms part of pay of the employees. Compute deduction allowable u/s 36(1)(iva) if basic salary is Rs. 10 lacs. Would disallowance u/s 40A(9) be attracted? **[Illustration 13]**

DEEMED PROFIT & THEIR TREATMENT [SECTION 41]**RECOVERY AGAINST ANY DEDUCTION [Sec 41(1)]**

- Deduction of any Loss, Expenditure or Trading Liability was allowed in any earlier PY; &
- During the current PY, the assessee has obtained:
 - Refund of such expenditure OR
 - Some Benefits i.r.o such Trading liability. (Remission/Cessation of such liability; then
- Such refunded expenditure or remitted/ceased liability shall be deemed to be income of the Assessee.
- **Year of Taxability** → **PY in which Amount is Recovered OR Liability is Remitted.**

CQ24. Rs. 1,50,000 is paid as GST by X during PY 20-21 & it is allowed as deduction. Mr. X claims a refund of Rs. 10,000 on 16.06.2025 from GST department after getting a favourable verdict from Delhi HC. Rs. 10,000 is taxable in PY 24-25.

BALANCING CHARGE [Sec 41(2)]

- Balancing Charge on assets on which depreciation is charged on SLM basis.
- Year of Taxability: **Year of transfer/sale.**

SALE OF ASSET USED FOR SCIENTIFIC RESEARCH [Sec 41(3)]

- Year of Taxability: **Year of transfer/sale.**

RECOVERY OF BAD DEBT ALLOWED AS DEDUCTION U/S 36(1)(vii) [Sec 41(4)]

- Year of Taxability: **Year of Recovery.**

ADJUSTMENT OF LOSS [Sec 41(5)]

Generally, loss from business **cannot be c/f after 8 years**. However, loss suffered in the **year of Discontinuance** (only) can be **set off** against any income taxable u/s 41(1), (3), (4), (4A) [Above deemed Incomes].

CQ25. A business (not speculative) is discontinued on 10th Dec 1990. There was unadjusted business loss of Rs. 35,000 (i.e. Rs. 10,000 of PY 1989-90 & Rs. 25,000 pertaining to the period 1st April 1990 – 10 Dec 1990). On 20th May 2024, assessee recovers a debt of Rs. 48,000 from a debtor which was allowed as bad debt in PY 1989-90 (or may be in some other year). Find out taxable notional profit for PY 24-25 u/s 41.

EXPENDITURES DEDUCTIBLE ON PAYMENT BASIS ONLY [SEC 43B]

- **Conditions for Applicability of 43B:** Assessee following **Mercantile Basis** of Accounting **only**.
- **Following Expenses (which are deductible in normal circumstances) are deductible in the relevant PY only if they are paid before due date of filing ROI of such PY u/s 139(1).**
1. Tax, Duty, Cess or Fee (by whatever name called) levied under any law.
 2. Employer's Contribution to any PF/SAF/Gratuity Fund or any recognized welfare fund.
 3. Bonus or Commission to employees [Arrears of salary & other benefits → not covered in 43B].
 4. Sum payable by the employer in lieu of any Leave standing at the credit of his employee.
 5. Interest on any Loan or borrowing from any PFI/SFC/SIIC.
 6. Interest on any Loan or advances from a Scheduled Bank (including co-operative bank).
 7. Interest on any loan or borrowing from a notified class of NBFC.
 8. Sum Payable to Indian Railways for the use of Railways Assets.
 9. Sum payable to a micro or small enterprise beyond time- limit specified in section 15 of MSME Development Act, 2006 would be allowed as deduction only in that previous year in which such sum is actually paid.

Sec 15: Payment of goods or services to a micro or small enterprises supplier by the buyer shall be made on/before the date agreed upon between them in writing which cannot be more than **45 days** from the day of acceptance (or deemed acceptance) of any G/S by a buyer from a supplier. If no such written agreement, payment shall be made before appointed day i.e., within 15 days.

PC Analysis:

- If sum payable by the assessee to a micro or small enterprise is paid as per section 15 (maximum within 45 days) or within 15 days in case of no agreement, **deduction can be claimed on accrual basis if mercantile method of accounting is followed by the assessee.**
- If sum payable to a micro or small enterprise is not paid as per written agreement or within 15 days in case of no agreement, **deduction would be allowed in PY in which it is actually paid.**

CQ26. Mr. A has purchased goods of Rs. 10,000 from A & Co, a micro enterprise on 1.3.2025. As per the written agreement b/w them, payment has to be made by 5.4.2025. Mr. A follows mercantile method of accounting.

(i) If Mr. A paid the sum on 2.4.2025: Since Mr. A paid the sum on/before 5.4.2025, the deduction would be allowed in PY 24-25.

(ii) If Mr. A paid the sum on 20.4.2025: Since Mr. A paid the sum beyond the time limit, the deduction would be allowed in the year of actual payment i.e., PY 25-26.

PC Note: Conversion of unpaid interest into Fresh Loan by Bank /FI → If unpaid Interest is converted into Loan/Advances, it shall not be deemed to be paid & thus **no deduction** shall be allowed.

SN	Meaning of Micro and Small enterprise
1	Micro Enterprise
	Investment in P&M or Equipment ≤ Rs. 1 crore & Turnover ≤ Rs. 5 crore
2	Small Enterprise
	Investment in P&M or Equipment ≤ Rs. 10 crore & Turnover ≤ Rs. 50 crore

CQ27. Hari, an individual, carried on the business of purchase & sale of agricultural commodities like paddy, wheat, etc. He borrowed the following loans & has not paid interest as detailed hereunder:

- Andhra Pradesh State Financial Corporation (PY 23-24 & PY 24-25): Rs. 15 Lacs.
- Indian Bank (PY 24-25): Rs. 30 Lacs.

Both APSFC & Indian Bank, while restructuring the loan facilities of Hari during PY 24-25, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During PY 24-25, Hari paid 5 installments to APSFC & 3 installments to Indian Bank.

Hari claimed entire interest of Rs. 45 Lacs as an expenditure while computing business income of purchase & sale of agricultural commodities. Examine whether his claim is valid & what is the amount of interest allowable.

ADJUSTMENT IN COA OF ASSET DUE TO CHANGE IN FOREX RATE [SECTION 43A]

❖ If any business asset is acquired/Loan is taken in foreign currency & at the time of payment, there is a change in foreign exchange rates (as compared to the rates on the date of loan), such difference **[Increase/decrease in liability] shall be adjusted to –**

- **Actual cost of acquisition of Asset** u/s 43(1)
- Capital expenditure incurred on scientific research u/s 35(1)(iv)
- Capital expenditure incurred by a company for promoting family planning u/s 36(1)(ix)
- Cost of acquisition of a non-depreciable capital asset falling u/s 48.

to the extent of amount paid. [Change in outstanding amount shall be ignored]

▪ **Such Increased/Decreased cost shall be taken into consideration for all purposes of Tax.**

PC Note: Consider Profit/loss only on amount paid during PY & Ignore loss/profit on outstanding amount.

FVC I.R.O TRANSFER OF L&B HELD AS SIT [SEC 43CA] To be Studied with 50C u/h 'Capital Gains'.

Illustration based on Section 43CA

SN	Transfer	ASC	SDV on DoA	SDV on DoR	FVC	Explanation
1	1.09.2024	100 (Rs. 10 lacs received by A/c payee cheque on 1.07.2024)	120 (1.07.2024)	130 (1.09.2024)	120	As part of consideration is received by A/c payee cheque on the date of agreement, FVC = SDV on DoA, since SDV exceeds 110% of consideration i.e., Rs. 110 lacs.
2	1.09.2024	100 (Rs. 10 lacs received by cash on 1.07.2024)	109 (1.07.2024)	130 (1.09.2024)	130	FVC = SDV on DoR & such SDV exceeds 110% of consideration i.e., Rs. 110 lacs. Since part of consideration is received by cash on DoA, SDV on DoA cannot be considered as FVC.
3	31.01.2025	100 (Rs. 10 Lacs received by A/c payee cheque on 1.07.2024)	109 (1.7.2024)	130 (31.01.2025)	100	FVC = ASC, since SDV on DoA < 110% of ASC. SDV on DoA can be taken as part of the consideration has been received by A/c payee cheque on DoA.
4	31.03.2025	100 (Full amount received in cash on DoR)	120 (1.05.2024)	130 (31.03.2025)	130	FVC = SDV on DoR since SDV > 110% of ASC.

COMPULSORY MAINTENANCE OF BOOKS OF ACCOUNTS [SECTION 44AA]

A Specified Professionals		
1	GR > Rs. 1,50,000 in All of last 3 PYs	Books prescribed u/r 6F.
2	GR ≤ 1,50,000 in Any of last 3 PYs	Such books of account & documents which enable AO to compute their taxable income.
Meaning of Specified Profession: Persons carrying on Legal, Medical, Engineering, Architectural, Accountancy, Technical consultancy or Interior Decoration or any other Notified profession. Notified Professions: Authorised representatives, film artists & Company secretaries & Information Technology.		
B Person required to maintain such books of A/cs which will enable AO to compute their income		
1	Individual/HUF carrying Non-Specified Business or Profession	
	Income > Rs. 2,50,000 OR Sales/TO/GR > 25,00,000 in ANY ONE of the last 3 PY.	
2	Person other than Individual/HUF carrying non-specified profession or business	
	Income > Rs. 1,20,000 OR Sales/TO/GR > Rs. 10,00,000 in ANY ONE of the last 3 PY.	
3	Person showing Lower Income than Income computed on Presumptive basis u/s 44AE.	
4	If Section 44AD(4) is applicable to him & his income exceeds BEL in any of those PY:	
	If Any assessee is NOT Eligible to claim benefit of section 44AD(1) for 5 AYs subsequent to the PY in which profit has not been declared as per 44AD(1) & his Income exceeds BEL during the PY.	

CQ29. Mr. X carrying on profession as film artist gives the details of his gross receipts from profession:

(i) PY 21-22: Rs. 1,15,000; (ii) PY 22-23: Rs. 1,80,000; (iii) PY 23-24: Rs. 2,10,000.

Is he required to maintain any books of account u/s. 44AA? If so, what are these books?

[ICAI SM Q18]

PC Note: Penalty for failure to maintain books of account [Section 271A] = Rs. 25,000

SOME OTHER PROVISIONS

[Not IMP - To be Read once]

1	Place at which books are to be kept & maintained: <ul style="list-style-type: none"> Place where the person is carrying on the profession, or where there is more than one place, at the principal place of his profession. However, if he maintains separate set of books for each place of his profession, such books & documents may be kept & maintained at the respective places.
2	Minimum period for maintenance of books of A/Cs: 6 years from the end of the relevant AY.
3	Books of accounts & documents prescribed in Rule 6F: [To be Read once] <ul style="list-style-type: none"> (a) Cash book; Ledgers (b) Journal, if accounts are maintained on mercantile basis; (c) Carbon copies of Bills & Receipts issued (serially numbered) for Amount > Rs. 25; (d) Original Bills & receipts issued to the person i.r.o expenditure incurred by the person; <p>If such bills & receipts are not issued, payment voucher prepared & signed by the person incurring expenditure (provided the amount < Rs. 50).</p> <p>If cash book contains adequate particulars, preparation & signing of payment voucher is not required.</p> <p>Additional requirement in case of person carrying on Medical Profession:</p> <ul style="list-style-type: none"> (a) Daily case registers in Forms 3C. (b) Inventory under broad heads of the stock of drugs, medicines & other consumable accessories as on the First & last day of the PY used for his profession.

COMPULSORY AUDIT OF BOOKS OF ACCOUNTS [SECTION 44AB]

SN	Different Taxpayer	Circumstances when audit is compulsory before specified date
(a)	Person carrying Business	<p>If Sale, Turnover, Gross Receipt for PY > Rs. 1 Crore.</p> <ul style="list-style-type: none"> Requirement of Compulsory Audit u/s 44AB does not apply to a person who declared profit u/s 44AD on presumptive basis u/s 44AD & his Total Sales, Turnover, or Gross Receipts ≤ Rs. 2 Crores. If Turnover for the PY < Rs. 1 crore but such resident assessee claims that his income is LOWER than income computed on Presumptive basis u/s 44AD & his Income > BEL in PY → Audit is compulsory. Limit of Audit increased from Rs. 1 Cr to 10 Crores subject to following conditions: <ul style="list-style-type: none"> Total Cash receipts in RPY ≤ 5% of total receipts (including receipt for sales/TO/GR); & Total Cash payments in RPY ≤ 5% of total payments (including payment for expenses) <p>In case of an eligible assessee carrying on business, whose TO/GR ≤ Rs. 2 crores & who has opted for section 44AD in PY 24-25) or Assessee whose Total Cash Receipts in relevant PY ≤ 5% of Total turnover & Turnover ≤ Rs. 3 Crores & who has opted for section 44AD in PY 24-25 → If he declares profit for any of 5 successive PYs not in accordance with section 44AD (i.e., he declares profits lower than 8% or 6%), then, he cannot opt for section 44AD for 5 successive PYs after the year of such default (i.e., from PY 25-26 to PY 29-30). For the year of default (i.e., PY 24-25) & next 5 PYs (i.e., PY 25-26 to PY 29-30), he has to maintain books of account u/s 44AA and get them audited u/s 44AB, if his income > BEL.</p>
(b)	Professionals	<p>If his Gross Receipts for PY > Rs. 50 Lacs.</p> <p>PC Note: If Gross Receipts for PY < Rs. 50 Lacs OR whose Total Cash receipts in relevant PY < 5% of Total receipts & whole Gross Receipts < Rs. 75 Lacs but such resident assessee claims that his income is LOWER than income computed on Presumptive basis u/s 44ADA & his Income > BEL in PY → Audit is compulsory.</p>
(c)	Person covered u/s 44AE	<p>If such person claims that his income is LOWER than Income computed on Presumptive basis u/s 44AE.</p> <p>PC Note: Such Audit have nothing to do with their turnover.</p>

❖ **Accounts audited under other statutes are considered:** Thus, provision regarding compulsory audit does not imply a second or separate audit of accounts of companies whose accounts are already required to be audited under the Companies Act, 2013. The provision only requires that companies should get their accounts audited under the Companies Act, 2013 before the specified date & in addition to the report required to be given by the auditor under the Companies Act, 2013 furnish a report for tax purposes.

❖ **Penalty (Sec 271B) = Lower of (a) 0.5% of Turnover in PY or (b) Rs. 1,50,000.**

MEANING OF SPECIFIED DATE

'Specified date' in relation to the accounts of PY or years relevant to any AY means **the date one month prior to due date for furnishing ROI u/s 139(1)**.

Ex: Due date for filing ROI in case of assessees (other than companies) who are required to get their accounts audited is 31st October of the RAY. Hence, specified date for tax audit is 30th Sep of the AY.

CQ30. Mr. Ram is having three businesses. State whether he has to get his books of account audited u/s 44AB?

Particulars	Turnover during PY 24-25
Business 1	60 Lacs
Business 2	35 Lacs
Business 3 (44AE)	8 Lacs

PRESUMPTIVE INCOME OF ELIGIBLE BUSINESS [SECTION 44AD]

Eligible Assessee	<ul style="list-style-type: none"> ▪ Resident Individual/HUF/Partnership Firm (not being a LLP) & ▪ Assessee has not claimed deduction u/s 10A/AA/B/BA, 80HH - 80RRB in relevant AY. ▪ Eligible Business: Any business (other than Negative Listed). ▪ Turnover in the PY of such business does not exceed Rs 2 Crores. ▪ Limit = 3 Crores if Total Cash Receipts in the PY ≤ 5% of total turnover.
Negative list	<ul style="list-style-type: none"> ▪ The provisions of Sec. 44AD are NOT applicable to: <ul style="list-style-type: none"> (a) Person carrying on specified profession as referred in Sec. 44AA(1), (b) Person earning income in the nature of Commission or brokerage, or (c) Person carrying on any Agency business. (d) Business of plying, hiring, or leasing goods carriages specified u/s 44AE.
Income	<ul style="list-style-type: none"> ▪ Income = 8% of Turnover. ▪ However, Income = 6% of Turnover/GR for amount received by A/c Payee cheque/draft/netbanking during PY or before DD of Filing ROI u/s 139(1)
Deductions	<ul style="list-style-type: none"> ▪ No Deduction u/s 30 - 38 shall be available.
Maintenance of Books	<ul style="list-style-type: none"> ▪ Not required.
Audit	<ul style="list-style-type: none"> ▪ Not required.
Chapter VI-A Deductions	<ul style="list-style-type: none"> ▪ Deduction u/s 80C to 80U shall be available to the Assessee.
Advance Tax	<ul style="list-style-type: none"> ▪ He is required to pay Advance Tax in 1 installment on/before 15th March.
Depreciation	<ul style="list-style-type: none"> ▪ Depreciation for subsequent PY when he ceases to be eligible assessee for section 44AD: WDV of Assets shall be computed, as if Depreciation had been allowed in earlier PYs.

Q. Can Assessee declares Lower Income? YES

1. He will have to maintain books of accounts. &
2. If the declared income exceeds BEL, he will have to get his books of accounts audited.

CQ31. Mr. Ram is an eligible assessee business u/s 44AD. Particulars are as under:

Gross receipt	Rs. 80,00,000
Expenditure deductible u/s 30 to 37	Rs. 76,60,000
Net Profit	Rs. 3,40,000
Deduction u/s 80C	Rs. 1,00,000

Calculate total taxable income if he opts for sec 44AD. Can the assessee claim lower profits.

SECTION 44AD(4)

In case of an eligible assessee carrying on business, whose TO/GR ≤ Rs. 2 crores & who has opted for section 44AD in PY 24-25) or **Assessee whose Total Cash Receipts in relevant PY ≤ 5% of Total turnover & Turnover ≤ Rs. 3 Crores & who has opted for section 44AD in PY 24-25) →** If he declares profit for any of 5 successive PYs not in accordance with section 44AD (i.e., he declares profits lower than 8% or 6%), then, he cannot opt for section 44AD for 5 successive PYs after the year of such default (i.e., from PY 25-26 to PY 29-30). **For the year of default (i.e., PY 24-25) & next 5 PYs (i.e., PY 25-26 to PY 29-30), he has to maintain books of account u/s 44AA and get them audited u/s 44AB, if his income > BEL.**

CQ32. Let us consider the following particulars relating to a resident individual, Mr. A, being an eligible assessee carrying on retail trade business whose total turnover do not exceed Rs. 2 crores in any of PY relevant to AY 25-26 to AY 27-28.

Particulars	AY 25-26	AY 26-27	AY 27-28
Total Turnover	Rs. 1,80,00,000	Rs. 1,90,00,000	Rs. 2,00,00,000
Amount received through prescribed electronic modes on/before 31 st October of AY	1,60,00,000	1,45,00,000	1,80,00,000
Income offered for taxation	11,20,000	12,30,000	10,00,000
% of gross receipts	6% on Rs. 1.60 crore & 8% on Rs. 20 lacs	6% on Rs. 1.45 crore & 8% on Rs. 45 lakhs	5% on Rs. 2 crore
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 AY 25-26 & AY 26-27 & offers income of Rs. 11.20 lacs and Rs. 12.30 lacs on gross receipts of Rs. 1.80 crore and Rs. 1.90 crore, respectively.
- However, for AY 27-28, he offers income of only Rs. 10 lacs on turnover of Rs. 2 crores, which amounts to 5% of his gross receipts. He maintains books of account u/s 44AA and gets the same audited u/s 44AB. Since he has not offered income in accordance with the provisions of section 44AD(1) for 5 consecutive AYs (after AY 25-26), he will not be eligible to claim benefit of section 44AD for next 5 AYs succeeding AY 27-28 i.e., from AY 28-29 to AY 32-33.

CQ33. Mr. Praveen engaged in retail trade, reports a turnover of Rs. 2,98,50,000 for PY 24-25. Amount received in cash during PY 24-25 is Rs. 14,00,000 and balance through prescribed electronic modes on/before 31 October 2025. His income from the said business as per books of account is Rs. 15,00,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. AY 24-25 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 taxable for AY 25-26?
- 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?
- What is the due date for filing his return of income under both the options?

Ans:

- 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 PY 24-25 is below Rs. 300 lakhs, he is eligible for presumptive taxation scheme u/s 44AD in respect of his retail trade business.
- His income from retail trade, applying the presumptive tax provisions u/s 44AD, would be Rs. 18,19,000 (Rs. 1,12,000, being 8% of Rs. 14,00,000 + Rs. 17,07,000, being 6% of Rs. 2,84,50,000).
- Mr. Praveen had declared profit for PY 23-24 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., AY 25-26 to AY 29-30, 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 PY 24-25 relevant to AY 25-26, then he would not be eligible to claim the benefit of presumptive taxation for AY 26-27 to AY 30-31. Consequently, Mr. Praveen is required to maintain books of accounts & get them audited u/s 44AB, since his income > BEL.
- In case he declares presumptive income u/s 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.

CQ34. AB & Co. a partnership firm engaged in the manufacturing business has a gross receipt of Rs. 59 Lacs. The partnership deed provides for the salary of Rs. 20,000 p.m to each of the partners A & B. Firm uses machinery for business & WDV of the Machinery as on 1.4.2024 is 2 lacs. Machinery is eligible for depreciation @ 15%. Compute the profits from business for AY 25-26, if firm opts for scheme u/s 44AD & has received the following amount by A/c payee cheques: (i) 25 Lacs till 31.03.2025; (ii) 6 Lacs b/w 31.3.2025 & 31.7.2025; (iii) 5 Lacs after 31.07.2025.

PRESUMPTIVE INCOME OF ELIGIBLE PROFESSIONALS [SECTION 44ADA]

Eligible Assessee	<ul style="list-style-type: none"> ▪ Resident Individual/Firm (not being LLP) engaged Legal, Medical, Engineering, Architectural, Accountancy, Technical consultancy or Interior Decoration or any other NOTIFIED profession. Authorised representatives, film artists & company secretaries & Information Technology have been notified for this purpose till date. ▪ Gross Receipt does not exceed 50 Lacs. ▪ Limit = 75 Lacs if Total Cash Receipts in the PY \leq 5% of total turnover.
Income	▪ 50% of Gross Receipt. However, Assessee can declare Higher Income.
No Deduction	▪ No Deduction u/s 30 - 38 shall be available.
Maintenance of Books	▪ Not required.
Audit	▪ Not required.
Deductions	▪ Deduction u/s 80C to 80U shall be available to the Assessee.
Advance Tax	▪ He is required to pay Advance Tax in 1 installment on/before 15th March.
Depreciation	▪ Depreciation for subsequent PY when he ceases to be eligible assessee for section 44AE → WDV of the Assets shall be computed, as if Depreciation had been allowed in earlier year.

Q. Can Assessee declares Lower Income? YES.

1. He will have to maintain books of accounts &
2. If the declared income exceeds BEL, he will have to get his books of accounts Audited.

PRESUMPTIVE INCOME OF TRANSPORT ASSESSEES [SECTION 44AE]

Eligible Assessee	<ul style="list-style-type: none"> ▪ Persons carrying on business of plying, hiring, & leasing goods carriages & not owning more than 10 Goods Carriages at any time during the PY. 	
Income	Heavy Goods Vehicles	Rs. 1,000 per ton of gross vehicle weight or unladen weight for every month or part of it.
	Other than Heavy Vehicles	Rs. 7,500 for every month or part of it. [Note: irrespective of the weight]
only for the period during which vehicle is owned by Assessee in the PY.		
No Deduction	<ul style="list-style-type: none"> ▪ No Deduction u/s 30 - 38 shall be available. ▪ However, Salary & Interest paid by firm to partner → Deductible. 	
Maintenance of Books & Audit	▪ Not required.	
Deductions	▪ Deduction u/s 80C to 80U shall be available to the Assessee.	
Advance Tax	▪ No Concession is available. Normal Advance Tax provisions shall be applicable.	
Depreciation	▪ Depreciation for subsequent PY when he ceases to be eligible assessee for section 44AE → WDV of the Assets shall be computed, as if Depreciation had been allowed in earlier year.	

Q. Can Assessee declares Lower Income? YES.

1. He will have to maintain books of accounts &
2. If income > BEL, he will have to get his books audited.

Meaning of "Heavy Vehicle": Any goods carriage whose gross vehicle weight > 12,000 kgs.

CQ35. Mr. X commenced the business of operating goods vehicles on 1.4.2024. He purchased the following vehicles during the PY 24-25. Compute his income u/s 44AE for AY 25-26. [ICAI Module Q20]

SN	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

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

Computation of Income u/h PGBP

Start	Net profit as per statement of Profit & Loss A/c [Accounting Profit]
Add	Expenses debited to P&L A/c but not allowable as deduction <ul style="list-style-type: none"> ▪ Depreciation as per books of account ▪ Income-tax [disallowed u/s 40(a)(ii)] ▪ 30% of sum payable to residents on which tax is not deducted at source or has not been remitted on or before the due date u/s 139(1), after deduction, disallowed u/s 40(a)(ia). PC Note: The same is allowable in the year in which the tax is deducted and remitted. ▪ Any expenditure incurred i.r.o. which payment is made for goods, services or facilities to a related person, to the extent it is excessive or unreasonable, in the opinion of the A.O, having regard to its FMV [disallowed u/s 40A(2)] ▪ Any expenditure incurred in respect of which payment or aggregate of payments to a person exceeding Rs. 10,000 in a single day is made otherwise than by way of A/c payee cheque/bank draft/ use of ECS through bank A/c or through such other prescribed electronic mode [disallowed u/s 40A(3)] ▪ Certain sums payable by the assessee which have not been paid during relevant PY in which the liability was incurred on/before DD of filing u/s 139(1) i.r.o. that PY. [disallowed u/s 43B] ▪ Sum payable by the assessee to a micro or small enterprise beyond the time limit specified in section 15 of MSME Development Act, 2006 [disallowed u/s 43B] ▪ Personal expenses [not allowable as per section 37] ▪ Capital expenditure [not allowable as per section 37] ▪ Repairs of capital nature [not allowable as per Sections 30 & 31] ▪ 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] ▪ Family planning expenses not allowable in the case of a person other than a company ▪ 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] ▪ All expenses related to income which is not taxable under this head e.g. municipal taxes in respect of residential house property ▪ Any sum paid by the assessee as an employer by way of contribution to pension scheme u/s 80CCD exceeding 10% of the salary of the employee

Less	Expenditure allowable as deduction but not debited to P&L A/c
	<ul style="list-style-type: none"> Depreciation computed as per Rule 5 of Income-tax Rules, 1962
	<ul style="list-style-type: none"> 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)
	<ul style="list-style-type: none"> 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)
Add	Income taxable u/h PGBP or Deemed Income u/s 41 but not credited in P&L A/c or it has been given as additional information.
	<ul style="list-style-type: none"> 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).
	<ul style="list-style-type: none"> Recovery of Bad debt allowed as deduction u/s 36(1)(vii) in an earlier PY [Deemed income u/s 41(4)]
	<ul style="list-style-type: none"> Remission or cessation of a trading liability [Deemed income u/s 41(1)]
Less	Income credited in P&L A/c but not taxable u/h PGBP or Exempt
	<ul style="list-style-type: none"> Dividend income
	<ul style="list-style-type: none"> Agricultural income exempt u/s 10(1)
	<ul style="list-style-type: none"> Interest on securities/savings bank account/FD taxable u/h 'IFOS'.
	<ul style="list-style-type: none"> Profit on sale of capital asset taxable under the head "Capital Gains"
	<ul style="list-style-type: none"> Rent from house property taxable under the head "Income from house property"
	<ul style="list-style-type: none"> Winnings from lotteries, horse races, games etc. taxable u/h 'IFOS'.
	<ul style="list-style-type: none"> Gifts exempt or taxable u/h 'IFOS'.
	<ul style="list-style-type: none"> Income-tax refund not taxable.
	<ul style="list-style-type: none"> Interest on income-tax refund taxable u/h 'IFOS'.

TREATMENT - OVER VALUATION & UNDER VALUATION OF OPENING & CLOSING STOCK

SN	Event	Effect on Profit	Treatment in Tax
1	Over-Valuation of Opening Stock	Understatement (Less Profit)	Add to Profit
2	Under-Valuation of Opening Stock	Over-statement (More Profit)	Less from Profit
3	Over-Valuation of Closing Stock	Over-statement (More Profit)	Less from Profit
4	Under-Valuation of Closing Stock	Understatement (Less Profit)	Add to Profit

SAMPLE TRADING ACCOUNT

Opening Stock	1,00,000	Sales	5,00,000
Purchases	3,00,000	Closing Stock	50,000
Gross Profit	1,50,000		
	5,50,000		5,50,000

MQ1. Mr. Sivam, a retail trader of Cochin gives following Trading & P&L A/c for the year ending on 31st march 2025:

Trading Account & Profit & Loss Account for PY 24-25

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

Additional Information:

- (1) It was found that some stocks were omitted to be included in both Opening & Closing Stock, values of which were:
Opening stock: Rs. 9,000; Closing stock: Rs. 18,000
- (2) Salary includes Rs. 10,000 paid to his brother, which is unreasonable to extent of Rs. 2,000.
- (3) Whole amount of printing & stationery was paid in cash by way of one-time payment to Mr. Ramesh.
- (4) Depreciation provided in the Profit & Loss Account Rs. 1,05,000 was based on the following information:
WDV of P&M is Rs. 4,20,000 as on 01.04.2024. A new plant falling under the same block of depreciation was bought on 01.7.2024 for Rs. 70,000. Two old plants were sold on 1.10.2024 for Rs. 50,000.
- (5) Rent & rates includes GST liability of Rs. 3,400 paid on 7.4.2024.
- (6) Other general expense is Rs. 2,000 paid as donation to a Public Charitable Trust.

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

Ans to MQ1

Computation of business income of Mr. Sivam for AY 25-26

Particulars		Rs.	Rs.
Net Profit as per profit & loss account		50,000	
Add:	Inadmissible expenses/losses		
	Under valuation of closing stock	18,000	
	Salary paid to brother – Unreasonable Disallowed [Section 40A(2)]	2,000	
	Printing & stationery - Whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds Rs. 10,000 [Section 40A(3)]	23,200	
	Depreciation (considered separately)	1,05,000	
	Short term capital loss on shares	8,100	
	Donation to public charitable trust	2,000	
Less:	Under valuation of opening stock	9,000	
	Income from UTI [Chargeable u/h "IFOS"]	2,400	
Less:	Depreciation (See Note 1)		(66,000)
Income u/h PGBP			1,30,900

Computation of business income as per section 44AD: As per section 44AD, where the amount of turnover is received by way of account payee cheque or use of ECS through bank account or prescribed electronic modes, presumptive business income would be 6% of turnover, i.e., Rs. 1,12,11,500 x 6 / 100 = Rs. 6,72,690

1) Calculation of depreciation

Particulars	Rs.
WDV of the block of P&M as on 1.4.2024	4,20,000
Add: Cost of new P&M	70,000
Less: Sale proceeds of assets sold	Rs. 50,000
WDV of the block of P&M as on 31.3.2025	4,40,000
Depreciation @ 15%	Rs. 66,000
No additional depreciation as assessee is not engaged in manufacture or production.	

2) Since GST liability has been paid before due date of filing ROI u/s 139(1), the same is deductible.

MQ2. Mr. Raju, a manufacturer at Chennai, gives following Manufacturing, Trading & P&L A/c for PY 24-25:

Manufacturing, Trading & Profit & Loss Account for PY 24-25			
Particulars	Rs.	Particulars	Rs.
To Opening Stock	Rs. 71,000	By Sales	Rs. 2,32,00,000
To Purchase of Raw Materials	Rs. 2,16,99,000	By Closing stock	Rs. 2,00,000
To Manufacturing Wages & Expenses	Rs. 5,70,000		
To Gross Profit	Rs. 10,60,000		
	Rs. 2,34,00,000		Rs. 2,34,00,000
To Administrative charges	Rs. 3,26,000	By Gross Profit	Rs. 10,60,000
To SGST penalty	Rs. 5,000	By Dividend from domestic co.	Rs. 15,000
To GST paid	Rs. 1,10,000		
To General Expenses	Rs. 54,000	By Income from agriculture (net)	Rs. 1,80,000
To Interest to Bank (Machinery loan)	Rs. 60,000		
To Depreciation	Rs. 2,00,000		
To Net Profit	Rs. 5,00,000		
	Rs. 12,55,000		Rs. 12,55,000

Following are the further information relating to PY 24-25:

- (1) Administrative charges include Rs. 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is Rs. 36,000.
- (2) Assessee paid Rs. 33,000 in cash to a transport carrier on 29.12.2024. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)
- (3) A sum of Rs. 4,000 per month was paid as salary to a staff throughout the year & this has not been recorded in the books of account.
- (4) Bank term loan interest actually paid upto 31.03.2025 was Rs. 20,000 & the balance was paid in November 2025.
- (5) Housing loan principal repaid during the PY was Rs. 50,000 & it relates to residential property acquired by him in PY 2022-23 for self-occupation. Interest on housing loan was Rs. 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit & loss account given above.
- (6) Depreciation allowable under the Act is to be computed on the basis of following information:

P&M (Depreciation rate @ 15%)		
WDV as on 31.03.2024 minus Depreciation for PY 2022-23	[Fasna Mat]	11,90,000
Additions during the year (used for more than 180 days)		2,00,000
Total additions during the year		4,00,000

Compute the total income of Mr. Raju for AY 25-26 assuming he pays tax under default tax regime.

[Note: Ignore application of section 14A for disallowance of expenditures i.r.o. any exempt incomes]

Ans: Computation of total income of Mr. Raju for AY 25-26

	Particulars	Rs.	Rs.
1	Profits & gains of business or profession		
	Net profit as per profit & loss account	5,00,000	
	Add: Excess commission paid to brother disallowed u/s 40A(2)	10,000	
	Add: Disallowance u/s 40A(3) is not attracted since the limit for one-time cash payment is Rs. 35,000 i.r.o. payment to transport operators. Therefore, Rs. 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
	Add: Salary paid to staff not recorded in the books (Assuming that the expenditure is in the nature of unexplained expenditure & hence, is deemed to be income as per section 69C & would be taxable @ 60% u/s 115BBE - No deduction allowable i.r.o. such expenditure) [See Note 1 below]	48,000	
	Add: Bank term loan interest paid after due date of filing ROI u/s 139(1) - disallowed as per section 43B	40,000	
	Add: State GST penalty paid disallowed [See Note 2 below]	5,000	
	Add: Depreciation debited to profit & loss account	2,00,000	
	Less: Dividend from domestic companies [taxable u/h 'IFOS']	(15,000)	
	Less: Income from agriculture [Exempt u/s 10(1)]	(1,80,000)	
	Less: Depreciation under the Income-tax Act, 1961 (As per working note)	(2,23,500)	3,84,500
2	Income from house property		
	Annual value of self-occupied property	Nil	
	Less: Deduction u/s 24(b) Interest on housing loan [not allowed in default (new) tax regime]	Nil	Nil
3	Income from Other Sources		
	Dividend from domestic companies	15,000	15,000
4	Gross Total Income		3,99,500
	Less: Deduction u/s 80C i.r.o. Principal repayment of housing loan [not allowed in default (new) tax regime]		Nil
5	Total Income		3,99,500

Working Note: Computation of depreciation under the Income-tax Act, 1961

@ 15% on Rs. 14 Lacs (Opening WDV: Rs. 12 Lacs + Assets purchased during PY: Rs. 2 Lacs)	Rs. 2,08,500
@ 7.5% on Rs. 2 Lacs (Assets used for less than 180 days)	Rs. 15,000
Total Depreciation	Rs. 2,23,500

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

Notes (Alternate views):

- (1) It is also possible to take a view that the salary not recorded in the books of account was an erroneous omission & that assessee has offered satisfactory explanation. In such case, it should not be added back as unexplained expenditure, but would be allowable as deduction while computing income u/h 'PGBP'.
- (2) Where imposition of penalty is not for delay in payment of sales tax/VAT/GST but for contravention of provisions of the Sales Tax Act/VAT/GST Law, the levy is not compensatory & therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable & that portion which is penal is to be disallowed.

Since the question only mentions "GST penalty paid" & the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory & therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature & hence, allowable as deduction.

CAPITAL GAINS



BASIS OF CHARGE [SECTION 45]

1. There should be a **Capital Asset**;
2. It should be **transferred** by the assessee;
3. Such transfer should take place **during the PY**;
4. Any **Profit/Gains** should **arise** from such transfer;
5. Such Capital Gain should **not** be exempted u/s 54 series.

If all of the above conditions are satisfied, Capital Gain shall arise & shall be deemed to be the income of **PY of transfer** & taxed accordingly.

DEFINITION OF CAPITAL ASSET [SECTION 2(14)]

Capital Asset: **Any Property** (movable/immovable), connected with assessee's business/profession or not.

However, following are not capital assets

- 1 **SIT/RM/Consumables stores** held for business/profession.
- 2 **Movable Personal effects** (including apparel & furniture) held for his/family member's personal use

but excludes

- jewellery,
- archaeological collections;
- drawings & paintings;
- sculptures or
- any other work of Art.

PC Note:

- ⇒ To constitute Personal Effect, Asset should be used by the assessee. Daily use is not necessary.
- ⇒ Jewellery is a capital asset & profits arising from the transfer of jewellery held for personal use are taxable u/h "capital gains".
- ⇒ If Precious stones or metals are sewn/worked/set into wearing apparel or furniture, it is classified into the category of jewellery & thus it is a Capital Asset.

Ex: Throne made of Gold/Platinum/Diamonds; Shirt with diamond buttons sewn into it.

- 3 **Rural Agricultural Land in INDIA** [Urban Agricultural land → Capital Asset]

❖ **Rural Land** means land outside the following Specified limits:

Population	Distance from Municipality/Cantonment Board
≤ 10,000	0 Kms
> 10,000 & ≤ 1,00,000	2 Kms
> 1,00,000 & ≤ 10,00,000	6 Kms
Above 10,00,000	8 Kms

❖ **Agricultural Land:** Land must be used for agricultural purposes for 2 yrs prior to transfer.

PC Note: Capital Gain on Urban Agricultural Land → **Not** treated as **Agricultural Income** & thus it is **not exempt** u/s 10(1). Capital Gains arising from such transfer would be taxable u/s 45.

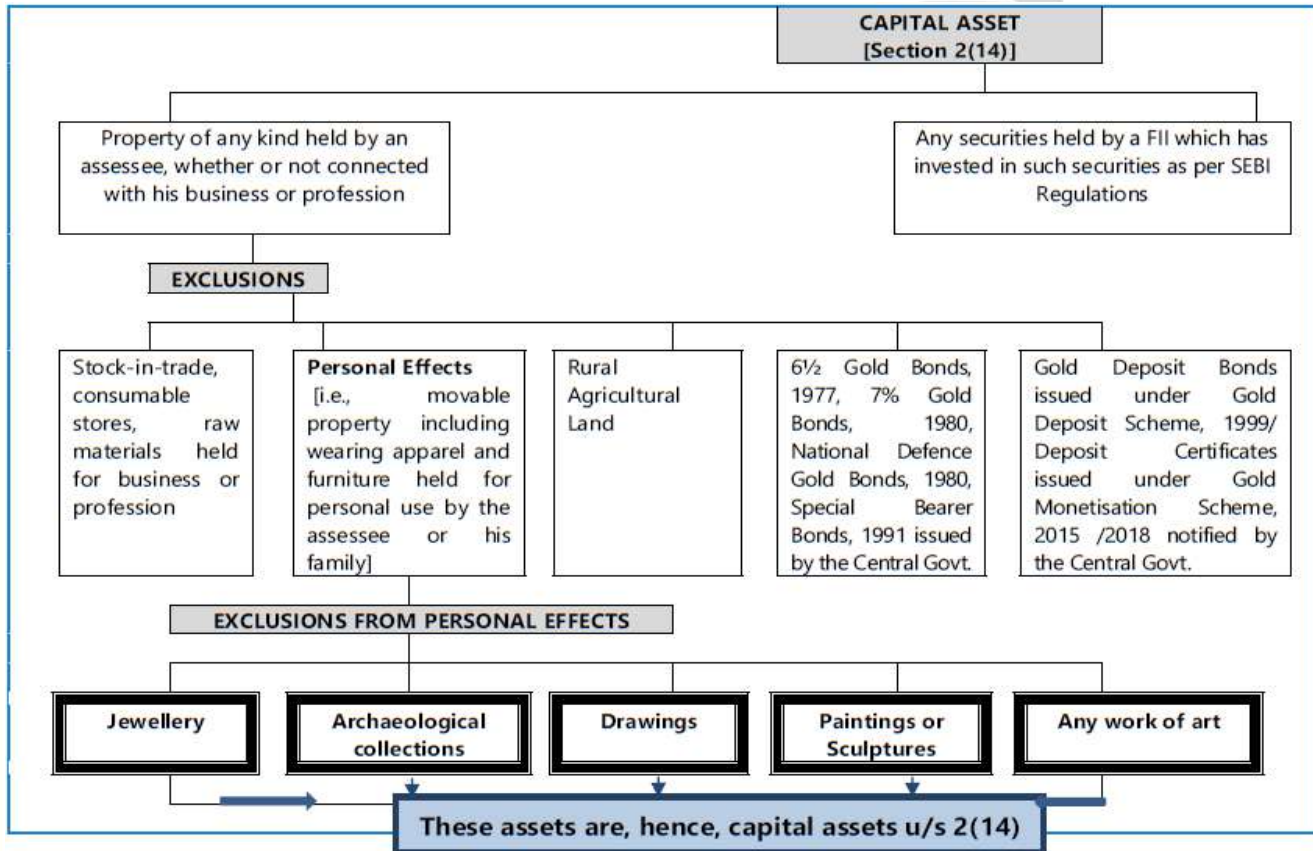
- 4 **Gold Deposit bonds/Certificates** issued under Gold Monetisation Scheme, 2015.

CAPITAL ASSETS ALSO INCLUDES:

- ⇒ Any Securities held by **FIIs** (invested as per SEBI regulations) **[Always CA → Even if held as SIT]**
- ⇒ Any ULIP issued on/after 01.02.2022, to which exemption u/s 10(10D) does not apply since premium payable exceed Rs. 2,50,000 for any of the PYs during the term of such policy.

If premium is payable by a person for more than 1 ULIP issued on/after 1.2.2022 & aggregate premium payable > Rs. 2,50,000 in any of the PYs during the term of any such ULIP(s), exemption u/s 10(10D) would be available i.r.o. those ULIPs (at the option of assessee) whose aggregate premium payable does not exceed Rs. 2,50,000 for any of the PYs during their term.

[Note: **All other ULIPs are capital assets**]



CQ1. Determine which of the lands will be Capital Assets:

Land	Population	Shortest aerial Distance	Rural Land?	CA?
A	9,000	1 km		
B	12,000	1.5 kms		
C	11,00,000	2 kms		
D	80,000	3 kms		
E	3,00,000	4 kms		
F	10,50,000	9 kms		
G	8,000	6 kms		
H	4,00,000	7 kms		

CQ2. Discuss the Tax treatment in the following cases: [CA - Capital Asset & SIT - Stock in Trade]

Cases	Capital Asset or not ?
Sale of Flats by Mr. Pranav Chandak held as an investment	
Sale of Flats by a construction company	
Sale of Securities in Indian Company held by FIIs as investment	
Sale of Securities in Indian Company held by FIIs as SIT	
Sale of Personal Jewels (Diamond)	
Sale of Painting by Miss Jacqueline	
House property used for personal purpose	
Agricultural Land situated in Rural Area	
Agricultural Land situated in Rural Area used for non-agricultural purpose permanently	

DEFINITION OF TRANSFER OF CAPITAL ASSET [SECTION 2(47)]

- Sale, exchange or relinquishment of the asset.
- Extinguishment of any rights in the asset.
- Compulsory Acquisition of any Capital Asset under any law.
- Conversion of Capital Asset into Stock in trade.
- Maturity/Redemption of ZCB.
- Giving possession of IMMOVABLE PROPERTY under Part performance of a contract.
Under Income Tax Act, the above transaction is considered as transfer by applying 'substance over form'.
- Transactions which have the effect of transferring the enjoyment of Immovable property.
Ex: A person may become a member of a co-operative society which may be a house/flat. When he pays an agreed amount, the society etc. hands over possession of the house to the person concerned. No conveyance is registered. Such transaction is a transfer under Income Tax Act.
PC Note: Even power of attorney transactions are regarded as transfer.

DATE OF COMPLETION OF TRANSFER

- Movable Property**
 - Date** on which **property is delivered** after the contract of sell.
 - Entries** in Books of A/c → **Irrelevant** for determining date of transfer.
- Immovable property**
 - (i) Documents are registered** → Date on which **deed** is executed or **registered**.
 - (ii) Documents are not registered** → If the following conditions are satisfied:
 - There should be a **contract in writing**;
 - Transferee** has **paid consideration**/is willing to perform his part of the contract;
 - Transferee should have **taken the possession** of the property.

TYPES OF CAPITAL ASSET [Section 2(42A)]

1. **STCA:** If **period of holding** (POH) of Asset ≤ 36 months immediately before the date of transfer.
2. **LTCA:** If **period of holding** (POH) of Asset > 36 months immediately before the date of transfer.

PC Note: w.e.f. 23.7.2024, a capital asset will be a STCA if it is held by an assessee for ≤ 24 months immediately preceding the date of its transfer.

1 IN CASE TRANSFER TAKES PLACE BEFORE 23.7.2024			
Nature of Capital Asset		POH for STCG	POH for LTCG
<ul style="list-style-type: none"> Listed Security (other than unit) Unit of equity-oriented fund/unit of UTI Zero Coupon bond 		≤ 12 months	> 12 months
<ul style="list-style-type: none"> Unlisted shares Land or building or both 		≤ 24 months	> 24 months
<ul style="list-style-type: none"> Unlisted securities (other than shares) Other capital assets 		≤ 36 months	> 36 months
2 IN CASE TRANSFER TAKES PLACE ON OR AFTER 23.7.2024			
Nature of Capital Asset		POH for STCG	POH for LTCG
<ul style="list-style-type: none"> Listed Security (other than unit) Unit of equity-oriented fund/unit of UTI Zero Coupon bond 		≤ 12 months	> 12 months
<ul style="list-style-type: none"> Other capital assets 		≤ 24 months	> 24 months

PC Note: CG on transfer of following assets \rightarrow Always STCG [Section 50AA]

- units of a specified mutual fund acquired on/after 1.4.2023,
- market linked debentures,
- unlisted bond and unlisted debenture which is transferred or redeemed or matures on/after 23.7.2024.**

Ex: State the period required for the Capital Asset to become LTCA.

Nature of Asset	LTCA in ?	
Units of Equity-oriented mutual fund	12 Months	
Units of Debt-oriented mutual fund	36 Months	
Units of UTI & Zero-coupon bonds	12 Months	
Listed Debentures/Bonds/Govt. securities	12 Months	
Unlisted Debentures/Bonds/Govt. securities	36 Months	
Listed shares in a company	12 Months	
Unlisted shares in a company	24 Months	
Land or building	24 Months	
Other Assets	36 Months	

HOW TO COMPUTE CAPITAL GAINS (Section 48)

Full Value of Consideration	(Sec 50C may be applicable for L&B)		Xxx
Less: Expenses of Transfer		(xxx)	
Less: Cost of Acquisition (Indexation available if Capital Asset is LTCA)		(xxx)	
Less: Cost of Improvement (Indexation available if Capital Asset is LTCA)		(xxx)	(xxx)
SHORT/LONG TERM CAPITAL GAIN			XXX

PC Note: STT levied on purchase/sale of Equity shares & units of EOMF → **Not deductible u/h Capital Gains.**

FULL VALUE OF CONSIDERATION (FVC) [SECTION 48]

- **Meaning:** Consideration received/receivable by the transferor for the transferred capital asset.
- It may be in **cash/ kind**. [If consideration is received in kind, then FMV = Full value of consideration].
- **Adequacy of Consideration & Receipt of Consideration** → **IRRELEVANT** for determining FVC.

EXPENSES OF TRANSFER → Deductible from FVC

Expenditure incurred wholly & exclusively in connection with transfer of capital asset. **Ex:** Brokerage, stamp duty, registration fees, legal expenses, commission paid, cost of stamp, litigation expenditure etc.

PC Note: STT paid on purchase/sale of Equity shares & units of EOMF → **Not deductible u/h CG.**

COST OF ACQUISITION

- The value for which the asset was acquired by the assessee.
- **Only capital expenditures** for completing/acquiring title to the property are **includible in COA**.
- **Any Revenue expenditure incurred** → **will not form part of COA**.
- **Amount paid for discharge of mortgage is part of 'COA'** if mortgage was not created by transferor.

However, COA or COI would not include the deductions claimed on interest u/s 24(b) or under the provisions of Chapter VI-A.

Interest allowed as deduction u/s 24(b) while computing income from house property & interest allowed as deduction u/s 80EE or 80EEA of Chapter VI-A would not be included in COA or COI while computing capital gains on transfer of house property.

Space for PC Analysis:

INDEXATION

- Sale consideration is the price at which the asset is sold in the PY. However, asset may be purchased in some earlier year. Money spent years before & sale consideration received in PY cannot be compared.
- Thus, deducting the cost of acquisition that has been incurred many years earlier from the sale consideration that has been received in this PY is unfair for the assessee.
- Thus, Indexation is given for the Long-term capital assets.
- **Thus, Indexation of COA means bringing into line COA with that of Sale Consideration.**

Meaning of Indexed COA:

- As per Section 48, COA will be increased by applying the cost inflation Index (CII).
- Once the Cost Inflation Index is applied to COA, it becomes **Indexed COA**.

Steps to Calculate Indexed COA:

1. Find out the type of asset on the basis of POH (whether the asset is STCA/LTCA)
2. Apply Indexation to Cost of Acquisition only if asset is Long Term Capital Asset.

INDEXED COST OF ACQUISITION

$\frac{\text{Cost of acquisition}}{\text{CII of the year in which asset was first held by Assessee **}} \times \text{CII of year of Transfer of Asset}$ <p>OR CII of 2001 – 2002 (whichever is Later)</p>	
** PC Note: CII of year of acquisition of asset by Previous owner [For Transfer u/s 49(1).	

COST INFLATION INDEX

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

NO INDEXATION IS AVAILABLE IN FOLLOWING CASES [EVEN IF ASSETS ARE LTCA]

- 1 Zero Coupon Bonds
- 2 **Debentures/ Bonds** [Except Capital Indexed Bonds issued by GOI/ Sovereign Gold Bonds issues by RBI]
- 3 Slump Sale [Section 50B]
- 4 Depreciable Assets → Always STCG
- 5 Share/Debentures acquired by NR in foreign currency in Indian company. (1st Proviso to sec 48)
- 6 **Long term capital assets specified u/s 112A**
 - ⇒ Equity share in a company on which STT is paid both at the time of acquisition and transfer
 - ⇒ Unit of equity oriented fund or unit of business trust on which STT is paid at the time of transfer
- 7 **Market linked debentures or unit of specified MF acquired on/after 1.4.2023 or unlisted bond & unlisted debenture which is transferred or redeemed or matures on/after 23.7.2024** → Always STCG

Amendment made by Finance (No. 2) Act, 2024:

- ⇒ No indexation is allowed on LTCG on transfer of any capital assets taking place on/after 23.07.2024.
- ⇒ Indexation would be available for capital assets transferred before 23.7.2024.

Resident individual/HUF, while computing tax on LTCG on transfer of L&B/both has the option to take the benefit of indexation u/s 112 i.r.o. LTCG arising on transfer of L&B/both which is acquired before 23.7.2024 and transferred on or after 23.7.2024. Accordingly, LTCG on transfer of such land or building or both are subject to lower of tax @12.5% (on LTCG computed without indexation benefit) or @20% (on LTCG computed with indexation benefit).

It may be noted that this benefit to a resident individual or HUF is to be given only while computing tax on LTCG u/s 112 on transfer of land or building or both and not while computing Income u/h "Capital Gains" which would form part of gross total income/total income. Thus, for computing income u/h "Capital Gains" to be included in gross total income, indexation benefit is not to be given even in case of resident individual/HUF transferring land or building or both on or after 23.7.2024 which was acquired before 23.7.2024.

COST OF IMPROVEMENT

- Capital expenditure incurred in making any additions/improvements/protect capital asset.
- Routine expenditure on repairs or maintenance will NOT be included in Cost of improvement.

PC Note:

1. In case of **Goodwill of Business/any other Intangible asset** → **COI = Nil**.
2. **COI** → Considered **only** if incurred **on/after** 1.4.2001.
3. **COI** incurred by **Previous Owner** → **Considered** if incurred on/after 1.4.2001.

INDEXED COST OF IMPROVEMENT

$$= \frac{\text{Cost of Improvement}}{\text{CII of the year of Improvement}} \times \text{CII of year of transfer of Asset}$$

Q. How to decide whether to take Indexation of Cost of Improvement or not?

- ❖ It should be decided from the nature of the asset.
- ❖ If Asset is LTCA → Take Indexed COI &
- ❖ If Asset is STCA → Take COI (**without Indexation**).

PC Note: Year in which Improvement is done in the Asset → **Not Relevant**.

OPTION TO TAKE FMV ON 1.4.2001 AS COST OF ACQUISITION

- If Capital Asset is acquired before 1.4.2001 → Assessee have the **option** to take FMV of the Asset on 1.4.2001 as COA of the Asset. **[Option is exercised when FMV on 1.4.2001 > Original COA of asset]**
- This option is **not** available in case of Depreciable Assets; Goodwill of Business/other intangible assets.
- **However, in case of capital asset, being Land or building or both, FMV of such asset on 1.04.2001 shall not exceed SDV of such asset as on 1.04.2001.**

PC Class Note:

CQ3. During PY 24-25, Mr. Ramesh sells the following capital assets:

Capital Assets	Sold for	COA	Date of Acquisition	FMV on 1.04.2001	SDV on 1.04.2001
Land	50,00,000	10,00,000	31.05.1999	14,00,000	12,00,000
Gold	15,00,000	5,00,000	1.04.2010	NA	NA
Debenture (Listed)	3,50,000	90,000	12.09.1999	80,000	NA

Compute the taxable Capital Gains for AY 25-26.

CQ4. Mr. PC purchases a house property for Rs. 1,06,000 on 15th May 1995. The following expenses are incurred by him for making addition/alternation to the house property:

Cost of construction of first floor in 1997-98	Rs. 3,10,000
Cost of construction of second floor in 2002-03	Rs. 7,35,000
Reconstruction of the property in PY 22-23	Rs. 5,50,000

FMV of the property on 1.4.2001 is Rs. 8,50,000. House property is sold by Mr. PC on 10th August 2023 for Rs. 68 lacs. Expenses incurred on transfer: Rs. 50,000. Compute the Capital Gain for AY 25-26.

FVC IN CASE OF TRANSFER OF LAND & BUILDING HELD AS CAPITAL ASSET [SEC 50C]

	Circumstances	Full value of consideration
A	If Actual Sale Consideration > Stamp Duty value	Actual Sale Consideration
B	If Actual Sale Consideration < Stamp Duty value	Stamp Duty value

PC Note: If $SDV \leq 110\%$ of Actual sale consideration \rightarrow **FVC = Actual Sale Consideration.**

Space for Class Example:

SDV WHEN DATE OF AGREEMENT (DoA) & DATE OF REGISTRATION (DoR) ARE NOT SAME

- (a) If Payment (Full/Part) has been received by A/c payee cheque/draft/Netbanking on/before DoA \rightarrow **FVC = SDV on Date of Agreement.**
- (b) If NO Payment is received by A/c payee cheque/draft/Netbanking on/before DoA \rightarrow **FVC = SDV on Date of Registration.**

PC Example:

Transfer	SC	SDV on DOA	SDV on DOR	FVC
1.5.2019	100 Lac (10 Lac received by cheque on 1.9.2018)	120 (1.9.2018)	210 (1.5.2019)	120
1.5.2019	100 Lac (10 Lacs received by cash on 1.9.2018)	120 (1.9.2018)	210 (1.5.2019)	210
31.3.2020	100 Lac (Full amount received on DOR)	120 (1.5.2018)	210 (31.3.2020)	210

Example: For transfer of building, ASC = 100 Lacs, SDV on DOA = Rs. 109 lacs; SDV on DOR = Rs. 112 lacs;

- (i) **If any part of the consideration is paid by prescribed electronic mode on/before DOA**
FVC = ASC of Rs. 100 lacs since SDV of Rs. 109 lacs on date of agreement < 110% of ASC of Rs. 100 lacs.
- (ii) **If no part of the consideration is paid by prescribed electronic mode on/before DOA**
FVC = SDV of Rs. 112 lacs on date of transfer since it is > 110% of actual consideration of Rs. 100 lacs.

VALUATION BY VALUATION OFFICER

[PC @ बिच का बन्दर]

Circumstances	Full value of consideration
A. Value by VO > SDV	Stamp Duty Value
B. Value by VO > Actual Sale Consideration but < SDV	Value by Valuation officer

Example:

SN	Actual SC	SDV	Value by VO	Full Value of Consideration
1	50	45	-	50
2	50	75	-	75
3	50	75	85	75
4	50	75	55	55
5	50	75	45	50

CQ5. Miss Disha transferred a house to her friend Ms. Teju for Rs. 40 lacs on 01.11.2024. The sub-registrar valued the house @ Rs. 50 Lacs. Miss Disha contested the valuation & matter was referred to divisional revenue officer who valued the house @ Rs. 45 lacs. Ms. Disha had purchased the house on 15th May, 2012 for Rs. 20 lacs & registration expenses were Rs. 2,00,000. Compute capital gains for AY 25-26.

FVC ON TRANSFER OF UNLISTED/UNQUOTED SHARES [SECTION 50CA]

☞ If Sale consideration < FMV of such share, **FMV** shall be deemed to be full value of consideration.

FMV → Deemed to be Full Value of Consideration [Section 50D]

☞ If **Consideration is not determinable** → FVC = FMV of the capital asset on the date of transfer.

TAX TREATMENT OF ADVANCE MONEY FORFEITED [SECTION 51]

1	Advance Money Forfeited Before 1.4.2014	Reduce from Original COA.
2	Advance Money Forfeited on/After 1.4.2014	Taxable u/h IFOS u/s 56(2)(ix).

PC Note:

- ❖ Forfeited Advance shall be **reduced** from **original** COA before **Indexation** & **NOT after Indexation**.
- ❖ **Date of Forfeiture of Advance** should be **considered** & NOT the date of Receipt of Advance.
- ❖ Amount Received & Forfeited by **Previous owner** → **Not to be considered**.

Ex	Date of Receipt of Advance	Date of Adv. Forfeited	Taxable	Treatment
1	15.06.2012	10.08.2013	AY 14-15	Reduce from COA of asset
2	20.05.2014	30.09.2014	AY 15-16	IFOS

CQ6. A house was purchased on 1.05.2002 for Rs. 2 Lacs & was used as a residence by Mr. Lalla. Mr. Lalla had contracted to sell this property in June 2012 for Rs. 8 lacs to Miss. Shona & received an advance of Rs. 50,000 towards sale. The deal was not finalized & hence the amount was forfeited by Mr. Lalla on 15.08.2013. He again contracted to sell this property & received an advance on 24.02.2016. However, this deal was also not finalized & hence the amount was forfeited on 30.04.2016. The property was sold in June 2024 to Miss. Jina for Rs. 10 Lacs. Mr. Lalla paid 2% brokerage on sale of the house. Calculate capital gains for AY 25-26.

CAPITAL GAINS IN CASE OF DEEMED SALE

DESTRUCTION OF CAPITAL ASSET [SPECIAL CHARGING SECTION [SEC 45(1A)]]

Circumstances for Destruction	(i) Natural activities/causes; (iii) Accidental fire/explosion;	(ii) Riot/civil disturbances. (iv) Action of Enemy (war/without war)
Sale Consideration	Insurance Compensation (Money + FMV of replaced Asset).	
Year of Taxability	Capital Gain is taxable in PY of Receipt of Insurance Money.	
Period of Holding	From Date of Acquisition till the Date of Destruction.	
Indexation	Indexation is available till PY of destruction & not till receipt of Compensation.	

CQ7. Mr. Raj owns a House purchased by him on 1.5.1999 for Rs. 5 lacs. House was destroyed by fire on 3.04.2021 & Mr. Raj received Rs. 50 lacs on 5.05.2023 from the Insurance Company. FMV of house on 1.4.2001 = Rs. 12 lacs. SDV on 3.4.2021 = Rs. 60 lacs & SDV on 1.04.2001 = Rs. 15 Lacs. Calculate Capital Gain of Mr. Raj for AY 25-26.

CAPITAL GAIN ON CONVERSION OF CAPITAL ASSET INTO SIT [SECTION 45(2)]

Sale Consideration	FMV of the asset on the date of conversion.
Year of Taxability	Year in which SIT is sold/ transferred & not in year of conversion into SIT.
Period of Holding	From Date of Acquisition till the Date of conversion into SIT.
Indexation	Only till the PY in which conversion took place.

Q2. A is the owner of a car. On 1.4.2024, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31.3.2025 and gets a profit of Rs. 1 lakh. Discuss the tax implication in his hands under the head "Capital gains".

Answer: 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.

Q3. X converts his capital asset (acquired on June 10, 2006 for Rs. 60,000) into stock-in-trade on March 10, 2024. Fair market value on the date of the above conversion was Rs. 5,50,000. He subsequently sells the stock-in-trade so converted for Rs. 6,00,000 on June 10, 2024. Discuss the year of chargeability of capital gain & business income.

Answer: Since the capital asset is converted into stock-in-trade during the PY 23-24 relevant to the AY 24-25, it will be a transfer u/s 2(47) during the PY 23-24. However, the profits or gains arising from the above conversion will be chargeable to tax during the AY 25-26, since the stock-in-trade has been sold only on June 10, 2024. For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2024) will be the full value of consideration for computation of capital gains. The capital gains would be computed by reducing the indexed cost of acquisition therefrom, since the transfer (i.e., conversion of capital asset into stock in trade) took place during the PY 23-24. The business income of Rs. 50,000 (i.e., Rs. 6,00,000 (-) Rs. 5,50,000, being the fair market value on the date of conversion) would also be taxable in the AY 25-26. Thus, both capital gains and business income would be chargeable to tax in the AY 25-26.

CQ8. X purchased gold ornaments of Rs. 1 Lac on 4.01.2009 for investment. On 12.01.2015, he started a business of dealing in Jewellery & converts the gold into SIT. FMV of the gold ornaments on date of conversion was Rs. 5 Lacs. These gold ornaments were sold in PY 24-25 for Rs. 6 Lacs. (a) Compute Capital Gain & Business Income.

(b) What would be the answer if the gold ornaments are held by the assessee till 31.3.2024?

Q8. Mr. A converts his capital asset acquired for an amount of Rs. 50,000 in June, 2004 into stock-in-trade in the month of November, 2023. The fair market value of the asset on the date of conversion is Rs. 4,50,000. The stock-in-trade was sold for an amount of Rs. 6,50,000 in the month of September, 2024. What will be the tax treatment?

Cost Inflation Index: FY 2004-05 = 113; 2023-24 = 348; 2024-25 = 363.

Answer: The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. PY 23-24) but will be taxable only in the year in which the stock-in-trade is sold (i.e. PY 24-25). Profits from business will also be taxable in the year of sale of the stock-in-trade (PY 24-25).

The LTCG and business income for the AY 25-26 are calculated as under:

Particulars	Rs.	Rs.
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	
Less: Cost of the stock-in-trade (FMV on the date of conversion)	(4,50,000)	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Indexed cost of acquisition (Rs. 50,000 x 348/113)	1,53,982	2,96,018

COMPULSORY ACQUISITION OF CAPITAL ASSET [SECTION 45(5)]

A INITIAL COMPENSATION	
SC	Amount of Initial Compensation
Taxed in	PY of Receipt of Initial Compensation (either Whole/Part). If compensation is received in Instalments, <u>ENTIRE Capital gain</u> on <u>Total Compensation</u> is taxable in PY of receipt of 1 st Instalment.
POH	<u>From:</u> Date of Acquisition of asset. <u>Till:</u> Date of Compulsory Acquisition.
Indexation	<u>Upto the year of Compulsory Acquisition</u> of the Asset & <u>NOT till</u> the year of payment.
B ENHANCED COMPENSATION	
SC	Amount of Enhanced Compensation.
Taxed in	<u>Enhanced compensation is taxable in PY of Receipt.</u> ➤ Enhanced Compensation is received in Instalments → only Proportionate Capital Gain to the amount of Instalment received during PY, shall be taxable in that PY. PC Note: Enhanced compensation received under interim order will be taxable in the PY in which final order of court is passed.
COA/COI	<u>Nil.</u> However, <u>Litigation expenses</u> are allowed as deduction.
C REDUCTION OF ENHANCED COMPENSATION	
<ul style="list-style-type: none"> Where capital gain has been charged on compensation received by the assessee & subsequently such compensation is reduced by any court or tribunal; Assessed <u>capital gain of that year shall be recomputed</u> by taking into consideration reduced amount. 	
⇒ Given provisions are applicable when asset has been compulsorily acquired by government. These rules are also applicable when consideration is approved by RBI/CG (<u>Even if no compulsory acquisition</u>)	
⇒ <u>Enhanced Compensation is taxable in the hands of recipient</u> → If assessee is dead on date of receipt of enhanced compensation, such compensation received by his legal heir shall be taxable in their hands.	

CQ9. Mr. X acquired a house for Rs. 20,000 in 1997-98. On his death in October 2006, house was acquired by his son Mr. Y. Fair Market Value of the house on 1.4.2001 was Rs. 80,000. This house was acquired by the Government on 15.3.2010 for Rs. 3 Lacs & a compensation of Rs. 2,20,000 is paid to him on 25.03.2024 & balance Rs. 80,000 on 15.04.2024. Mr. Y filed a suit against Government challenging the quantum of compensation & court ordered additional compensation of Rs. 1 Lacs. He incurred an expenditure of Rs. 2,000. 50% of the enhanced compensation is received on 14.02.2025 & other 50% is received in PY 25-26. Compute capital gains in the hands of Mr. X.

CAPITAL GAINS IN CASE OF SPECIFIED AGREEMENT [SECTION 45(5A)]

Applicability	Individual & HUF
Transaction	Capital Gain on Transfer of Land & Building or Both under Specified Agreement.
Year of Taxability	CG arising from such transfer shall be taxable as income of PY in which Completion <u>Certificate for the whole/part of the project is issued by the competent authority.</u>
Sale Consideration	Stamp Duty Value of his share (being land or building or both) in the project on the date of issue of certificate of completion + Consideration received in cash.
Meaning of Specified Agreement	<ul style="list-style-type: none"> Registered agreement in which a person owning land/building or both agrees to allow another person to develop a real estate project on such land/building; in consideration of a share (being land/building or both) in such project with or without payment of part of the consideration in cash.

Consequences of Transfer before Date of Issue of Completion Certificate

- Benefit u/s 45(5A) is **not available** if assessee transfers his share in the project on/before issue of completion certificate to any person. In such case, CG shall arise in the year of such transfer.
- In such case, **section 45(5A) will not apply for determining full value of consideration.**
- Thus, **FVC = Higher of (i) SDV on the date of transfer of his share or (ii) Actual consideration.**

CAPITAL GAINS ON BUYBACK OF SHARES/SPECIFIED SECURITIES [Sec 46(A)]

Sale Consideration	Amount given by the company to Shareholder on buy-back of shares/securities.
COA	Amount at which shares were Purchased by the shareholder.

Tax Treatment on Buyback of

Taxability in hands of	Buyback of shares by any company (other than domestic company)	Buyback of specified securities by any company
Company	Not taxable	Not taxable
Shareholder	Taxable as CG u/s 46A	Taxable as CG u/s 46A.

PC Note: Share may be listed or unlisted.**Buyback by Domestic Co. before 1.10.2024**

- Company → Taxable @ 23.296%
- Shareholder → Exempt u/s 10(34A)

Buyback by Domestic Co. on/after 1.10.2024 → treated as deemed dividend u/s 2(22)(f) & taxable u/h IFOS.

- ⇒ Sum paid by a domestic company for purchase of its own shares would be treated as dividend & taxable u/s IFOS in the hands of shareholders. No deduction for expenses would be available against such dividend income.
- ⇒ Consequently, as per section 46A, value of consideration received by a shareholder on buy back of shares by a domestic company = Nil & difference b/w COA & value of consideration received by the shareholder will result into capital loss. The same can be set off & carried forward as per the applicable provisions of the Act.

Illustration

No. of shares of A Ltd. bought in 2020 By Mr. B @ Rs. 40 per share	100 shares
Total cost of acquisition (100 x Rs. 40)	Rs. 4,000
No. of shares bought back in November 2024 by A Ltd. @ Rs. 60 per share	20 shares
Income taxable as deemed dividend u/s 2(22)(f) [Rs. 60 per share x 20 shares]	Rs. 1,200
LTCL on such buyback as per section 46A = (Value of consideration - COA) [(Zero – (Rs. 40 x 20)] [Such LTCL can be set-off against other LTCG or it can be carried forward]	Rs. 800
No. of shares sold in December 2025 by Mr. B @ Rs. 70 per share	50 Shares
Long-term capital Gain (Rs. 70 x 50 – Rs. 40 x 50)	Rs. 1,500
Taxable LTCG in PY 25-26 after set-off of LTCL [Rs. 1,500 – Rs. 800]	Rs. 700

COST OF ACQUISITION IN SPECIAL CASES

GOODWILL/TRADEMARK/BRAND NAME etc. [SECTION 55(2)(A)]

Nature of Assets (A)	(a) Goodwill of a business or profession a trademark or brand name associated with a business or profession or any other intangible asset;		
	(b) Right to manufacture/produce any article or thing or;		
	(c) Right to carry on any business or profession or;		
	(d) Tenancy rights, stage carriage permits & loom hours or any other rights		
Cost of Acquisition	1	Self-Generated Assets (specified Above)	COA = Nil
	2	Purchased from another Person	COA = Purchase price
	3	Acquired by any of the modes u/s 49(1)	COA = Purchase price of Previous Owner
	Ex: If Mr. A purchase a stage carriage permit from B for Rs. 2 Lacs, then COA = Rs. 2 Lacs.		

PC Note: Option to take FMV on 1.4.2001 → Not Available in case of Above Assets.

However, in case goodwill of business or profession, i.r.o. which depreciation u/s 32(1) has been obtained by assessee in any PY (upto PY 2019-20), COA of such goodwill = Purchase price - total amount of depreciation (upto PY 2019-20) obtained by the assessee u/s 32(1).

COST OF ACQUISITION OF BONUS SHARES [SECTION 55(2)(aa)]

1	If Bonus shares acquired before 1.4.2001	COA = FMV as on 1.4.2001
2	If Bonus shares acquired on/after 1.4.2001	COA = Nil since no option is available
3	Bonus shares allotted before 1.2.2018 on which STT has been paid at the time of transfer	COA = Higher of (a) & (b) (a) Actual cost of acquisition i.e - Nil (if allotted on/after 1.4.2001) - FMV on 1.4.2001 (if allotted before 1.4.2001) (b) Lower of (i) & (ii) (i) FMV as on 31.1.2018; & (ii) Actual sale consideration

PC Note: Indexation is available from date of allotment of Bonus Shares.

COST OF ACQUISITION OF RIGHT SHARES [SECTION 55(2)(aa)]

1	Right Shares	➤ Purchased by Original Shareholder: COA = Issue Price ➤ Purchased by Purchaser of Right: COA = Issue price + Cost of Right
2	Right	COA = Always Nil & Always STCG

SWEAT EQUITY SHARES/ ESOP [SEC 49(2AA)]

Sale Consideration	Amount received on sale of shares.
COA	FMV on the date of exercising ESOP option.

COA FOR WHICH THE PREVIOUS OWNER ACQUIRED THE PROPERTY CANNOT BE ASCERTAINED

COA to previous owner = **FMV** on the date on which capital asset became property of the previous owner.

CAPITAL GAINS ON TRANSFER OF DEPRECIABLE ASSET [SECTION 50]

⇒ Capital gain arising on depreciable asset will **always be STCG** irrespective of POH.

Conditions for Claiming Depreciation u/s 32

1. There must be **at least one asset** in the block.
 2. There must be **some WDV for the block** on which prescribed rate of Depreciation can be applied.
- If any of the 2 conditions are not satisfied, section 32 ceases to apply & section 50 becomes applicable.

Section 50: Capital Gain on Depreciable Assets will arise only in the following two cases:

1	STCG	<ul style="list-style-type: none"> ▪ If Sale Consideration received on transfer of one or more capital asset > WDV of Block, WDV of the block will be Zero & therefore no Depreciation can be claimed. ▪ In such case, STCG = Sale consideration – WDV of the block.
2	STCL	<ul style="list-style-type: none"> ▪ If all assets in the block are sold, block is empty & thus no depreciation can be claimed even if there is WDV left in the block. ▪ In such case, short term capital loss will arise to the extent of remaining WDV.

If SC of all assets in Block < WDV of the Block, STCL = SC of all the assets – WDV of the block.

Q9. Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2023. The depreciation on these machines is charged @15%. The opening balance of these machines after providing depreciation for PY 23-24 was Rs. 8,50,000. Three of the old machines were sold on 10 June 2024 for Rs. 11,00,000. A second hand plant was bought for Rs. 8,50,000 on 30th November, 2024.

You are required to:

- (a) determine the claim of depreciation for AY 25-26.
- (b) compute the capital gains liable to tax for AY 25-26.
- (c) If Singhania & Co. had sold the three machines in June, 2024 for Rs. 21,00,000, will there be any difference in your above workings? Explain.

Answer:

(a) Computation of depreciation for AY 25-26

Particulars	Rs.
Opening balance of the block as on 1.4.2024	8,50,000
Add: Purchase of second-hand plant during the year	8,50,000
Less: Sale consideration of old machinery during the year	(11,00,000)
WDV of the block as on 31.03.2025	6,00,000

Since value of the block as on 31.3.2025 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7.5%. Therefore, the depreciation allowable for the year is Rs. 45,000, being 7.5% of Rs. 6,00,000.

- (b) Provisions u/s 50 for computation of capital gains in case of depreciable assets can be invoked only if:
 1. When one or some of the assets in the block are sold for consideration more than the value of the block.
 2. When all the assets are transferred for a consideration more than the value of the block.
 3. When all the assets are transferred for a consideration less than the value of the block.

Since in first two cases, sale consideration is more than WDV of the block, computation would result in STCG.

In third case, since the written down value of the block exceeds sale consideration, the resultant figure would be a short-term capital loss of the block.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

- (c) If three machines are sold in June, 2024 for Rs. 21,00,000, then STCG would arise, since sale consideration is more than the aggregate of WDV of the block at the beginning of the year & additions made during the year.

Particulars	Rs.	Rs.
Sale consideration		21,00,000
Less: Opening balance of the block as on 1.4.2024	8,50,000	
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		4,00,000

CAPITAL GAINS IN CASE OF POWER GENERATING UNDERTAKINGS [SECTION 50A]

Applicability	Only for undertakings engaged in Generation/Generation & distribution of power.
Option	Such undertakings have option to use SLM method for depreciation.
COA	COA of the asset shall be WDV of Asset as appropriately adjusted.

TABLE FOR COMPUTATION OF CAPITAL GAINS

Conditions	Treatment
1. SC < WDV	Terminal Depreciation (Loss) = WDV – SC. Deductible u/s 32 in PGBP.
2. SC > WDV but < Original COA	<ul style="list-style-type: none"> Balancing Charge (Profit) = SC – WDV. Taxable u/s 41(2) in PGBP.
3. SC > Original COA	<ul style="list-style-type: none"> Capital Gain = SC - Original COA. Balancing Charge (Profit) = SC - WDV. Taxable u/s 41(2) in PGBP.

PC Note: Question on the same provision has been given in PGBP. [Question starting with Bijli Ltd].

CAPITAL GAIN IN CASE OF MARKET LINKED DEBENTURES [SECTION 50AA]

Computation of capital gains in case of transfer of unit(s) of -

- (a) Specified Mutual Fund acquired on/after 1.4.2023
 (b) Market Linked Debenture.
 (c) **unlisted bond/debenture transferred or redeemed or matures on/after 23.7.2024.**

Indexation	No Indexation shall be allowed on COA/COI.
Nature of CG	❖ Always STCG & chargeable to tax at normal rate of tax.
PC Note	❖ No STT would be deductible from FVC.

(1) Market Linked Debenture:

- A security which has an underlying principal component in the form of debt security; and
 - where the returns are linked to market returns on other underlying securities or indices.
- It includes any security classified or regulated as a market linked debenture by the SEBI.

(2) Specified Mutual Fund:

- MF where not more than 35% of its total proceeds is invested in equity shares of domestic companies.
- However, percentage of equity shareholding held in respect of the Specified Mutual Fund shall be computed with reference to the annual average of the daily closing figures.

CAPITAL GAIN IN CASE OF SLUMP SALE [SECTION 50B]

Meaning	<ul style="list-style-type: none"> ▪ Sale of whole undertaking/unit for lumpsum consideration. ▪ In slump sale, whole undertaking/division is transferred for lumpsum consideration. Individual assets are not transferred & thus, sale consideration for the individual assets is not known. Therefore, sale consideration of whole undertaking/division is compared with net worth of the undertaking to find out the Capital gain. 				
FVC	Higher of (a) or (b) (a) Actual Sale consideration on sale of whole undertaking (b) FMV of the capital assets as on the date of transfer [Section 50B(2)(ii)]				
FMV Higher of (a) or (b)	(a) FMV 1: FMV of capital assets transferred by way of slump sale (determined on the date of slump sale) (b) FMV 2: FMV of the consideration (monetary & non-monetary) received or accruing as a result of transfer by way of slump sale				
COA & COI	<ul style="list-style-type: none"> ❖ COA & COI = Net worth of the undertaking/ division. ❖ Net worth shall be calculated as follow: <table border="1" data-bbox="341 777 1404 877"> <tr> <td>Total value of All Assets of an undertaking/division</td><td>[Note 1]</td></tr> <tr> <td>Less: Total value of All Liabilities of such undertaking/division</td><td>[Note 2]</td></tr> </table> ❖ Any change in the value of assets on account of REVALUATION of Assets shall NOT be considered for this purpose. 	Total value of All Assets of an undertaking/division	[Note 1]	Less: Total value of All Liabilities of such undertaking/division	[Note 2]
Total value of All Assets of an undertaking/division	[Note 1]				
Less: Total value of All Liabilities of such undertaking/division	[Note 2]				
Indexation	No Indexation shall be allowed on COA/COI.				
Nature of Capital Gains	<ul style="list-style-type: none"> ❖ If POH of the undertaking/division ≤ 36 Months \rightarrow STCG would arise. ❖ If POH of the undertaking/division > 36 Months \rightarrow LTCG would arise. 				
Rate of Tax	<ul style="list-style-type: none"> ▪ LTCG is taxable @ 20% if transfer takes place before 23.7.2024 ▪ LTCG is taxable @ 12.5% if transfer takes place on or after 23.7.2024 ▪ Resultant capital gain is STCG - Normal rates of taxation (Slab Rates) 				

PC Note:

- Aggregate value of total assets shall be calculated as follows:
 - Depreciable Assets: WDV of block of assets determined in accordance with sec 43(6)
 - Sec 35AD Assets: Nil
 - All other Assets: Book value.
- All Liabilities should be assumed to be paid off in full unless otherwise specified.

Q10. Mr. A is a proprietor of Akash Enterprises, having 2 units. He transferred on 1.4.2024 his Unit 1 by way of slump sale for a total consideration of Rs. 25 lakhs. The fair market value of capital assets of unit 1 on 1.4.2024 is Rs. 30 lakhs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were Rs. 28,000. His Balance Sheet as on 31.3.2024 is as under:

Liabilities	Total (Rs.)	Assets	Unit 1(Rs.)	Unit 2 (Rs.)	Total (Rs.)
Own Capital	15,00,000	Land	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for land of unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	1,50,000	Other assets	1,50,000	60,000	2,10,000
Total	21,50,000	Total	17,50,000	4,00,000	21,50,000

Other information:

- (a) Revaluation reserve is created by revising upward the value of the land of Unit 1.
- (b) No individual value of any asset is considered in the transfer deed.
- (c) Other assets of Unit 1 include patents acquired on 1.7.2022 for Rs. 50,000 on which no depreciation has been charged.
- (d) The value of machinery represents the written down value as per the Income- tax Act, 1961.

Compute the capital gain for AY 25-26.

Answer: **Computation of capital gains on slump sale of Unit 1**

Particulars	Rs.
Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2024 or FMV of monetary consideration received]	30,00,000
Less: Expenses for transfer	(28,000)
Net Sale Consideration	29,72,000
Less: Net worth (See Note 1 below)	12,50,625
Long-term capital gain	17,21,375

PC Notes:

- (a) Computation of net worth of Unit 1 of Akash Enterprises

Particulars	Rs.	Rs.
Land (excluding Rs. 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (See Note 2 below)		28,125
Other assets (Rs. 1,50,000 – Rs. 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors (25% of Rs. 1,50,000)	37,500	
Bank Loan (70% of Rs. 2,00,000)	1,40,000	1,77,500
Net worth		12,50,625

- (b) Written down value of patents as on 1.4.2024

Value of patents:	Rs.
Cost as on 1.7.2022	50,000
Less: Depreciation @ 25% for PY 22-23	12,500
Balance as on 1.4.2023	37,500
Less: Depreciation for PY 23-24	9,375
Balance as on 1.4.2024	28,125

- (c) Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

CAP. GAINS ON TRANSFER OF SHARES/DEBENTURES BY A NON-RESIDENT ACQUIRED BY UTILIZING FOREIGN CURRENCY

[1st Proviso to Section 48 & Rule 115A]

If a NR acquires shares or debentures of an Indian Company by utilizing foreign Currency, **then capital gain shall be computed in same foreign currency.** After calculating capital gains in foreign currency, it will be converted into Indian Currency. **Benefit of INDEXATION is NOT AVAILABLE.**

STEPS TO COMPUTE CAPITAL GAINS

1. Sale Consideration, Expenses of Transfer & Cost of Acquisition will be given in Rupees in the question as the shares/debentures were acquired by utilizing foreign currency.
2. So, we need to convert them into Foreign Currency by using AVERAGE BUYING RATE on the date of TRANSFER/ ACQUISITION.
3. Calculate CAPITAL GAINS in FOREIGN CURRENCY.
4. Capital Gain in Foreign Currency shall be **Re-converted** into INDIAN CURRENCY by applying **BUYING Rate** on the date of transfer.

Step	Conversion of	Particulars	Conversion rate
1	Sale consideration	Sale consideration will be given in Indian currency. Convert SC into foreign currency.	Average TT Exchange rate on transfer date
2	Expenditure on transfer	Convert 'Exp. on transfer' into foreign currency.	Same as 1
3	Cost of acquisition	Find cost of acquisition in Indian currency and convert it into foreign currency	Average TT Exchange rate on date of acquisition.
4	Cap. gain in foreign currency = Step 1 – Step 2 – Step 3		
5	Capital gain so calculated (in step 4) will be reconverted into Indian currency		Buying rate on transfer date

Average exchange rate: It is the average of the telegraphic transfer buying rate and telegraphic transfer selling rate.

Buying Rate: It is telegraphic transfer buying rate of such currency.

CQ20. Anthony, NRI, acquired 1,000 shares in A Ltd. (Indian Company) for Rs. 20,000 by utilizing foreign currency (SGP \$) on 18.08.2023. On 16.09.2023, Anthony sold such shares for Rs. 45,000 & utilized proceeds in acquisition of 500 shares of B Ltd. (an Indian Company) after paying expenditure on transfer on 13.09.2023 of Rs. 5,000. Compute capital gain in the PY 24-25.

Date	Buying rate	Selling rate	
18/08/2023	45	46	
13/09/2023	48	50	
16/09/2023	46	48	

Solution: Since the assessee is a non-resident and shares of an Indian company were acquired by utilizing foreign currency, hence, first proviso to sec. 48 and Rule 115A shall be applicable on above transactions.

Computation of Capital gain	Working	Rate applied	Amount
Sale consideration	Rs. 45,000/Rs. 47	Avg. rate as on 16.09.2023	\$957.4
Less: Exp. on transfer	Rs. 5,000/Rs. 47	Avg. rate as on 16.09.2023	(\$106.4)
Net Sale consideration			\$851.0
Less: Cost of acquisition	Rs. 20,000/Rs. 45.5	Avg. rate as on 18.08.2023	(\$439.6)
Less: Cost of improvement			Nil
Short term Capital Gain (in FC)			\$411.4
Short term capital gain (in INR)	\$411.4 × Rs. 46	Buying rate as on 16.09.2023	Rs. 18,924

Rates - NR & Foreign company: LTCG on transfer of unlisted securities or shares of private company

⇒ Transfer takes place before 23.7.2024: 10% (without indexation or currency conversion)

⇒ Transfer takes place on/after 23.7.2024: 12.5% (without indexation or currency conversion) [Sec 112].

ASCERTAINMENT OF COST IN SPECIFIED CIRCUMSTANCES [SECTION 49(1)]

- ☞ In the following cases, cost of acquisition of the asset shall be deemed to be cost for which the previous owner of the property has acquired it.
- ☞ To this cost, COI to the asset incurred by previous owner or assessee must be added.
- ☞ **Where the capital asset became the property of the assessee:**
 - (a) on any distribution of assets on the total or partition of a HUF;
 - (b) under a gift or will **by Individual/HUF** (by any person upto 31.03.2024);
 - (c) by succession, inheritance or devolution;
 - (d) on any distribution of assets on the liquidation of a company;
 - (e) under a transfer to revocable or an irrevocable trust;
 - (f) under any transfer of capital asset by holding company to its WOS Indian company or by subsidiary company to its 100% holding Indian company, ref. in section 47(iv) & 47(v) respectively;
 - (g) under any transfer referred to in section 47(vi) of a capital asset by amalgamating company to amalgamated Indian company, in a scheme of amalgamation;
 - (h) under any transfer referred to in section 47(vib), of a capital asset by the demerged company to the resulting Indian company, in a scheme of demerger;
 - (i) Conversion by individual of his separate property into HUF property [by mode ref. in sec. 64(2)].

Bombay High Court in CIT v. Manjula J. Shah

- **Bombay HC held that Indexed CoA in case of gifted asset has to be computed w.r.t. the year in which previous owner first held the asset & not the year in which assessee became the owner of asset.**
- Section 2(42A) provides that in all such cases, for determining the period for which the capital asset is held by the transferee, period of holding of the asset by previous owner shall also be considered.

PC Note: In case of mode of acquisition of asset specified u/s 49(1), Period of holding of the previous owner shall also be considered for the purpose of taking Indexation of Cost of Acquisition.

TRANSACTIONS NOT REGARDED AS TRANSFER [SECTION 47]

Owner → Change
Asset → Same

A

COA (to New owner) = Cost to Previous owner
POH → Include POH of Previous owner.

B

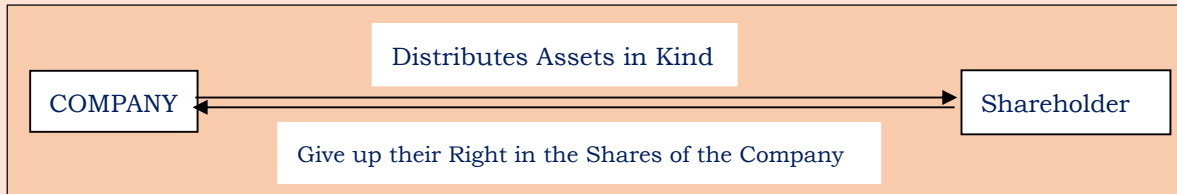
Owner → Same
Asset → Change

COA (of New Asset) = Cost of Old Asset.
POH → Include POH of Old Asset.

TRANSACTIONS NOT TREATED AS TRANSFER [SEC 46 & 47]

- In following cases, **No Capital Gain** would arise **since** they are **NOT** treated as Transfer.
- Thus, **NO TAX** will be payable on such transfer by the transferee.

CG ON “DISTRIBUTION OF ASSETS IN KIND” BY COMPANY TO ITS SHAREHOLDERS ON LIQUIDATION [SECTION 46]



FOR COMPANY IN LIQUIDATION [Section 46(1)]

- ❖ Any Asset distributed in kind by the company to its shareholders on liquidation → shall **NOT** be regarded as a transfer by the company.
 - ❖ Thus, **No Capital Gain** shall arise to company on distribution of such Assets.
- PC Note:** If liquidator sells the assets of company & distributes funds so collected, capital gain shall arise on such transfer.

FOR SHAREHOLDERS [Section 46(2)]

- ❖ Capital Gain shall arise in the hands of Shareholders on transfer of such shares to the company.
- ❖ **Sale Consideration = FMV of Assets received in Kind – Deemed Dividend u/s 2(22)(c).**
- ❖ Deemed dividend u/s 2(22)(c) → Distribution of Accumulated Profits by the company on liquidation is treated as deemed dividend u/s 2(22)(c). Since DDT has been abolished from AY 2021-22 & thus such dividend shall be taxable in the hands of shareholders u/h IFOS & such amount of dividend shall be deducted from sale consideration for computation of capital gains.

CAPITAL GAIN ON TRANSFER OF ASSETS RECEIVED IN KIND BY THE SHAREHOLDERS

- ❖ When the asset received in kind is transferred by the shareholder later, Capital Gain will arise.
- ❖ **COA** of such asset = **FMV** of such asset **on date of distribution** by the company.
- ❖ **POH** shall be reckoned from the **date of receipt** of asset on liquidation.

CQ21. Mr. PC purchased 10,000 equity shares of XYZ Co. Pvt. Ltd on 28.2.2007 for Rs. 1,20,000. The company was wound up on 31.07.2023. The following is the summarized financial position of the company as on 31.07.2023:

Liabilities	Rs.	Assets	Rs.
60,000 Equity shares	6,00,000	Agricultural lands	42,00,000
General Reserve	40,00,000	Cash at bank	6,50,000
Provision for taxation	2,50,000		
	48,50,000		48,50,000

- Tax liability (towards DDT) was ascertained at Rs. 3 Lacs, after considering refund due to the company.
- The remaining assets were distributed to the shareholders in the proportion of their shareholding.
- The market value of the 6 acres of the agriculture land (in an urban area) as on 31.07.2023 is Rs. 10 Lacs per acre.
- Agriculture land received above was sold by Mr. PC on 29.2.2024 for Rs. 15 Lacs. Discuss tax treatment.

DISTRIBUTION OF CAPITAL ASSET ON TOTAL/PARTIAL PARTITION OF HUF

- Distribution of Capital Asset by HUF to its members on partition of HUF is **NOT** treated as Transfer & thus **NO Capital Gain** shall arise in the hands of **HUF**.
- **However**, Capital Gain shall arise when the asset received on partition, is **sold** by member.
- For computing capital gain in the hands of member on the transfer of said asset ↓

COA in the hands of Member	Cost of Asset to the HUF
Period of Holding of Member	From the date of Acquisition of Asset by HUF

CQ22. On 18.08.2005, Ramu acquired 1000 debentures of X Ltd. & house on partition of its HUF. House was acquired by HUF on 1.04.1995 for Rs. 3 lacs & Debentures were acquired on 1.04.2002 for Rs. 2 lacs. FMV of the house on 1.04.2001 is Rs. 4 lacs. COI incurred by HUF on 15.3.2002 was Rs. 2 lacs. On 17.07.2023, Ramu sold the house for Rs. 20 lacs & its debentures are taken by the company at Rs. 2,50,000. Compute capital gain of Ramu for AY 25-26.

TRANSFER OF CAP. ASSET BY WAY OF GIFT/UNDER A WILL/IRREVOCABLE TRUST **by individual or HUF**

- Transfer of capital asset under a gift or will or irrevocable trust **by individual/HUF** is NOT treated as transfer & thus NO CAPITAL GAIN shall arise in the hands of transferor.

*PC Note: Upto AY 24-25, transfer of a capital asset (other than shares, debentures or warrants allotted by a company under any ESOP) under a gift or will or irrevocable trust **by any person** was not considered as a transfer. **From AY 25-26, transfer by Individual/HUF is only exempt.***

- **However**, Capital Gain will arise in the hands of Recipient **when he transfers such capital asset**.
- For computing capital gain in the hands of recipient of gifts/will/irrevocable trust.

COA in the hands of Recipient	Cost to the Previous owner
Period of Holding/Indexation	<ul style="list-style-type: none"> ▪ Includes Period of Holding of previous owner; ▪ Indexation will be taken from DoA of Asset by Previous owner

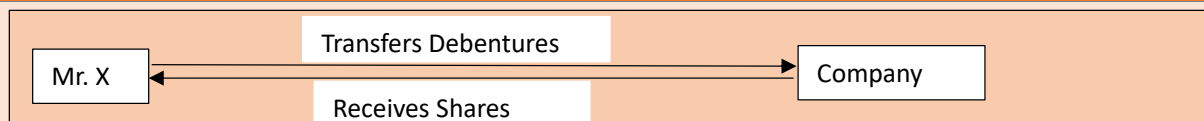
PC Note: If assets received as gift is made taxable u/s 56(2)(x), then COA of such assets shall be the value taken into accounts for the purpose of sec 56(2)(x).

In such case, POH of previous owner shall not be included.

[To be Studies with IFOS]

CQ23. Mr. A purchased gold in 1970 for Rs. 25,000. FMV on 1.4.2001 was Rs. 1,30,000. In PY 2017-18, he gifted it to his son. FMV on the date of receipt of gift was Rs. 2,00,000. His son sold it PY 24-25 for Rs. 5,00,000. Discuss the tax implications in the hands of Mr. A & his son.

TRANSFER BY WAY OF CONVERSION OF BONDS/DEBENTURES INTO SHARES



COA of Shares received	Cost of Bonds/Debenture given up
POH of Shares	Include POH of Debentures given up

CQ23. Mr. B purchased convertible debentures for Rs. 5,00,000 during August 2001. Debentures were converted into shares in September 2012. These shares were sold for Rs. 20 Lacs in August 2023. Brokerage expenses are Rs. 50,000. You are required to compute Cap. Gains for AY 25-26.

Q5. In which of the following situations capital gains tax liability does not arise?

- Mr. A purchased gold in 1970 for Rs. 25,000. In the PY 24-25, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was Rs. 1,00,000.
- A house property is purchased by a Hindu undivided family in 1945 for Rs. 20,000. It is given to one of the family members in the PY 24-25 at the time of partition of the family. FMV on the date of partition was Rs. 12,00,000.
- Mr. B purchased 50 convertible debentures for Rs. 40,000 in 1995 which are converted into 500 shares worth Rs. 85,000 in November 2024 by the company.

Answer: 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:

- As per the provisions of section 47(iii), gift of a capital asset by an individual is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- As per the provisions of section 47(i), distribution of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- As per the provisions of section 47(x), conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

TRANSFER OF CAPITAL ASSET BY HOLDING COMPANY TO WOS COMPANY

COA in the hands of WOS	Cost to Holding company (Previous owner)
POH of WOS Company	Includes POH of Holding company (Previous owner).

TRANSFER OF CAPITAL ASSET IN SCHEME OF AMALGAMATION BY AMALGAMATING COMPANY TO AMALGAMATED (INDIAN) COMPANY

Amalgamating Company

Transfers Asset

Amalgamated Company

COA to Amalgamated Company	Cost to Amalgamating company (Previous owner)
POH	Include POH of Amalgamating company (Previous owner)
Indexation	From DOA of capital asset by amalgamating company

TRANSFER OF CAPITAL ASSET BY WOS COMPANY TO HOLDING COMPANY

COA in the hands of Holding company	Cost to WOS company (Previous owner)
POH of Holding Company	Includes POH of WOS company (Previous owner).

PC Note: For transfers between HC & SC,

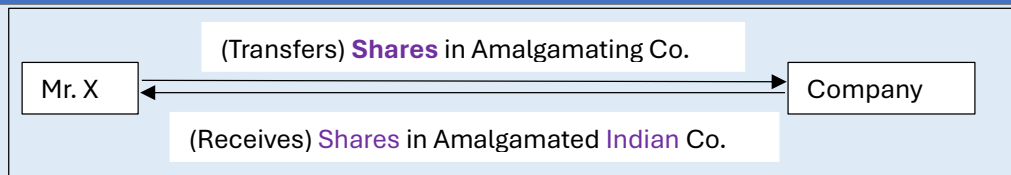
- Recipient Company** (company receiving capital asset) shall be **Indian Company**.
- Exemption will **NOT** apply if a **Capital Asset** is transferred as **SIT**.

TRANSFER OF CAPITAL ASSET IN SCHEME OF DEMERGER BY DEMERGED COMPANY TO RESULTING INDIAN COMPANY



COA to Resulting company	Cost to Demerged company (Previous owner)
POH	Include POH of demerged company (Previous owner)
Indexation	From DoA of capital asset by demerged company

ALLOTMENT OF SHARES BY AMALGAMATED CO. IN LIEU OF SHARES HELD IN AMALGAMATING CO.



COA of shares in Amalgamated company	= COA of shares in Amalgamating Company
POH of shares for Amalgamated company	Include POH of shares in Amalgamating Company.

PC Note: In this case, shares in amalgamated company are allotted to the shareholders (of amalgamating company) in exchange of their shares in the amalgamating company, **except where the shareholder itself is amalgamated company.**

Ex: A Ltd., an Indian company, holds 60% of shares in B Ltd. B Ltd. amalgamates with A Ltd. Since A Ltd. itself is the shareholder of B Ltd., A Ltd., being the amalgamated company, cannot issue shares to itself. However, A Ltd. has to issue shares to the other shareholders of B Ltd.

PC Note: Same provision would apply in case of conversion of company into LLP – [Sec 47(xiiic)]
 Cost of share in LLP = COA of Shares in the company immediately before its conversion.

Q4. M held 2000 shares in a company ABC Ltd., an Indian company. This company amalgamated with another Indian company XYZ Ltd. during PY 24-25. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by Rs. 50,000 than the value of holding in ABC Ltd. The AO proposes to treat the transaction as an exchange and to tax Rs. 50,000 as capital gain. Is he justified?

Answer: In above example, the transaction is squarely covered by the exemption explained above and the proposal of the Assessing Officer to treat the transaction as a transfer is not justified.

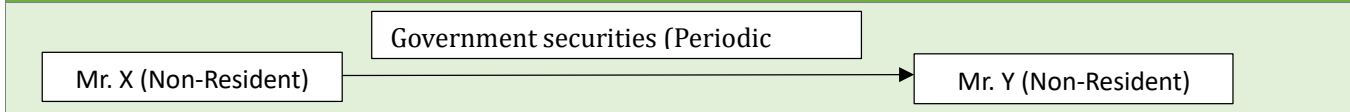
ALLOTMENT OF SHARES BY RESULTING COMPANY TO SHAREHOLDERS OF DEMERGED COMPANY

Shares in	Cost of Acquisition
Resulting Company	COA of shares in Demerged Company $\times \frac{\text{Net BV of Asset in resulting company after demerger}}{\text{Net BV of Asset in demerged company before demerger}}$
Demerged Company	COA of share in Demerged Co. – Cost apportioned to shares of Resulting Co.

PC Note: For determining POH of Shares in Resulting Co. → Includes POH of Shares in demerged Co.

CQ22. Mr A. acquired 1000 shares in XY ltd of Rs. 20,000. XY Ltd. was demerged on 25.09.2022 & net book value of the asset transferred to Y Ltd (the resulting company) was 30 Lacs. Compute the cost of acquisition of shares of Mr. A in demerged company as well as resulting company assuming the paid-up capital & general reserve of XY Ltd before demerger were 1 crore.

TRANSFER OF GOVERNMENT SECURITY BY A NR TO ANOTHER NR OUTSIDE INDIA THROUGH INTERMEDIARY (SECTION 47(VIIB))



CONVERSION OF GOLD INTO ELECTRONIC GOLD RECEIPT OR VICE VERSA (SECTION 47(viid))

❖ Cost of Acquisition [Section 49(10)]

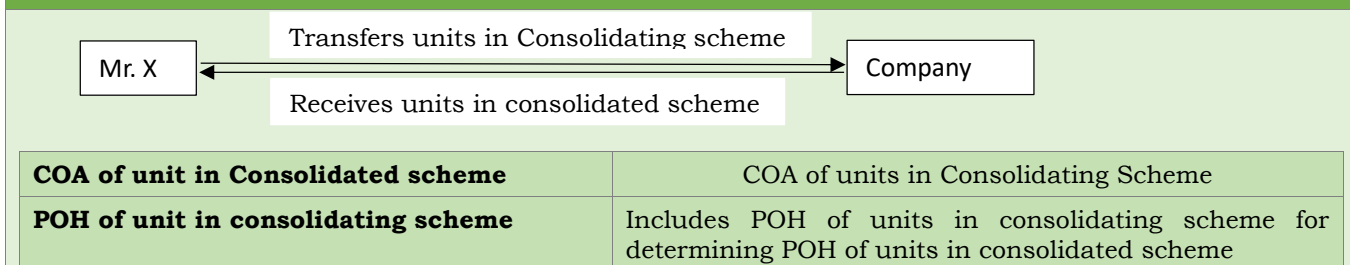
- (1) **Electronic Gold Receipt is received by transferring gold:** COA of E-Gold Receipt = Cost of gold in the hands of the person in whose name E-Gold Receipt is issued.
- (2) **Where gold is released against an E-Gold Receipt, which became the property of the person as a consideration for transfer of E-Gold Receipt:** COA of Gold = Cost of E-Gold Receipt in the hands of such person.

❖ Period of Holding:

- **Where Electronic Gold Receipt is issued by Vault Manager in respect of gold deposited:** The period for which such gold was held by the assessee prior to conversion into the Electronic Gold Receipt.
- **Where gold is released in respect of an Electronic Gold Receipt:** The period for which such Electronic Gold Receipt was held by the assessee prior to its conversion into gold.

TRANSFER OF CAPITAL ASSET BEING ANY WORK OF ART, Archaeological, Scientific or Art Collection, Book, Manuscript, Drawing, Painting, Photograph etc to **Government, University, National Museum, National Art Gallery**, other Public Museum or Institution of National Importance → **Exempt.**

TRANSFER OF UNITS OF MF IN THE SCHEME OF CONSOLIDATION OF MF



PC Note: Consolidation should be of 2 or more schemes of EOMF or of a fund other than EOMF.

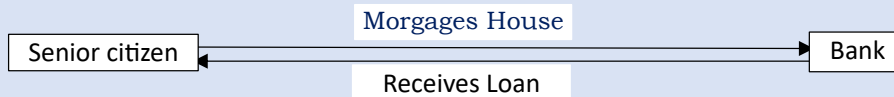
SOME OTHER TRANSACTIONS WHICH ARE NOT TREATED AS TRANSFER

Redemption of Sovereign Gold Bonds by Individual issued under Sovereign Gold Bond Scheme, 2015 [Section 47(viic)].

Conversion of Gold into Electronic Gold Receipt or vice versa [Section 47(viid)].

Conversion of Preference shares into Equity shares: Any transfer by way of conversion of preference shares of a company into equity shares of that company [Section 47(xb)].

TRANSFER OF CAPITAL ASSET IN SCHEME OF REVERSE MORTGAGE



Meaning	<ul style="list-style-type: none"> Reverse Mortgage scheme is for the benefit of senior citizens who own residential house. Senior citizens can mortgage their house property with scheduled bank/housing finance company for lumpsum amount or a regular monthly/quarterly/annual income.
Scheme	<ul style="list-style-type: none"> Senior citizens can mortgage their house & get the contracted amount. They can continue to live in their house & receive regular income without having to pay back the loan. Borrower can use the loan amount for renovation & extension of residential property, family's medical & emergency expenditure etc., amongst others. However, he cannot use the amount for speculative or trading purposes. Bank/housing finance company would revalue the property once every 5 years.
Recovery	<ul style="list-style-type: none"> Bank will recover loan with interest by selling house after the death of the borrower. Excess amount will be given to the legal heirs. However, before selling the house, preference will be given to the legal heirs to repay the loan & interest & get the mortgaged property released.
Taxation	<ul style="list-style-type: none"> Transfer of capital asset in a transaction of reverse mortgage under a scheme made & notified by CG would not amount to a transfer [Section 47(xvi)] Amount received by the senior citizen as a loan (Lump sum/Instalments) in a transaction of reverse mortgage would be exempt from income tax [Section 10(43)] Capital gains would arise in the hands of senior citizen only when the mortgaged property is sold by the bank/housing finance company for the purposes of recovering the loan.

Q6. 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 LTCG?

Answer: 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 capital gain. Accordingly, 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, monthly installment amounts received by Mr. Abhishek would not be taxable.

Q7. Examine, with reasons, whether the following statements are True or False.

- 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.
- Zero coupon bonds of eligible corporation, held for 14 months, will be long-term capital assets.
- ZCB means a bond on which no payment & benefits are received or receivable before maturity or redemption.

Answer:

- 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.
- True:** Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a STCA. Consequently, such bonds held for more than 12 months will be a long-term capital asset.
- 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 1 June 2005, i.e. 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.

EXEMPTION FROM CAPITAL GAINS

Exemption from Capital Gains is available in two categories:

A. Exemption u/s 10	<ul style="list-style-type: none"> These exemptions are available on Transfer of Notified Capital Assets. No Investment in any new capital asset is required to avail these Exemption.
B. Exemption u/s 54	<ul style="list-style-type: none"> These exemptions are available only if the Specified (New) Capital Asset is Acquired or Constructed.

A. EXEMPTIONS U/S 10

1. Cap. Gains arising to Individual/HUF on compulsory acquisition of urban agricultural land [10(37)]

- Exemption is available only if compensation is received on/after 1.4.2004.

2. Capital Gain arising on Buy-back of shares (listed/unlisted) by Domestic Company [10(34A)]

CQ25. Mr. Kumar has agricultural land (costing Rs. 6 lacs) in Lucknow & has been using it for agricultural purposes since 1.4.2000 till 1.8.2011 when the Government took over compulsory acquisition of this land. Compensation of Rs. 10 lacs was settled. The compensation was received by Mr. Kumar on 1.7.2023. Compute the amount of capital gains taxable in the hands of Mr. Kumar for AY 25-26.

CQ26. Will your answer be any different if Mr. Kumar had by his own will sold this land to his friend Mr. Sharma?

CQ27. Will your answer be different if Mr. Kumar had not used this land for agricultural activities? Explain.

CQ28. Will your answer be different if the land belonged to ABC Ltd. & not Mr. Kumar & compensation on compulsory acquisition was received by the company? Explain.

B. EXEMPTION U/S 54

CAPITAL GAINS ON TRANSFER OF RESIDENTIAL HOUSE PROPERTY (SEC 54)

Eligible Assessee	Individual or HUF
Which Asset must be transferred	Residential House Property (LTCA) Income from such house should be chargeable u/h "Income from HP".
Which asset must be acquired	If Capital gains > Rs. 2 crores → ONE Residential House in India If Capital gains ≤ Rs. 2 crores → TWO Residential House in India.

PC Note: If in any AY, assessee has exercised the option to purchase or construct 2 residential houses in India, he shall not be subsequently entitled to exercise the option for same AY or any other AY.

Ex: If assessee has availed the option of claiming benefit of section 54 i.r.o purchase of 2 residential houses in Jaipur & Jodhpur i.r.o capital gains of Rs. 1.50 crores arising from transfer of residential house at Bombay in PY 2021-22 then, he will not be entitled to avail the benefit of section 54 again i.r.o. purchase of 2 residential houses in Pune & Baroda, i.r.o capital gains of Rs. 1.20 crores arising from transfer of residential house in Jaipur in PY 2023-24, even though CG arising on transfer of residential house at Jaipur < Rs. 2 cr.

Time limit for acquiring new asset	Purchase → Within 1 yr before transfer or within 2 years after transfer. Construct → Within 3 years after the date of transfer.
Quantum of Exemption	(a) Investment in New House or Houses or (b) Capital Gain (whichever is lower) [Max. Exemption u/s 54 = 10 crores]

SN	LTCG	Cost of New House	Exempt u/s 54	Reason
1	Rs. 07 Crores	Rs. 12 Crores	Rs. 07 Crores	
2	Rs. 12 Crores	Rs. 14 Crores	Rs. 10 Crores	
3	Rs. 11 Crores	Rs. 09 Crores	Rs. 09 Crores	
4	Rs. 15 Crores	Rs. 13 Crores	Rs. 10 Crores	

❖ **Note:** If investment in new residential house is not made before DD of filing ROI, then amount of capital gain has to be deposited under Capital Gains Account Scheme (CGAS). **However, capital gain in excess of Rs. 10 crore would not be taken into account for the purpose of deposit in CGAS.**

❖ **Amount utilized by the assessee for purchase or construction of new asset & amount so deposited shall be deemed to be the cost of new asset. Deemed cost of new asset would be restricted to Rs. 10 crores for the purpose of exemption u/s 54.**

CQ29. If LTCG is Rs. 8 crore & assessee has incurred Rs. 5 crores in construction of new house upto DD of filing ROI u/s 139(1), then he can deposit the amount of Rs. 3 crores upto DD of filing ROI in CGAS for claiming exemption u/s 54. If he deposits Rs. 2 crores, in CGAS on or before the due date u/s 139(1), deemed cost of the new residential house would be Rs. 7 crores (Rs. 5 crores + Rs. 2 crores). Exemption u/s 54 = Rs. 7 crores.

CQ30. If LTCG is Rs. 14 crore & assessee has already incurred Rs. 7 crore in construction of new house upto DD of filing ROI u/s 139(1), then he can deposit the difference of Rs. 3 crore (Rs. 10 crore - Rs. 7 crore) in CGAS for claiming exemption u/s 54. If he deposits, say, Rs. 2 crore in CGAS on or before the due date u/s 139(1), deemed cost of new house = Rs. 9 crore (Rs. 7 crore + Rs. 2 crore). Exemption u/s 54 = Rs. 9 crores.

Consequences of transfer of Newly acquired asset within 3 years:

Exemption granted will be taken back. For computing STCG on transfer of new asset, **Cost of New House = (Cost of acquisition - Capital gains exempted earlier).**

Ex: CG = Rs. 7 lacs & Cost of New house = Rs. 9 lacs; Exemption u/s 54 = Rs. 7 lacs. Now, if new house was sold after 2 years for Rs. 12 lacs, then STCG =

Particulars	Rs.
Net Sale Consideration of New House	12 Lacs
Less: COA of New House (Actual COA - CG exempt earlier u/s 54 = 9 Lacs - 7 Lacs)	(2 Lacs)
Taxable STCG	10 Lacs

Q11. Mr. Cee purchased a residential house on July 20, 2022 for Rs. 10,00,000 and made some additions to the house incurring Rs. 2,00,000 in August 2022. He sold the house property in April 2024 for Rs. 20,00,000. Out of the sale proceeds, he spent Rs. 5,00,000 to purchase another house property in September 2024. What is the amount of capital gains taxable in the hands of Mr. Cee for the AY 25-26?

Answer: The house is sold before 24 months from the date of purchase. Hence, the house is a short-term capital asset and no benefit of indexation would be available.

Particulars	Rs.
Sale consideration	20,00,000
Less: Cost of acquisition	10,00,000
Cost of improvement	2,00,000
Short-term capital gains	8,00,000

PC Note - The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is Rs. 8,00,000.

PC Note:

- **Date of completion of construction is relevant.** Date of commencement of construction is irrelevant. Construction may be commenced even before the transfer of house.
- Allotment of Flat under Self-financing scheme is treated as construction of house for Section 54.
- **Holding of Legal Title → Not Necessary.** If the taxpayer pays whole/part of consideration & gets the possession of new house, exemption available u/s 54 is available.
- Investment → Includes Cost of Purchase of House + Cost incurred to make habitable.
- A person may Sell 2 Houses & Purchase 1 House for the purpose of availing exemption u/s 54.

CAPITAL GAIN ON TRANSFER OF AGRICULTURAL LAND [SECTION 54B]

Eligible Assessee	Individual or HUF
Which asset shall be transferred	Urban Agricultural land (LT/ST). Such land must have been used by Assessee or his parents/HUF for agricultural purposes for 2 yrs immediately preceding date of transfer.
Which asset is acquired	Agricultural Land (Rural/Urban)
Time limit for acquiring new asset	Within 2 years from the date of transfer.
Quantum of Exemption	Same as Section 54.
Consequences of transfer within 3 years	Same as Section 54. However, if new agricultural land is a rural agricultural land, there would be no CG on transfer of such land.

CAPITAL GAIN ON COMPULSORY ACQUISITION OF INDUSTRIAL L&B [SEC 54D]

Eligible Assessee	Any Assessee.
Which asset shall be transferred	Industrial Land or Building (STCA/LTCA) Such Land/building should have been used by assessee for Industrial undertaking for 2 years immediately preceding the date of transfer.
Which asset is acquired	Land or Building for Industrial purpose
Time limit for acquiring new asset	Within 3 years from the date of Receipt of compensation.
Quantum of Exemption	Same as Section 54.
Consequences of transfer within 3 years	Same as Section 54

CAPITAL GAIN ON TRANSFER OF ANY LTCA ON INVESTMENT IN CERTAIN BONDS [SEC 54EC]

Eligible Assessee	Any Assessee
Which asset shall be transferred	LTCA being Land or Building or both (Even a depreciable asset held for more than 36 months is a LTCA even if they are always regarded as STCA under other sections of the act)
Which asset is acquired	Bonds of National Highways Authority of India (NHAI) & Rural Electrification Corporation Ltd (RECL) redeemable after 5 years. Bonds issued by Power Finance Corporation Limited on/after 15.06.17 & Bonds issued by Indian Railway Finance Corporation Limited on/after 08.08.17 & redeemable after 3 years.
Time limit	Within 6 months from the date of transfer.
Quantum of Exemption	Capital Gain or Amount Invested in Bonds (whichever is Lower). PC Note: Maximum Investment that can be made in bonds of NHAI & RECL from CG arising from the transfer of one/more LTCA during the PY of transfer & in subsequent FY cannot exceed Rs. 50 lacs.
Lock-in-period	Bonds should not be transferred for a period of 5 Years . Assessee should not transfer/convert or avail loan on security of such bonds for 5 years from the date of acquisition of such bonds. Otherwise, exemption granted earlier shall be taken back.

PC Note: Receipt of **money** on liquidation of company is taxable in the hands of shareholders [Section 46(2)]. In such case there is no transfer of capital asset & thus exemption u/s 54EC is not available.

Q12. Long term capital gain of Rs. 75 lakhs arising from transfer of building on 1.5.2024 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI u/s 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act, 1961.

Answer:

False: Exemption u/s 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAI or RECL or any other bond notified by Central Government in this behalf, redeemable after 5 years) to Rs. 50 lakhs, whether such investment is made during the relevant PY or the subsequent PY, or both. Therefore, in this case, exemption u/s 54EC can be availed only to the extent of Rs. 50 lakhs, provided the investment is made before 1.11.2024 (i.e., within six months from the date of transfer).

Exemption u/s 54EC is available in respect of capital gains on transfer of capital asset being land or building or both.

CAPITAL GAIN ON TRANSFER OF ANY LTCA OTHER THAN RESIDENTIAL HOUSE PROPERTY [SECTION 54F]

Eligible assessee	Individual & HUF
Which asset shall be transferred	Transfer of LTCA other than Residential House Property. Thus, Transfer of Vacant Plot of Land → Eligible for Exemption. Provided that assessee should not own more than 1 Residential House on the date of transfer (except the newly acquired house property).
Which asset is acquired	ONE Residential House Property in India
Time limit for acquiring new asset	Assessee should either <ul style="list-style-type: none"> ▪ Purchase: Within 1 year before transfer or within 2 years after transfer. ▪ Construct: Within 3 years from the date of transfer.
Quantum of Exemption	Proportionate Exemption. Thus, to get the exemption of amount of capital gains, the whole amount of sale consideration shall be invested. Exemption = Amount invested in new residential house × $\frac{\text{LTCG}}{\text{Net sale consideration}}$ PC Note: Max Investment eligible for deduction u/s 54F = Rs. 10 Crores.

- ❖ If investment in residential house is not made before DD of filing ROI u/s 139(1), then net sale consideration has to be deposited in CGAS. However, NSC in excess of Rs. 10 crores would not be taken into account for the purpose of deposit in CGAS.

SN	NSC	LTCG	Cost of New House	Investment eligible for deduction u/s 54F	Deduction u/s 54F
1	15 Cr	7.5 Cr	12 Cr	10 Cr	5 Cr
2	20 Cr	12 Cr	15 Cr	10 Cr	6 Cr
3	16 Cr	12 Cr	08 Cr	8 Cr	6 Cr
4	10 Cr	6 Cr	10 Cr	10 Cr	6 Cr
5	12 Cr	6 Cr	12 Cr	10 Cr	5 Cr

- ❖ **Amount utilized for purchase or construction of new asset & amount deposited in CGAs shall be deemed to be the cost of new asset. Deemed cost of new asset would be restricted to Rs. 10 crores for the purpose of exemption u/s 54F.**

CQ33. If NSC = Rs. 9 crores; CG = Rs. 4.50 crores & amount incurred for construction of new house upto DD of filing ROI = Rs. 5 crores, then assessee can deposit Rs. 4 crores (Rs. 9 crore – Rs. 5 crore) not appropriated towards construction upto DD of filing ROI in CGAS for claiming exemption u/s 54F. If assessee has deposited Rs. 3 crore on/before DD of filing ROI, deemed cost of new house = Rs. 8 crore (Rs. 5 crore + Rs. 3 crore). Exemption u/s 54F = Rs. 4 crore [i.e., Rs. 4.50 crore × Rs. 8 crore / Rs. 9 crore].

CQ34. If NSC = Rs. 15 crores; CG = Rs. 7.50 crores & amount incurred for construction of new house upto DD of filing ROI = Rs. 6 crores, then assessee can deposit Rs. 4 crores (Rs. 10 crores – Rs. 6 crore) upto DD of filing ROI in CGAS for claiming exemption u/s 54F. If assessee has deposited Rs. 3 crore on/before DD of filing ROI, deemed cost of new house = Rs. 9 crore (Rs. 6 crore + Rs. 3 crore). Exemption u/s 54F = Rs. 4.50 crore [i.e., Rs. 7.50 crore × Rs. 9 crore / Rs. 15 crore].

Withdrawal of Exemption u/s 54F

- If the **new house is transferred within 3 years** from the date of acquisition.
- If assessee **purchases another residential house within 2 years** from the date of transfer of original asset.
- If assessee completes **construction of another residential house** in India/outside India **within 3 years** from the date of transfer of original asset.

CQ35. Compute capital gains of Mr. D for AY 25-26.

Cost of jewellery [Purchased in FY 2001-02]	Rs. 5,00,000
Sale price of jewellery sold in January 2024	Rs. 20,20,000
Expenses on transfer	Rs. 15,000
Residential house purchased in March 2024	Rs. 6,00,000

CAPITAL GAINS ACCOUNT SCHEME (CGAS)

Scheme of deposit	<ul style="list-style-type: none"> For Section 54, 54B, 54D, 54F, Capital Gain is exempt to the extent of Investment of 'Capital gains/Net Sale Consideration' (for 54F) in specified assets within specified time. If such Investment is not made before DD of filing of ROI, then Capital Gain/Net sale consideration (for 54F) has to be deposited under the CGAS to get exemption.
Time limit for acquiring new asset	<ul style="list-style-type: none"> Such deposit in CGAS should be made before filing ROI or before DD of filing ROI, whichever is earlier. In such cases, amount already utilized for purchase or construction of new asset plus the amount deposited in CGAS on/before DD of filing ROI u/s 139(1) would be deemed to be the cost of new asset. However, for sections 54 and 54F, amount so deemed to be cost of the new asset cannot exceed Rs. 10 crores. Proof of such deposit should be attached with the return. Deposit can be withdrawn for the specified purposes.
Consequences of non-utilization	<ul style="list-style-type: none"> If the amount deposited is not utilized for specified purpose within stipulated period, then unutilized amount shall be charged as capital gain of the PY in which specified period expires. <u>For Sec 54F, Proportionate Amount will be Taxable.</u> If Individual dies before the stipulated period, unutilized amount is not taxable in the hands of legal heirs of deceased individual because such unutilized amount is not income but is a part of the estate devolving upon them.
Max. Limit	<ul style="list-style-type: none"> Section 54: Capital gain in excess of Rs. 10 crores would not be taken into account for the purpose of deposit in CGAS. Section 54F: NSC in excess of Rs. 10 crores would not be taken into account for the purpose of deposit in CGAS.

EXTENSION OF TIME FOR ACQUIRING NEW ASSET OR MAKING DEPOSIT IN CGAS [Sec 54H]

- In case of compulsory acquisition of original asset, time limit for acquiring new asset/making deposit in CGAS is considered from date of receipt of compensation & not from date of transfer.
- For **Determination of Year of taxability of Capital Gain:** Whole Capital gain is taxable in PY in which first instalment of compensation is received.
But for determining time limit for acquiring the asset, dates of receipt of different instalments is considered.

REFERENCE TO VALUATION OFFICER [SEC 55A]

AO may refer valuation officer with a view to ascertain FMV of a capital asset in following cases:

- If value of the asset claimed by the assessee is in accordance with valuation made by the registered valuer, but AO is of the opinion that value so claimed is less than FMV of the Asset.
 - AO can make a reference to VO in cases where FMV is taken to be sale consideration.
 - If FMV on 1.4.2001 is taken as COA, AO can make a reference to VO if he is of the view that there is any variation between FMV on 1.4.2001 claimed by assessee & FMV on that date.
- Where the AO is of the opinion that FMV of the asset exceeds the value claimed **by**
 - More than 15% of the value claimed** by the assessee or Rs. 25,000 (whichever is less).
- Where AO thinks that it is necessary to do so having regards to nature of asset & relevant circumstances.

RATE OF TAX ON CAPITAL GAINS

SHORT-TERM CAPITAL GAINS [STCG]

1 STCG u/s 111A

- STCG on transfer of
 - (a) **equity shares** on which SST is paid at the time of acquisition & transfer of capital asset.
 - (b) **units of EOF/business trust** on which SST is paid at the time of transfer of capital asset.
- Tax Rates: 15% if transferred before 23.07.2024 OR 20% if transferred on/after 23.07.2024.**
- Benefit of UNEXHAUSTED BEL** will be **available** for **Resident Individual/HUF**.
- No deduction under Chapter VI-A** against STCG taxable u/s 111A.
- STCG arising on transactions undertaken in foreign currency on RSE located in International Financial Services Centre is taxable @ 15% or 20% even if STT is not leviable on such transactions.

2 Other STCG

STCG **other than Section 111A** are treated as **Normal Income** & will be taxed @ Slab Rate along with Other Incomes.

LONG-TERM CAPITAL GAINS u/s 112A

- LTCG on transfer of
 - (a) **equity shares** on which SST is paid at the time of acquisition & transfer of capital asset.
 - (b) **units of EOF/business trust** on which SST is paid at the time of transfer of capital asset.

Tax Rates:

Date of transfer	Rate of Tax
before 23.7.2024	10% on LTCG exceeding Rs. 1,25,000
on or after 23.7.2024	12.5% on LTCG exceeding Rs. 1,25,000
However, total exemption on LTCG in PY cannot exceed Rs. 1,25,000.	

- Benefit of UNEXHAUSTED BEL will be available for **Resident Individual/HUF**.
- No deduction under Chapter VI-A** against STCG taxable u/s 112A.
- Rebate u/s 87A → Not Available against LTCG taxable u/s 112A.**
- LTCG arising on transactions undertaken in foreign currency on RSE located in International Financial Services Centre is taxable @ 10% even if STT is not leviable on such transactions.

LONG-TERM CAPITAL GAINS u/s 112

A Where transfer takes place before 23.7.2024

LTCA	Rate of tax
Unlisted securities or shares of private company	<ul style="list-style-type: none"> NR/FC: 10% without indexation & foreign currency fluctuation Other Assessee: 20% with indexation benefit
Listed securities (other than a unit) or ZCB	<ul style="list-style-type: none"> 10% without indexation or 20% with indexation benefit (whichever is beneficial to the assessee)
Other Assets	<ul style="list-style-type: none"> 20% with indexation benefit

B Where transfer takes place on or after 23.7.2024

L&B if acquired before 23.7.2024	Resident Individual/HUF: 12.5% without indexation or 20% with indexation whichever is more beneficial to the assessee Other Assessee – 12.5% without indexation
L&B if acquired on/after 23.7.2024 OR Other Assets (than L&B)	12.5% without indexation

NR & Foreign company: LTCG on transfer of unlisted securities or shares of private company

- ⇒ Transfer takes place before 23.7.2024: 10% (without indexation or currency conversion).
- ⇒ Transfer takes place on/after 23.7.2024: 12.5% (without indexation or currency conversion) [Sec 112].

Debentures or Bonds: Debentures or bonds (listed/unlisted) transferred/redeemed/matured before 23.7.2024, resultant capital gains will be considered either long-term or short-term, based on holding period & taxed accordingly. If unlisted debentures or bonds are transferred/redeemed/matured on/after 23.7.2024, resulting capital gains will always be treated as STCG regardless of the holding period.

PC Note: Indexation benefit is not available for bonds/debentures, even if transferred before 23.07.2024.

Non-Residents & Foreign Companies: LTCG from transfer of listed shares (other than listed equity shares covered u/s 112A) or debentures of an Indian company (acquired in foreign currency) will be taxed as follows:

- ⇒ If transferred before 23.7.2024: 20% (without indexation, but with foreign currency fluctuation adjustments).
- ⇒ If transferred on/after 23.7.2024: 12.5% (without indexation, but with foreign currency fluctuation adjustments).

PC Note:

- Benefit of UNEXHAUSTED BEL will be available for **Resident Individual/HUF**.
- No deduction under Chapter VI-A against STCG taxable u/s 112A.

Benefit of UNEXHAUSTED BEL from LTCG & STCG u/s 111A to Resident Individual/HUF

- ❖ We know that entire LTCG is taxable @ 20% & STCG u/s 111A @ 15% without any exemption.
- ❖ But in case of **Resident Individual/HUF**, benefit of BEL is available if BEL is unexhausted.
- ❖ Unexhausted BEL means: taxable income (excluding LTCG) is less than the BEL.
- ❖ In such case, the **shortfall*** shall be deducted from LTCG/STCG u/s 111A as the case may be.
- ❖ **Shortfall = BEL – (Taxable income – LTCG).**
- ❖ **This benefit is available under both the tax regimes.**

Q13. Calculate the income-tax liability for AY 25-26 in the following cases:

	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Status	Non-resident	Non-resident	Resident	Non- resident
Total income other than LTCG	2,40,000	3,10,000	5,90,000	4,80,000
LTCG	85,000	10,000	60,000	Nil
[Assume transfer took place before 23.7.2024]	from sale of vacant site	From sale of listed equity shares (STT paid)	From sale of agricultural land in rural area	

- (a) If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.
 (b) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

Answer: If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non- resident	Non-resident	Resident	Non- resident
Applicable BEL	Rs. 3,00,000	Rs. 3,00,000	Rs. 3,00,000	Rs. 3,00,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	NA
LTCG (on sale of above asset)	Rs. 85,000 [Taxable @20% u/s 112]	Rs. 10,000 [exempt u/s 112A since < Rs. 1,25,000]	Exempt – not a capital asset	Nil
Other Incomes	2,40,000	3,10,000	5,90,000	4,80,000
Tax liability				
On LTCG	Rs. 17,000	-	-	-
On Other income	Nil	Rs. 500	Rs. 14,500	Rs. 9,000
	Rs. 17,000	Rs. 500	Rs. 14,500	Rs. 9,000
Less: Rebate u/s 87A	-	-	Rs. 14,500	-
	Rs. 17,000	Rs. 500	Nil	Rs. 9,000
Add: HEC @ 4%	Rs. 680	Rs. 20	Nil	Rs. 360
Total tax liability	Rs. 17,680	Rs. 520	Nil	Rs. 9,360

PC Note: Since Mr. C is a resident whose total income does not exceed Rs. 7 lakhs, he is eligible for rebate of Rs. 25,000 or the actual tax payable, whichever is lower, u/s 87A.

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

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	NR	NR	Resident	NR
Applicable BEL	Rs. 2,50,000	Rs. 2,50,000	Rs. 5,00,000	Rs. 2,50,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
LTCG (on sale of above asset)	Rs. 85,000 [Taxable @ 20% u/s 112]	Rs. 10,000 [exempt u/s 112A since < Rs. 1,25,000]	Exempt – not a capital asset	Nil
Other Incomes	2,40,000	3,10,000	5,90,000	4,80,000
Tax liability				
On LTCG	Rs. 17,000	-	-	-
On Other income	Nil	Rs. 3,000	Rs. 18,000	Rs. 11,500
	Rs. 17,000	Rs. 3,000	Rs. 18,000	Rs. 11,500
Less: Rebate u/s 87A	-	-	-	-
	Rs. 17,000	Rs. 3,000	Rs. 18,000	Rs. 11,500
Add: HEC @4%	Rs. 680	Rs. 120	Rs. 720	Rs. 460
Total tax liability	Rs. 17,680	Rs. 3,120	Rs. 18,720	Rs. 11,960

PC Note: Since Mrs. B & Mr. D are non-residents, they cannot avail the higher basic exemption limit of Rs. 3,00,000 and Rs. 5,00,000 for persons over the age of 60 years and 80 years, respectively. Also, they along with Mr. A, being non-residents are not eligible for rebate u/s 87A even though their total income does not exceed Rs. 5 lakh.

COST OF ACQUISITION OF LTCA REFERRED TO IN SECTION 112A

COA of LTCA being –

- **Equity shares** in a company on which STT is paid both at the time of purchase & transfer or
 - **Unit of equity-oriented fund** or unit of business trust on which STT is paid at the time of transfer.
- acquired before 1st February, 2018 shall be higher of (i) & (ii) –**

(i) **Cost of acquisition of such asset; &**

(ii) **Lower of (a) FMV on 31st Jan 2018 & (b) Full value of consideration.**

CQ14. An equity share is acquired on 1st Jan 2017 at Rs.100; its FMV is Rs. 200 on 31st Jan 2018 & it is sold on 1st April 2018 at Rs. 250. As the actual cost of acquisition < FMV on 31st Jan 2018, FMV of Rs. 200 will be taken as the cost of acquisition & the long-term capital gain will be Rs. 50 (Rs. 250 – Rs. 200).

CQ15. An equity share is acquired on 1st Jan 2017 at Rs. 100, FMV is Rs. 200 on 31st Jan 2018 & it is sold on 1st April 2018 at Rs. 150. In this case, actual COA < FMV on 31st Jan 2018. However, sale value is also < FMV on 31st Jan 2018. Thus, sale value of Rs. 150 will be taken as COA & LTCG = Nil (Rs.150 – Rs.150).

CQ16. An equity share is acquired on 1st Jan 2017 at Rs. 100, its FMV is Rs. 50 on 31st Jan 2018 & it is sold on 1st April 2018 at Rs. 150. In this case, FMV on 31st Jan 2018 < Actual cost of acquisition & thus actual cost of Rs. 100 will be taken as actual cost of acquisition & LTCG will be Rs. 50 (Rs. 150 – Rs. 100).

CQ17. An equity share is acquired on 1st Jan 2017 at Rs. 100, FMV is Rs. 200 on 31st Jan 2018 & it is sold on 1st April 2018 at Rs. 50. Actual COA < FMV on 31st Jan 2018. Sale value < FMV on 31st Jan 2018 & actual COA. Therefore, actual cost of Rs. 100 will be taken as COA. Hence, LTCL = Rs. 50 (Rs. 50 – Rs. 100).

Meaning of Fair Market Value

Circumstance	Fair Market Value
Cap. asset is listed on any RSE as on 31.01.2018	<p>❖ If there is trading in such asset on such RSE on 31.01.2018 → Highest price of capital asset quoted on such RSE on 31.01.2018.</p> <p>❖ If there is no trading in such asset on such RSE on 31.01.2018 → Highest price of such asset on such RSE on date immediately preceding 31.1.2018 when such asset was traded on such RSE.</p>
Cap. asset is not listed on any RSE on 31.01.2018	Net Asset Value of such unit as on 31.01.2018.
Cap. asset is equity share in company which is - - not listed on a RSE on 31.01.2018 but listed on such exchange on the date of transfer - listed on a RSE on date of transfer & which became property of assessee in consideration of share which is not listed on such exchange as on 31.01.2018 by way of transaction not regarded as transfer u/s 47.	<p>An amount which bears to COA the same proportion as CII for FY 2017-18 bears to the CII for the first year in which the asset was held by the assessee or on 01.04.2001, whichever is later.</p> <p>Space for PC Note:</p>

SOME CLARIFICATIONS REGARDING SECTION 112A

Q1. What is the point of chargeability of the tax?

Answer: Tax will be levied only upon transfer of specified LTCA on or after 1st April 2018.

***Q2.** How do we determine the cost of acquisition for assets acquired on or before 31st Jan 2018?

Answer: COA of LTCA specified u/s 112A acquired before 1st Feb 2018 shall be Higher of (a) or (b)

(a) Cost of Acquisition or

(b) Lower of (i) FMV of such asset or (ii) Actual Sale consideration.

Alternative Explanation as given in study material

[Answer will be same]

- Cost of acquisition for specified LTCA acquired on/before 31st Jan 2018 → Actual cost.
- But if Actual cost < FMV of such asset on 31st Jan 2018 → FMV on 31st Jan 2018 = COA.
- Further, if FVC on transfer < FMV, then Higher of (i) FVC or (ii) Actual COA will be deemed as COA.

Ex: An equity share is acquired on 1st of Jan 2017 at Rs.100; its FMV is Rs. 200 on 31st Jan 2018 & it is sold on 1st April 2018 at Rs. 250. As the actual cost of acquisition < FMV on 31st Jan 2018, FMV of Rs. 200 will be taken as the cost of acquisition & the long-term capital gain will be Rs. 50 (Rs. 250 – Rs. 200).

Ex: An equity share is acquired on 1st Jan 2017 at Rs. 100, its FMV is Rs. 200 on 31st Jan 2018 & it is sold on 1st April 2018 at Rs. 150. In this case, actual cost of acquisition < FMV on 31st Jan 2018. However, sale value is also < FMV on 31st Jan 2018. Thus, sale value of Rs. 150 will be taken as cost of acquisition & LTCG = NIL (Rs.150 – Rs.150).

Ex: An equity share is acquired on 1st Jan 2017 at Rs. 100, its FMV is Rs. 50 on 31st Jan 2018 & it is sold on 1st April 2018 at Rs. 150. In this case, FMV on 31st Jan 2018 < Actual cost of acquisition & thus actual cost of Rs. 100 will be taken as actual cost of acquisition & LTCG will be Rs. 50 (Rs. 150 – Rs. 100).

Ex: An equity share is acquired on 1st Jan 2017 at Rs. 100, its FMV is Rs. 200 on 31st Jan 2018 & it is sold on 1st April 2018 at Rs. 50. In this case, actual cost of acquisition < FMV on 31st Jan 2018. Sale value < FMV on 31st Jan 2018 & also the actual cost of acquisition. Therefore, the actual cost of Rs. 100 will be taken as the cost of acquisition in this case. Hence, the long-term capital loss will be Rs. 50 (Rs. 50 – Rs. 100) in this case.

Q3. Whether the cost of acquisition will be inflation indexed?

Answer: No Indexation of Cost of acquisition.

Q4. What will be the tax treatment of transfer made on or after 1st April 2018?

Answer: LTCG > Rs. 1 Lacs arising from transfer of these assets made on after 1st April, 2018 will be taxed at 10%. However, there will be no tax on gains accrued upto 31st January, 2018.

Q5. Whether tax will be deducted at source in case of gains by resident tax payer?

Answer: No. There will be no deduction of tax at source from the payment of LTCG to a resident tax payer.

Q6. What will be the cost of acquisition in the case of bonus shares acquired before 1st February 2018?

Answer: CoA of bonus shares acquired before 31st January, 2018 will be determined as per section 55(2)(ac). Therefore, FMV of bonus shares as on 31st January, 2018 will be taken as cost of acquisition (except in some typical situations explained in Ans 5), & hence, the gains accrued upto 31st January, 2018 will continue to be exempt.

Q7. What will be the cost of acquisition in the case of right share acquired before 1st February 2018?

Answer: CoA of right share acquired before 31st January, 2018 will be determined as per section 55(2)(ac). Therefore, FMV of right share as on 31st Jan 2018 will be taken as cost of acquisition (except in some typical situations explained in Ans 5), & hence, gains accrued upto 31st January, 2018 will continue to be exempt.

Q8. What will be the treatment of LTCL arising from transfer made on or after 1st April, 2018?

Answer: LTCL arising from transfer made on or after 1st April, 2018 will be allowed to be set-off & carried forward in accordance with existing provisions of the Act. Therefore, it can be set-off against any other LTCG & unabsorbed loss can be carried forward to subsequent eight years for set-off against LTCG.

Condition i.r.o. ULIP issued on/after 01.02.2022 for Exemption u/s 10(10D)

- ❖ In order to deter high net-worth individuals from claiming exemption u/s 10(10D) by investing in ULIPs with huge premium, additional condition has been stipulated i.r.o ULIPs issued on/after 1.2.2022.
- ❖ ULIP means a life insurance policy, which has components of both investment and insurance and is linked to a unit defined under IRDA (ULIP) Regulations, 2019.
- ❖ Accordingly, exemption u/s 10(10D) would not be available with respect to any ULIP issued on or after 1.2.2022, if the amount of premium payable exceeds Rs. 2,50,000 for any of the previous years during the term of such ULIP. Moreover, in a case where premium is payable by a person for more than one ULIP issued on or after 1.2.2022, exemption u/s 10(10D) would not be available where the aggregate amount of premium exceeds Rs. 2,50,000 in any of the previous years during the term of any such ULIP(s) issued on or after 1.2.2022.
- ❖ However, in case any sum is received on the death of a person, exemption u/s 10(10D) would be available, even if the premium/aggregate premium for any year during the term of such ULIP/any such ULIP issued on or after 1.2.2022 exceeds Rs. 2,50,000.



INCOME FROM OTHER SOURCES



BASIS OF CHARGE [SECTION 56]

- Every Income which is not taxable under any other heads of Income is taxable u/h IFOS.
- Such Income should not be Exempt from Tax. (i.e it is taxable in the hands of assessee).
- **IFOS is Residuary Head of Income** & brings within its scope all the taxable incomes which fall outside the scope of all other 4 heads of Income.

RELEVANCE OF METHOD OF ACCOUNTING

- Income taxable u/h IFOS has to be computed in accordance with method of accounting used by the assessee. i.e
If assessee follows cash system of accounting, income shall be taxed on cash basis.
If assessee follows mercantile method of accounting, income shall be taxed on accrual basis.
- **PC Note: However, Deemed Dividend u/s 2(22)(e) is taxable on Payment Basis u/s 8.**

FOLLOWING INCOMES ARE GENERALLY TAXABLE U/H 'IFOS'

- | | |
|---|--|
| ▪ Dividends Except Dividend u/s 115-O | ▪ Interest on Income Tax Refunds. |
| ▪ Casual & Non-Recurring Income | ▪ Lotteries, Puzzles, Horse Races, Cards etc. |
| ▪ Income from Undisclosed Sources | ▪ Rent from vacant piece of Land (Ground Rent) |
| ▪ Income from Agricultural Land OUTSIDE India | ▪ Income from Sub - Letting of House Property |
| ▪ Remuneration received by MPs/MLAs | ▪ Examination Fees received by Teacher from the non-employer. |
| ▪ Director's Sitting Fee | ▪ Director's Guarantee Commission from bank |
| ▪ Director's Commission for Underwriting shares. | ▪ Family Pension received by family of deceased Person [Check Section 57] |
| ▪ Gratuity received by Director (Not as Employee) | |
| ▪ Interest on Employees Contribution from URPF | |
| ▪ Interest received on Compensation for Compulsory Acquisition by Government of India. | |
| ▪ Compensation or any other payment received in connection with termination of his employment or the modification of the terms & conditions of the employment [Section 56(2)(xi)] | |
| ▪ Net Winning from Online Games. | |
| ▪ Sum received under a LIP (other than ULIP/KIP) not exempt u/s 10(10D) [Section 56(2)(xii)] | |

FOLLOWING INCOMES ARE TAXABLE U/H 'IFOS' IF NOT TAXABLE U/H 'PGBP'

- **Interest on securities & Interest on Bank Deposits/Deposits with Companies.** [Discussed Later]
- Employee Contribution to PF/SAF etc. received by Employer [If not remitted before Due Date]
- Income from letting out on hire Plant, Machinery, Furniture.
- Income from letting out → When letting of buildings is inseparable from letting of P&M/furniture.
- **Sum received from Keyman Insurance Policy** if received by any person **other than employer & employee.**
- **Insurance Commission.**
- Income from Royalty.

DIVIDEND [SECTION 56(2)(i)]**Basis of Charge of Dividend**

- Dividends received from any company is **taxable at normal rates of tax** in the hands of **shareholder**.
- PC Note:** Dividends are always taxable u/h IFOS [whether shares are held as SIT or as Investment].

Nature of Dividend	Year of Taxability
Normal Dividend	Year of Declaration
Deemed Dividend	Year of Distribution/Payment
Interim Dividend	Year in which dividend is unconditionally made available to shareholders

PC Note: Method of Accounting employed by the assessee is irrelevant in case of taxability of Dividends since Section 8 specifically give the basis of charge of Dividend Income.

PC Note: Dividend declared by Indian company outside India → Deemed to accrue/arise in India.

DEEMED DIVIDEND [Section 2(22)(a) to 2(22)(f)]

- These Payments are not dividend in reality, but for Income tax, they are deemed as dividend to check tax avoidance.
- Following Payments/Distribution by the company to its shareholders are treated as Dividend **to the extent of ACCUMULATED PROFITS** of the company.

(a) Distribution of Accumulated Profit by the company to its shareholders resulting into Release of Company's Asset

- There should be **distribution** from **accumulated profits** of the company (whether capitalised or not) & not from capital.
- Such distribution must result in the **release of company's asset** (In cash/kind).

PC Note: In case of issue of bonus shares to equity shareholders → No Assets are released since it is capitalization of profit & thus it is not deemed as dividend.

CQ1. PCA Educator Ltd. has accumulated profits of Rs. 9 Lacs excluding capitalized profits i.e. bonus shares of Rs. 6 Lac issued in the past. It distributed assets of Rs. 15 Lacs to the shareholders during PY 24-25. Compute taxable dividend if market value of the asset on the date of the distribution is Rs. 10 Lacs.

What will be your answer if market value of the distributed assets is (ii) Rs. 14,00,000; (iii) Rs. 17,00,000.

(b) Distribution of Accumulated profit by company in the form of Debentures/Debentures stock or Bonus shares to Preference Shareholders

Any distribution by a company of:

- Bonus Debentures/Debenture Stock** → to any shareholders;
- Bonus shares** → to Preference shareholders. [No Dividend if given to Equity Shareholders]

PC Note: In this clause, Release of asset is not necessary.

Taxable Amount: Bonus shares/Debenture: FMV is taxable in the hands of shareholders.

CQ2. Mr. X is holding 100 preference share in ABC Ltd. Company has issued him 100 bonus shares having market value of Rs. 1,200. Rs. 1,200 will be deemed as dividend to the extent of accumulated profits.

(c) Distribution of accumulated profit at the time of liquidation

- Any distribution by the company on liquidation shall be deemed as dividend to the extent of accumulated profit (Capitalized/not) **immediately before its liquidation**.

PC Note: Distribution made out of Profits after Liquidation → Repayment towards capital.

(d) Distribution on Reduction of Share Capital by the Company

- Any distribution by the company on Reduction of its share capital to the extent of Accumulated profits (whether capitalized or not) is deemed as Dividend.

CQ3. Mr. X is holding 1000 shares of ABC Ltd. of Rs. 10 each & company has reduced its share capital & has refunded Rs. 5 per share to the shareholders, the amount so received by the shareholders shall be considered to be dividend to the extent of accumulated profit.

(e) Distribution of Accumulated Profits by way of Loan/Advance

Any payment by **Closely held company** by way of **Advance/Loan** to:

- Shareholders** beneficially holding at least **10% Equity shares** in the company.
- Any Person** on **behalf of** such **shareholders**/for benefit of such shareholder.
- Any Concern** in which such shareholder has **substantial interest** (atleast **20% shares**)
- Any **Concern** in which such shareholder is **Member/Partner**.

CQ4. ABC Pvt. Ltd. a closely held company has general reserves of Rs. 7 lacs & current profits of Rs. 2 lacs. Company has given a loan of Rs. 3 lacs to one such shareholder Mr. X. In this case, it will be considered as dividend in the hands of Mr. X. However, if loan given by the company is Rs. 10 Lacs, dividend = Rs. 9 lacs.

Exception to Section 2(22)(e)

- Money lending is substantial business of company & loan is given in **ordinary course of business**.
- Set-off of Dividend** → Where any payment (loan) has been treated as dividend & subsequently company declares dividend & dividend so paid is adjusted (set-off) by the company **against the previous borrowing**, adjusted amount will not be again treated as a dividend.

CQ5. PCA Educators Pvt. Ltd gave a loan of Rs. 5,00,000 to Mr. Shubham who had 10% shares in the company. The loan is still outstanding. Thereafter, company declared dividend & has to pay a dividend of Rs. 1,00,000 to Mr. Shubham & such dividend is set off against such loan. In such case, Rs. 5,00,000 shall be deemed dividend as per section 2(22)(e). However, dividend of Rs. 1,00,000 which has been set off against such loan would not be liable to tax in the hands of Mr. Shubham.

If the amount distributed as dividend is not set off against the loan, shareholder shall be liable to pay tax on such amount paid also. Further, if such dividend has been declared after the loan is refunded by Mr. Shubham, then he would be liable to pay tax on dividend of Rs. 1,00,000.

Following Payments shall not be treated as Deemed Dividend:

- Payment on Buy-back of shares **upto 30th September 2024**.
- Dividend does not include any distribution of shares in the scheme of Demerger.
- Trade Advances** in the nature of commercial transactions → **Not a Deemed Dividend**.

CQ6. Rahul holding 28% of equity shares in a company, took a loan of Rs. 5 lacs from the same company. On the date of granting loan, company had accumulated profit of Rs. 4 lacs. Company is engaged in some manufacturing activity.

- Is the amount of loan taxable as deemed dividend in the hands of Rahul, 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. a company in which the public are not substantially interested)? [ICAI SM Q1]

Ans: Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend u/s 2(22)(e), to the extent the company possesses accumulated profits.

- 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 loan is taken from a private company (company in which the public are not substantially interested), where lending of money is a substantial part of the business of the company, section 2(22)(e) would be attracted. In this case, since the company is a manufacturing company & not a lending company & Rahul holds > 10% of the equity shares in the company, provisions of section 2(22)(e) would be attracted.

(f) Amount received by shareholder on buy-back of shares by domestic companies [Section 2(22)(f)]

OLD: In case of buyback of shares (whether listed or unlisted) before 1.10.2024 by a domestic company, additional income-tax @ 20% (+ SC @12% & HEC @ 4%) is leviable in the hands of the company. Consequently, income arising to the shareholders in respect of such buyback of shares by the domestic company is exempt u/s 10(34A).

AMENDED: In case of buyback of shares (whether listed or unlisted) on/after 1.10.2024 by a domestic company, any sum paid by the domestic company for purchase of its own shares would be deemed as dividend in the hands of shareholders and shall be charged to income tax at applicable tax rates. No deduction for expenses would be available against such dividend income while determining the income from other sources.

No. of shares of A Ltd. bought in 2020 By Mr. B @ Rs. 40 per share	100 shares
Total cost of acquisition (100 x Rs. 40)	Rs. 4,000
No. of shares bought back in November 2024 by A Ltd. @ Rs. 60 per share	20 shares
Income taxable as deemed dividend u/s 2(22)(f) [Rs. 60 per share x 20 shares]	Rs. 1,200
LTCL on such buyback as per section 46A = (Value of consideration - COA) [(Zero - (Rs. 40 x 20)) [Such LTCL can be set-off against other LTCG or it can be carried forward]	Rs. 800
No. of shares sold in December 2025 by Mr. B @ Rs. 70 per share	50 Shares
Long-term capital Gain (Rs. 70 x 50 - Rs. 40 x 50)	Rs. 1,500
Taxable LTCG in PY 25-26 after set-off of LTCL [Rs. 1,500 - Rs. 800]	Rs. 700

MEANING OF ACCUMULATED PROFITS**[To be Read Once]**

1. It includes all profits upto the date of Distribution/Liquidation (if company is in liquidation).
2. Accumulated profit includes capital profits (Bonus shares issued) only for clause [a-d] & not for clause 'e'. Thus, Capitalized profit is not considered for Section 2(22)(e).
3. It includes tax-free Income (Agricultural Income). However capital receipts are included in accumulated profits only if they are taxable u/h "Capital Gains" in the hands of recipient company.
4. Does not includes Provision for taxation/dividend, depreciation reserves (provisions for outsiders)
5. If Government/Government company has compulsorily acquired the company → Accumulated profits do not include any profits prior to 3 successive PYs immediately preceding the PY of compulsory acquisition.
6. In case of Amalgamated company → Accumulated Profits of amalgamating company on date of amalgamation shall be included in accumulated profits of amalgamated company.

CASUAL INCOMES [Section 56(2)(ib) r/w Section 115BB]

- **Incomes covered:** Winning from lotteries, crossword puzzles, horse races, card games & other games of any sort, gambling, betting etc.
- **Section 115BB:** Taxable @ **30% + SC (if any) + 4% HEC on tax u/s 115BB.**
- **No deduction for any Expenditure** is allowed from such income.
- Deduction under **Chapter VI-A is not allowable** from such income.
- Adjustment of **unexhausted BEL is not permitted** against casual income.

WINNING FROM ONLINE GAMES [Section 115BBJ]

- **Meaning of online games:** A game that is offered on the internet and is accessible by a user through a computer resource including any telecommunication device.
- Net winning is taxable @ **30% + SC (if any) + 4% HEC on tax u/s 115BBJ.**
- **No deduction for any Expenditure** is allowed from such income.
- Deduction under **Chapter VI-A is not allowable** from such income.
- Adjustment of **unexhausted BEL is not permitted** against casual income.

INTEREST RECEIVED ON SECURITIES [Section 56(2)(id)]

- **Securities held as Investment** → Interest from such securities is taxable u/h IFOS.
- **Securities held as SIT** → Interest from such securities is taxable u/h PGBP.

Grossing up of Winning from Lottery/Interest on securities

- If net amount is given, then it shall be grossed up. Tax will be levied on Gross Income.
- **Gross amount** = $\frac{\text{Net amount}}{[1 - \text{Tax Rate}]}$

Exceptions: Following Interest Income would be EXEMPT u/s 10(15)

(a)	Interest on Post Office Savings Bank Account is exempt from tax only to the extent of: Individual A/c → Rs. 3,500; Joint A/c → Rs. 7,000.
(b)	Interest payable to any foreign bank on deposit made by it with scheduled bank (with RBI approval)
(c)	Interest payable by: <ul style="list-style-type: none"> (i) Public sector companies on bonds/debentures notified by CG in the official gazette. Interest from the following bonds is Exempt: India Infrastructure Company Ltd & tax-free Bonds of Indian Railway Finance Corporation Ltd. (IRFCL), NHAI, RECL, Housing & Urban Development Corporation Ltd. (HUDCL), Power Finance Corporation (PFC), Jawaharlal Nehru Port Trust, Dredging Corporation of India Limited, Ennore Port Ltd & Indian Renewable Energy Development Agency Ltd. (ii) GOI on deposit made by employee of CG/SG/Public sector company in accordance with notified scheme of moneys due to him on account of his retirement.
(d)	Bhopal Gas Victims: Interest on deposits made for benefit of victims of Bhopal Gas Disaster in account with RBI or any public sector bank notified by CG → Exempt u/s 10(15).
(e)	Interest on Gold Deposit Bond /Certificates issued u/s Gold Monetization Scheme, 2015.
(f)	Interest on bonds issued by (a) Local authority; (b) State Pooled Finance Entity notified by CG. Interest from "Tax-Free Pooled Finance Development Bonds" → Exempt u/s 10(15).
(g)	Interest received by NR/RNOR from deposit in Offshore Banking Unit referred u/s 2(u) of SEZ Act, 2005 made on/after 1.4.2005.
(h)	Interest receivable by NR from unit located in IFSC i.r.o moneys borrowed by it on/after 1.9.2019.

RECEIPT OF MONEY/PROPERTY FOR INADEQUATE CONSIDERATION OR WITHOUT CONSIDERATION [SECTION 56(2)(x)] → [GIFT]

1 Applicability of Section 56(2)(x)

- **Section 56(2)(x) would apply only if Gift (Property) received is a Capital asset for recipient.**
- It would not apply the property received is SIT/RM/CS of the recipient.
- **Only transfer of capital asset** for inadequate/without consideration would attract sec 56(2)(x).

2 Taxability

SN	Nature of Gift	Taxability in the hands of Recipient
1	Cash/Cheque/Draft (All Transactions)	If Total Amount of Money received from one or more person during a PY > Rs. 50,000 → Whole Amount of Money received is Taxable

PC Note: If Money received is less than Rs. 50,000 → Nothing will be taxable.

2 Receipt of MOVABLE PROPERTY (All Transactions)

Free (Without Consideration)

If **Aggregate** FMV of all Movable properties received > Rs.50,000
→ Whole amount of FMV of Movable Properties received is taxable.

Concessional

If Aggregate Discount on all Movable properties received > Rs.50,000 → then Total Discount received is taxable.

PC Note: If Value/Discount received is less than Rs. 50,000 → Nothing will be taxable.

3 Receipt of IMMOVABLE PROPERTY (Single Transactions)

Free

If SDV > Rs. 50,000 → Whole SDV is taxable.

Concessional

If Discount > **Higher of (i) Rs. 50,000 or (ii) 10% of Consideration**
→ **Discount is taxable.**

FOLLOWING GIFTS ARE NOT TAXABLE IRRESPECTIVE OF THEIR AMOUNT

While calculating the above limit of Rs 50,000, following amount shall not be considered.

- | | |
|--------------------------------|--|
| ▪ Gifts from Relatives | ▪ In Contemplation of Death of the payee/donor. |
| ▪ On occasion of marriage. | ▪ From Local Authority. |
| ▪ Under a Will/ By Inheritance | ▪ From Registered Charitable trust referred u/s 10(23C). |
- Gift received by a trust from Individual. (Trust must be created for benefit of relative of individual)
 - Transaction not regarded as transfer u/s 47(i)/(iv)/(v)/(vi)/(vib)/(vid)/(vii).
✓ Transfer b/w HC & its WOS; or Transfer b/w subsidiary company & its 100% Indian HC.
 - Received by an individual, from any person, i.r.o. any expenditure actually incurred by him on his/family member medical treatment for any illness related to COVID-19.
 - **Received by family member of a deceased person within 12 months of his death –**
 - (a) from the employer of the deceased person (without any limit)
 - (b) from any other person/s to the extent that such aggregate sums ≤ Rs. 10 lacs.

MEANING OF RELATIVES

For Individual	<ul style="list-style-type: none"> Spouse of the individual + Brother/Sister of the individual & his/her spouse. Brother/sister of either of the parents of the individual. Any lineal ascendant or descendant of individual & spouse of the individual. Spouse of any of the persons referred to above.
For HUF	Any Member of HUF

CQ7. Mr. A, a dealer in shares, received the following without consideration during PY 24-25 from a friend B:

- Cash gift of Rs. 75,000 on his marriage, 15th April, 2024.
- Bullion, FMV of which was Rs. 60,000, on his birthday on 19th June 2024.
- Plot of land at Faridabad on 1st July 2024; SDV is Rs. 5 lacs on that date. Mr. B purchased it in April 2010.
- Mr. A purchased from his friend Mr. C, who is a dealer in shares, 1000 shares of X Ltd. @ Rs. 400 each on 19th June, 2024, FMV of which was Rs. 600 each. Mr. A sold these shares in the course of his business on 23rd June, 2024.
- On 1st Nov 2024, Mr. A took possession of building booked by him two years back at Rs. 20 lacs. SDV of the property as on 1st Nov 2024 was Rs. 32 lacs & on the date of booking was Rs. 23 lacs. He had paid Rs. 1 lac by A/c payee cheque as down payment on the date of booking.
- On 1st March, 2025, he sold the plot at Faridabad for Rs. 7 lacs.

Compute the income of Mr. A chargeable u/h "IFOS" & "Capital Gains" for AY 25-26.

[ICAI SM Q3]

Answer:

Computation of "Income from other sources" of Mr. A for AY 25-26

	Particulars	Rs.
(1)	Cash gift on marriage – Not taxable	Nil
(2)	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate FMV exceeds Rs. 50,000	60,000
(3)	SDV of plot of land at Faridabad received without consideration - taxable u/s 56(2)(x)	5,00,000
(4)	Difference of Rs. 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents SIT. Since Mr. A is a dealer in shares & it is mentioned that shares were subsequently sold in the course of his business, such shares represent the SIT of Mr. A.	-
(5)	Difference between SDV of Rs. 23 lacs on date of booking & ASC of Rs. 20 lakh paid is taxable u/s 56(2)(x) since difference exceeds Rs. 2 Lacs [Higher of Rs. 50,000 & 10% of consideration]	3,00,000
Income from Other Sources		9,35,000

Computation of "Capital Gains" of Mr. A for AY 25-26

	Particulars	Rs.
	Sale Consideration	7,00,000
	Less: COA [deemed to be stamp value charged to tax u/s 56(2)(x) as per Sec 49(4)]	5,00,000
	Short-term capital gains	2,00,000

PC Note: Resultant capital gains will be STCG for calculating the period of holding, period of holding of previous owner is not to be considered.

PROVISIONS FROM CAPITAL GAINS

PC Note: If assets received as gift is made taxable u/s 56(2)(x), then COA of such assets shall be the value taken into accounts for the purpose of sec 56(2)(x). In such case, POH of previous owner shall not be included.

CQ8. Discuss taxability of the following in the hands of the recipient u/s 56(2)(x).

[ICAI SM Q4]

1. Akhil HUF received Rs. 75,000 in cash from niece of Akhil (daughter of Akhil's sister). Akhil is Karta of HUF.
2. Nitisha, a member of her father's HUF transferred a house property to HUF without consideration. SDV = 9 Lacs.
3. Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. FMV on that date was Rs. 100 per share. He received jewellery of Rs. 45,000 (FMV) from his nephew on same day.
4. Kishan HUF gifted a car to son of Karta for achieving good marks. FMV of the car is Rs. 5,25,000.

Answer:

SN	Taxability	Amount	Reason
(i)	Taxable	75,000	Money exceeding Rs. 50,000 received without consideration from non-relative is taxable u/s 56(2)(x). Daughter of Mr. Akhil's sister is not relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable u/s 56(2)(x). Since Nitisha is a member of HUF, she is a relative of HUF. However, income from such asset would be included in hands of Nitisha u/s 64(2).
(iii)	Taxable	55,000	As per provisions of sec 56(2)(x), in case aggregate FMV of property, other than immovable property, received without consideration > Rs. 50,000, whole of the aggregate value shall be taxable. In this case, aggregate FMV of shares (Rs. 10,000) & jewellery (Rs. 45,000) exceeds Rs. 50,000. Hence, Rs. 55,000 shall be taxable.
(iv)	Non-taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

CQ9. 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 Rs. 90 lacs on 1.1.2025, when SDV was Rs. 150 lacs. The agreement was, however, entered into on 1.09.2024 when SDV was Rs. 140 lacs. Mr. Hari had received a down payment of Rs. 15 lacs by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari & Rajesh, assuming that Mr. Hari has purchased the building for Rs. 75 lacs on 12th July, 2023.

Would your answer be different if Hari was a share broker instead of a property dealer?

[ICAI SM Q5]

Answer:

Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of the seller, Mr. Hari

- Provisions of section 43CA would be attracted, since the building represents his SIT & he has transferred the same for a consideration < stamp duty value; & the stamp duty value > 110% of consideration.
- U/s 43CA, option to adopt SDV on date of agreement can be exercised only if whole/part of the consideration has been received on/before date of agreement by way of A/c payee cheque or draft or by use of ECS through a bank A/c or through credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, & BHIM, Aadhar Pay on/before date of agreement. In this case, since down payment of Rs. 15 lakh is received on date of agreement by crossed cheque & not account payee cheque, option cannot be exercised.
- Therefore, Rs. 75 lacs, being difference between SDV on date of transfer i.e., Rs. 150 lacs, & purchase price i.e., Rs. 75 lacs, would be chargeable as **business income** in the hands of Mr. Hari, since SDV > **110% of ASC**.

In the hands of the buyer, Mr. Rajesh

- Since Mr. Rajesh is a dealer in automobile spare parts, building purchased would be a capital asset. 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 & difference between consideration & SDV > Rs. 9,00,000, being the higher of Rs. 50,000 & 10% of consideration.

- Therefore, Rs. 60 lakh, being the difference between SDV of the property on the date of registration (i.e., Rs. 150 lakh) & actual consideration (i.e., Rs. 90 lakh) would be taxable u/s 56(2)(x) in the hands of Mr. Rajesh, since payment on the date of agreement is made by crossed cheque & not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, & BHIM Aadhar Pay.

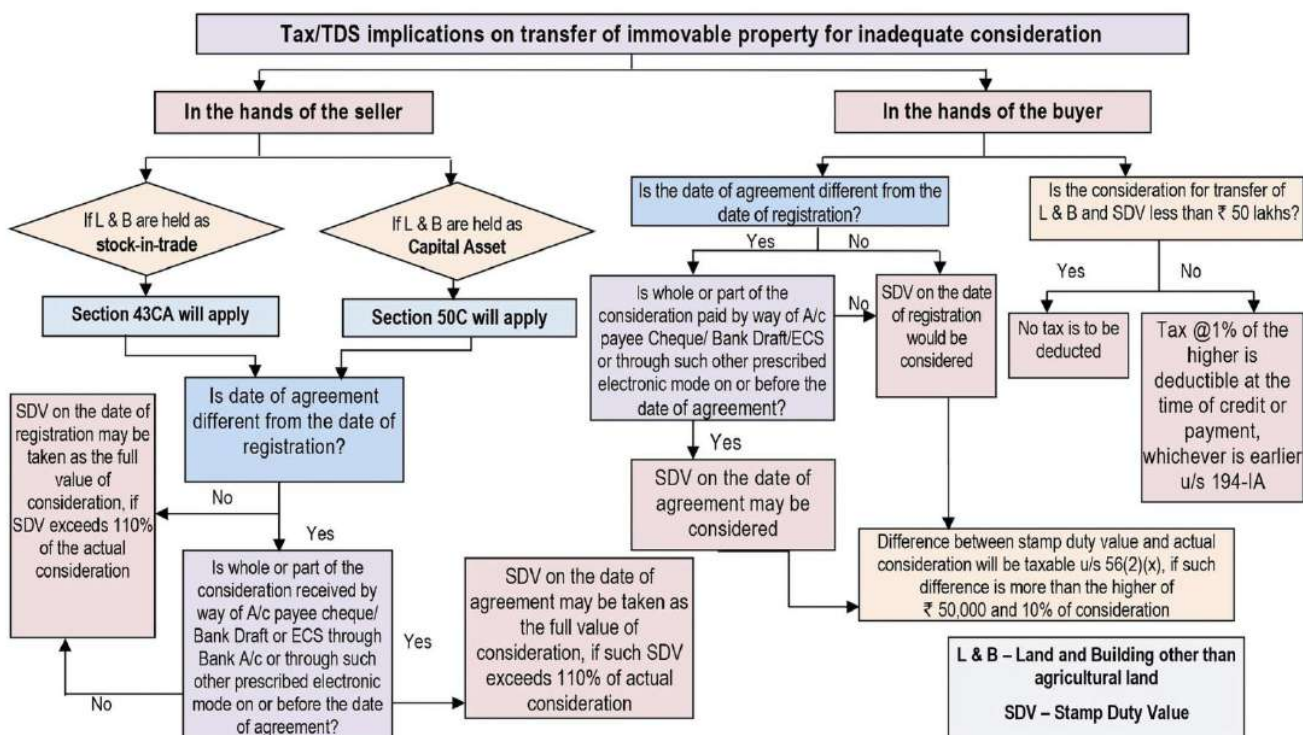
Case 2: Tax implications if Mr. Hari is a share broker

In the hands of the seller, Mr. Hari

- In this case, building would represent his capital asset & not SIT. Provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration < the stamp duty value; & the stamp duty value > 110% of consideration.
- Thus, Rs. 75 lakh, being the difference between stamp duty value on the date of registration (i.e., Rs. 150 lakh) & purchase price (i.e., Rs. 75 lakh) would be chargeable as STCG.
- It may be noted that u/s 50C, the option to adopt stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or 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, UPI, RTGS, NEFT, & BHIM Aadhar Pay on or before the date of agreement. In this case, since the down payment of Rs. 15 lakhs has been received on date of agreement by crossed cheque & not account payee cheque, the option cannot be exercised.

In the hands of the buyer, Mr. Rajesh

- There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker. Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration & the difference between ASC & SDV > Rs. 9,00,000, being the higher of Rs. 50,000 & 10% of consideration.
- Therefore, Rs. 60 lacs [SDV on date of registration (Rs. 150 lakh) - ASC (Rs. 90 lacs)] would be taxable u/s 56(2)(x) in the hands of Mr. Rajesh, since payment on date of agreement is made by crossed cheque & not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT etc.



ADVANCE FORFEITED DUE TO FAILURE OF NEGOTIATION FOR TRANSFER OF CAP. ASSET [SECTION 56(2)(ix)]

Date of forfeiture	Tax Treatment
A. Advance money forfeited upto 31.3.2014	Reduce from original COA of capital asset.
B. Advance money forfeited on/after 1.4.2014	Taxable u/h IFOS. Such advance would not be reduced from the cost of acquisition for computing capital gains.

PC Note: Date of Forfeiture of Advance Money is Relevant & not date of receipt of advance money.

INTEREST RECEIVED ON COMPENSATION/ENHANCED COMPENSATION FOR COMPULSORY ACQUISITION OF LAND & BUILDING [SECTION 56(viii)]

Taxable in PY of Receipt irrespective of the year for which it is paid & irrespective of the method of accounting followed by the assessee [Section 145A].

CQ11. During PY 24-25, Mr. Gagan received Rs. 5,32,000 towards interest on compensation from SG i.r.o. compulsory acquisition of his land effected during PY 19-20. Above amount include interest relating to FYs:

PY 19-20: Rs. 1,58,000	PY 20-21: Rs. 1,78,000	PY 21-22: Rs. 1,96,000
------------------------	------------------------	------------------------

He incurred legal expenses of Rs. 75,000 in PY 21-22 to receive interest on such enhanced compensation. Determine how much Interest on enhanced compensation would be taxable for AY 25-26? Can he claim deduction i.r.o legal expenses from the amount of interest on enhanced compensation?

[N14/M17 & M14]

Answer: Entire interest of Rs. 5,32,000 would be taxable in the year of receipt, namely, PY 24-25.

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,32,000
Less: Deduction under section 57(iv) @50%	(2,66,000)
Interest chargeable under the head "Income from other sources"	2,66,000

PERMISSIBLE DEDUCTIONS FROM IFOS [SECTION 57]

- 1 **Interest on Loan:** Interest on loan for purchasing the shares can be claimed as a deduction. Interest can be claimed even if no income is earned by way of dividend on such shares.
Dividend or income i.r.o. units of mutual fund specified u/s 10(23D) or of specified company: Interest expenditure to earn such income is allowed as deduction subject to a maximum of 20% of dividend income included in the total income, without deduction under this section.
PC Note: Deduction on account of interest shall **not exceed 20% of dividend** income or income from units included in the total income for that PY without deduction u/s 57 (i.e before deduction).
AMD: This deduction is not available from dividend referred u/s 2(22)(f).
- 2 Interest on Securities: **Commission & Remuneration** paid to any person to realise such interest if such income is taxable in the hands of recipient [**Ex:** Collection charges paid to bank/interest on loan]
- 3 **Family Pension** →
Deduction = Lower of (a) Rs. 15,000 or (b) 1/3rd of Family Pension [Old Regime]
Deduction = Lower of (a) Rs. 25,000 or (b) 1/3rd of Family Pension [**New Regime**]
- 4 **Interest on compensation** for Compulsory acquisition = **50% of amount received** during PY.
- 5 In case of income from letting of P&M/furniture on hire with/without building:
Following items are allowed as deductions in computation of income:
(a) Amount paid for current repairs to P&M/furniture.
(b) Insurance premium paid against risk of damage/destruction of P&M/furniture.
(c) Normal depreciation allowance for P&M/furniture due.
- 6 **Employee Contribution remitted before due date by the Employer.**
Employee contribution to PF is treated as income in the hands of Employer. Such employee's contribution is allowed as deduction to employer if remitted before Due Date as per the relevant law.
- 7 **Any other Revenue expenditure** incurred wholly & exclusively **for earning such Income.**

INADMISSIBLE DEDUCTIONS FROM IFOS [SECTION 58]

1	Personal Expenses	Any personal expense of the assessee
2	Casual Income	No deduction from any casual income. PC Note: Activity of owning & maintaining race horses → Expenses incurred shall be allowed. Such loss shall be allowed to be carried forward in accordance with the provisions of section 74A.
3	Income Tax	Any Income-tax paid/payable
4	Interest	Payable outside India if No TDS or after TDS, not paid to government
5	Salaries	Payable outside India if No TDS or after TDS, not paid to government
6	Payment to Residents	30% of Sum paid shall be disallowed if - ▪ Tax is NOT deducted or; ▪ Tax after deduction is NOT paid before DD of filing ROI u/s 139(1).
7	Payment to Relative	Excessive payment shall be disallowed. [Same as section 40A(2)]
8	Cash Payment	Same as section 40A(3).

TAXABLE DEEMED INCOME

- The provisions of section 41(1) are made applicable to the computation of income u/h IFOS.
- Thus, any income u/s 41(1) which comes under the purview of IFOS shall be taxable u/h IFOS.

MASTER QUESTION

MQ. Mr. PC furnishes the following particulars of his incomes for PY 24-25. Compute his IFOS for AY 25-26.

1	Dividend on equity shares	Rs. 6,000
2	Dividend on preference shares	Rs. 5,000
3	Dividend from a foreign company	Rs. 10,000
4	Dividends received from Assam Tea Ltd. (60% of the income is agricultural Income)	Rs. 25,000
5	Income from agricultural land in India	Rs. 12,000
6	Income from agricultural land in Pakistan	Rs. 10,000
7	Interest on Securities (Net)	Rs. 18,000
8	Winning from Horse-Race (Gross)	Rs. 13,000
9	Rent from sub-letting a house	Rs. 40,000
10	Rent payable by Mr. PC for the sub-let house	Rs. 25,000
11	Other expenses on sub-let-house	Rs. 5,000
12	Income from letting on hire of building & machinery under one composite lease	Rs. 22,000
13	Interest on Bank Deposits	Rs. 4,000
14	Directors sitting fees received	Rs. 10,000
15	Ground rent received from Land in Pathankot	Rs. 6,000
16	Income from undisclosed sources	Rs. 65,000
17	Amount received on account of winnings from lotteries	Rs. 25,000

Following deductions are claimed by him

(a) Allowable depreciation on Building & Machinery	Rs. 6,000
(b) Fire Insurance on Building & Machinery	Rs. 1,000
(c) Amount spent for buying lottery ticket	Rs. 5,000

Solution:

Computation of Income u/h IFOS in the hands of Mr. PC

Dividend on equity shares	Rs. 6,000
Dividend on preference shares	Rs. 5,000
Dividend from a foreign company	Rs. 10,000
Dividends received from Assam Tea Ltd. (Since it is Indian company)	Rs. 25,000
Income from agricultural land in India	Exempt
Income from agricultural land in Pakistan	Rs. 10,000
Interest on Securities (after grossing up @ 10%) [18000/90%]	Rs. 20,000
Winning from Horse-Race [Gross amount is given, so no need to gross up again]	Rs. 13,000

Rent from sub-letting a house [Rs. 40,000 – 25,000 – 5,000]	Rs. 10,000
Income from letting of machinery & building after Expense [Rs. 22,000 - (Rs. 6,000 + Rs. 1000)]	Rs. 15,000
Interest on Bank Deposits	Rs. 4,000
Directors sitting fees received	Rs. 10,000
Ground rent received from Land in Pathankot	Rs. 6,000
Income from undisclosed sources – Taxable @ 78%	Rs. 65,000
Amount received on account of winnings from lotteries	Rs. 25,000

Notes:

- (i) Amount spent for buying lottery ticket is not deductible. (Winning from lottery is taxable @ 30%)
(ii) Agricultural income from land situated in India is exempt u/s 10.

SUM RECEIVED UNDER A LIFE INSURANCE POLICY NOT EXEMPT U/S 10(10D) OTHER THAN UNDER A ULIP & KIP [SECTION 56(2)(XII)]

- **Taxable Amount** = Sum received – Total premium paid during the term of policy
- **PC Note:** Premium deducted shall not claimed as deduction under any other provision of the Act.
- **It will be taxable u/h IFOS.**

MATURITY AMOUNT OF A LIFE INSURANCE POLICY [SECTION 10(10D)] [V. IMP]

SN	Nature of Policy	Tax Treatment
1	Sum received from a policy u/s 80DD(3)	Taxable
2	Sum received under a Keyman Insurance Policy	Taxable [PGBP/Salary/IFOS]
3	Other policy (sum received on death of Person)	Always Exempt
4	Other policy (not received on death of Person) → Sum assured + Allocated Bonus	
	(i) Issued before 1.4.2003	Fully Exempt
	(ii) Issued on/after 1.4.2003 but before 1.4.2012	Exempt if Premium ≤ 20% of sum assured
	(iii) Issued during FY 2012-2013 [For All]	Exempt if Premium ≤ 10% of sum assured
	(iv) Issued on/after 1.4.2013 (for Disabled Person)	Exempt if Premium ≤ 15% of sum assured
	(v) Issued on/after 1.4.2013 (for Normal Person)	Exempt if Premium ≤ 10% of sum assured

Policies issued on/after 1.4.2023

- **Normal Person:** Exempt if Premium ≤ 10% of sum assured
- **Disabled Person:** Exempt if Premium ≤ 15% of sum assured

GUIDELINES U/S 10(10D) OF THE INCOME-TAX ACT, 1961 [CIRCULAR NO. 15/2023 DATED 16.08.2023]

Sec 10(10D) provides for exemption of the sum received under a LIP, including the sum allocated by way of bonus on such policy subject to the condition that annual premium does not exceed 10% of actual capital sum assured.

- (a) **In case where an assessee has a single life insurance policy (other than ULIP) issued on/after 1.4.2023:** Exemption u/s 10(10D) would not be available with respect to any life insurance policy (other than ULIP) issued on/after 1.4.2023, if the amount of premium payable exceeds Rs. 5,00,000 for any of the PYs during the term of such life insurance policy.
- (b) **In case where an assessee has multiple life insurance policies (other than ULIPs) issued on/after 1.4.2023:** In case where premium is payable by a person for more than one life insurance policies (other than ULIPs) issued on/after 1.4.2023 & aggregate of premium payable on such life insurance policies exceed Rs. 5,00,000 for any of the PYs during the term of any such LIP(s), exemption u/s 10(10D) would be available i.r.o. any of those LIPs, at the option of the assessee, whose aggregate premium payable does not exceed Rs. 5,00,000 for any of the PYs during their term. However, to get exemption u/s 10(10D), condition of annual premium not exceeding 10% of the actual capital sum assured also needs to be satisfied.
- (c) **Exemption in case of death of a person:** Exemption u/s 10(10D) would be available irrespective of annual premium.

Guidelines issued by the CBDT: In case any difficulty arises in giving effect to the provisions of this clause, the CBDT may issue guidelines for the purpose of removing the difficulty with the previous approval of the Central Government. Accordingly, the CBDT has, with the approval of CG, vide this circular, issued the following guidelines in respect of LIPs (other than ULIPs).

Situation 1: No sum of any nature including bonus (such sum hereinafter referred as “consideration”) is received by the assessee on any LIPs which are issued on/after 1.4.2023 (such LIPs hereinafter referred as “eligible LIPs”) during any PY preceding the current PY (being the PY in which consideration is received & its taxability is being examined) or consideration has been received on such eligible LIPs in an earlier PY but has not been claimed exempt. In such a situation, the exemption u/s 10(10D) would be determined as under:

(1) Where the assessee has received consideration, during the current PY, under one eligible LIP only

Circumstance	Eligibility for exemption u/s 10(10D)
Amount of premium payable on such eligible LIP \leq Rs. 5 Lacs for any of the PYs during the term of such eligible LIP & annual premium does not exceed 10% of actual capital sum assured	Such consideration would be eligible for exemption u/s 10(10D). [Refer Ex 1 & 2]
If amount of premium payable on such eligible LIP $>$ Rs. 5,00,000 for any of the PYs during the term of such eligible LIP	Such consideration would not be eligible for exemption u/s 10(10D). [Refer Example 3]

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: Assessee did not receive any consideration under any other eligible LIPs in earlier PY preceding PY 24-25.

Eligibility for exemption u/s 10(10D): Consideration received under LIP “A” would be exempt u/s 10(10D) in AY 25-26 since annual premium \leq 10% of actual capital sum assured. Moreover, as policy has been issued before 1.4.2023, limit of Rs. 5,00,000 of amount of premium payable is not applicable, since it is not an eligible LIP.

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: Assessee did not receive any consideration under any other eligible LIPs in earlier PY preceding PY 33-34.

Eligibility for exemption u/s 10(10D): Consideration received is exempt u/s 10(10D) in AY 34-35, since annual premium payable on the policy \leq Rs. 5,00,000 & also does not exceed 10% of actual capital sum assured.

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: Assessee did not receive any consideration under any other eligible LIPs in earlier PY preceding PY 33-34.

Eligibility for exemption u/s 10(10D): Consideration received is not exempt u/s 10(10D) in AY 34-35 since annual premium payable on the eligible LIP exceeds Rs. 5,00,000.

(2) Where the assessee has received consideration, during the current PY, under more than one eligible LIP

Circumstance	Eligibility for exemption u/s 10(10D)
If aggregate of the amount of premium payable on such eligible LIPs \leq Rs. 5,00,000 for any of the PYs during the term of such eligible LIPs & annual premium \leq 10% of actual capital sum assured	Such consideration would be eligible for exemption u/s 10(10D). [Refer Example 4 given below]
If the aggregate of the amount of premium payable on such eligible LIPs $>$ Rs. 5,00,000 for any of the PYs during the term of such eligible LIP	Consideration in respect of any of those eligible LIPs whose aggregate amount of premium payable does not exceed Rs. 5,00,000 for any of the PYs during their term would be eligible for exemption u/s 10(10D), provided their annual premium \leq 10% of actual capital sum assured. [Refer Examples 5, 6 & 7 given below]

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: Assessee did not receive any consideration under any other eligible LIPs in earlier PY preceding PY 33-34.		

Eligibility for exemption u/s 10(10D): In this case, the aggregate of the annual premium payable for LIP "A" & LIP "B" does not exceed Rs. 5,00,000 during the term of these policies.

Further, annual premium payable in respect of LIP "A" & LIP "B" does not exceed 10% of actual capital sum assured. Therefore, the consideration received under LIP "A" & "B" would be exempt u/s 10(10D) in AY 34-35

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: Assessee did not receive any consideration under any other eligible LIPs in earlier PY preceding PY 33-34.		

Eligibility for exemption u/s 10(10D) - In this case, the aggregate of the annual premium payable for LIP "A" & LIP "B" exceeds Rs. 5,00,000 during the term of these policies.

However, the consideration received under LIP "A" would be exempt u/s 10(10D) in AY 34-35, since its annual premium payable does not exceed Rs. 5,00,000 for any PY during the term of the policy & 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 AY 34-35.

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: Assessee did not receive any consideration under any other eligible LIPs in earlier PY preceding PY 33-34.

Eligibility for exemption u/s 10(10D) - The aggregate of annual premium payable for LIP "A", LIP "B" & LIP "C" exceeds Rs. 5,00,000 during the term of these policies.

However, the consideration received under LIPs "A" & "B" would be exempt u/s 10(10D) in AY 34-35, since aggregate of annual premium payable for these two policies does not exceed Rs. 5,00,000 for any PY during the term of these two policies & annual premium payable in respect of these policies does not exceed 10% of actual capital sum assured. Consequently, consideration received under LIP "C" alone would not be exempt u/s 10(10D) in AY 34-35.

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

PC Note: The assessee did not receive any consideration under any other eligible LIPs in earlier PY preceding the PY 2033-34, except LIP X in PY 32-33.

Eligibility for exemption u/s 10(10D): The consideration received under LIP "X" would be exempt u/s 10(10D) in AY 32-33, 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 Rs. 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" & LIP "C" (being LIPs issued on/after 1.4.2023) exceeds Rs. 5,00,000 during the term of these policies.

However, the consideration received under LIPs "A" & "B" would be exempt u/s 10(10D) in AY 34-35, since aggregate of annual premium payable for these two policies does not exceed Rs. 5,00,000 for any PY during the term of these two policies & 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 AY 34-35.

Situation 2: Consideration has been received by the assessee under any one or more eligible LIPs (i.e., issued on/after 1.4.2023) during any PY preceding the current PY & it has been claimed to be exempt u/s 10(10D). Such eligible LIPs are referred as “Earlier Exempt Eligible LIPs (EEE LIPs)” in this paragraph & corresponding examples & reference to eligible LIPs shall not include EEE LIPs. The exemption u/s 10(10D) would be determined as under:

(1) Where the assessee has received consideration, during the current PY, under one eligible LIP only

Circumstance	Eligibility for exemption u/s 10(10D)
If aggregate amount of premium payable on such eligible LIP & EEE LIPs does not exceed Rs. 5,00,000 for any of the PYs during the term of such eligible LIP & annual premium in respect of eligible LIP does not exceed 10% of actual capital sum assured.	Consideration under such eligible LIP would be eligible for exemption u/s 10(10D).
If aggregate amount of premium payable on such eligible LIP & EEE LIPs > Rs. 5,00,000 for any of the PYs during the term of such eligible LIP	Consideration under such eligible LIP would not be eligible for exemption u/s 10(10D).

(2) Where the assessee has received consideration, during the current PY, under more than one eligible LIP

Circumstance	Eligibility for exemption u/s 10(10D)
If aggregate of the amount of premium payable on such eligible LIPs & EEE LIPs does not exceed Rs. 5,00,000 for any of the PYs during the term of such eligible LIPs & annual premium in respect of eligible LIPs also does not exceed 10% of actual capital sum assured.	Consideration received would be eligible for exemption u/s 10(10D).
If aggregate of the amount of premium payable on such eligible LIPs & EEE LIPs > Rs. 5,00,000 for any of the PYs during the term of such eligible LIPs	Consideration in respect of any of those eligible LIPs (whose aggregate amount of premium along with the aggregate amount of premium of EEE LIPs does not exceed Rs. 5,00,000 for any of the PYs during their term) would be eligible for exemption u/s 10(10D). [Refer Examples 8, 9 & 10 given below]

Example 8:

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

PC Note: Assessee did not receive any consideration under any other eligible LIPs in earlier PY preceding the PY 34-35, except LIP X in PY 33-34.

Eligibility for exemption u/s 10(10D) - The consideration under LIP “X” would be exempt u/s 10(10D) in PY 33-34, since the annual premium does not exceed Rs. 5,00,000 & 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” & LIP “C” along with the premium for LIP “X” exceeds Rs. 5,00,000 during the term of these policies.

Aggregate of annual premium payable for LIP “A” & premium for LIP “X” also exceeds Rs. 5 Lacs during the term of these policies. Consequently, consideration received under LIP ‘A’, ‘B’ & ‘C’ is not be exempt u/s 10(10D) in AY 35-36.

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

PC Note: The assessee did not receive any consideration under any other eligible LIPs in earlier PY preceding the PY 34-35, except LIP X in PY 33-34.

Eligibility for exemption u/s 10(10D) - The consideration under LIP "X" would be exempt u/s 10(10D) in PY 33-34, since the annual premium does not exceed Rs. 5,00,000 & 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" & LIP "C" along with the premium for LIP "X" exceeds Rs. 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 AY 35-36. If the consideration received under LIP "A" is claimed to be exempt as aggregate of the annual premium payable for LIP "X" & "A" did not exceed Rs. 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" & "B" did not exceed Rs. 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 AY 34-35 by the assessee, then, the consideration received under LIP "A" & LIP "B" would be exempt u/s 10(10D) in AY 35-36 since the aggregate of the annual premium payable for the LIPs "A" & "B" together did not exceed

Rs. 5,00,000 for any of the PYs during the term of these two policies. However, the most beneficial treatment is to claim LIP "X" & "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:

	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

PC Note: Assessee did not receive any consideration under any other eligible LIPs in earlier PY preceding the PY 35-36, except LIP "X" & "Y".

Eligibility for exemption u/s 10(10D) - The consideration under LIP "X" would be exempt u/s 10(10D) in AY 34-35, since the annual premium does not exceed Rs. 5,00,000 & also does not exceed 10% of actual capital sum assured. The consideration received under LIP "Y" would be exempt u/s 10(10D) in AY 35-36, since the aggregate of annual premium payable for LIP "X" & "Y" does not exceed Rs. 5,00,000 & annual premium payable for LIP "Y" does not exceed 10% of actual capital sum assured.

The consideration received under LIPs "A", LIP "B" & LIP "C" would not be exempt u/s 10(10D) in AY 36-37, since aggregate of annual premium payable for these three policies & LIP "X" & "Y" exceeds Rs. 5,00,000.

Alternative treatment: If the consideration on surrender under LIP "X" was not claimed to be exempt u/s 10(10D) in AY 34-35 by the assessee, then the consideration received under LIP "Y" would be exempt & the consideration received under LIP "A" or LIP "B" (any one) can be exempt u/s 10(10D) in AY 36-37. If the consideration received under LIP "A" is claimed to be exempt, as aggregate of the annual premium payable for LIP "Y" & "A" did not exceed Rs. 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" & "B" did not exceed Rs. 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" & on maturity of LIP "Y" were not claimed to be exempt u/s 10(10D) in AY 34-35 & AY 35-36, respectively, then consideration received under both LIP "A" & LIP "B" would be exempt in AY 36-37 (being LIPs issued on/after 1.4.2023, whose aggregate consideration does not exceed Rs. 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/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 Rs. 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 & no amount is paid to anyone if the insured person survives the policy tenure. Hence, any sum received under a term insurance policy shall continue to be exempt u/s 10(10D), irrespective of the amount of the premium payable in respect of such policy. Further the premium paid for such policies would not be counted for checking the limit of Rs. 5,00,000 of amount of premium payable.

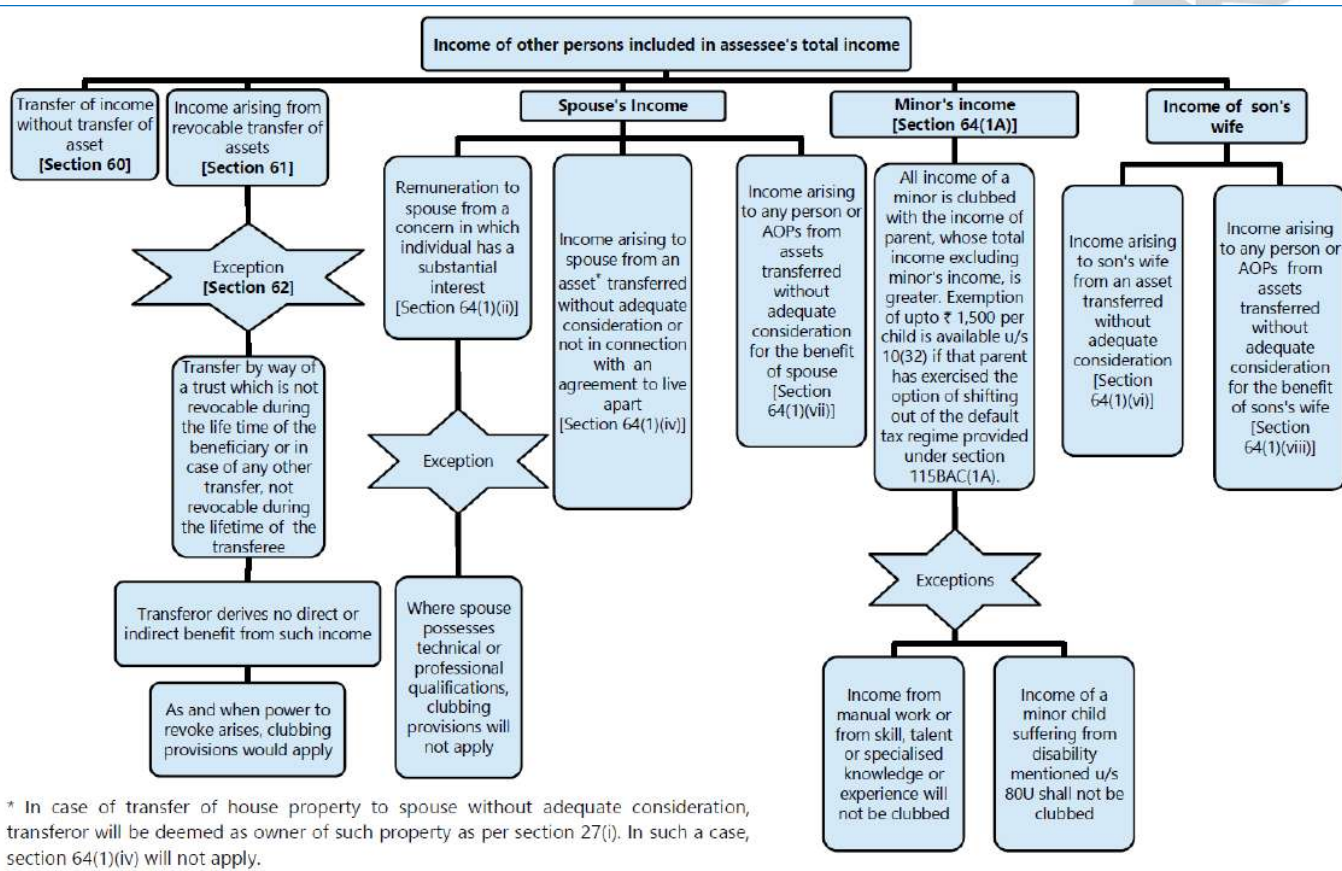
Taxability of sum received under a LIP which is not exempt u/s 10(10D)

Where any sum is received (including bonus) at any time during PY under a LIP [other than (a) ULIP (b) KIP] which is not exempt u/s 10(10D), sum so received as exceeds the aggregate of the premium paid during the term of such LIP & not claimed as deduction under any other provision of the Act, **computed in the prescribed manner, would be chargeable to tax under the head "Income from other sources"**.

Accordingly, CBDT has, vide notification no 61/2023 dated 16.8.2023, inserted **Rule 11UACA** to compute the income chargeable to tax u/s 56(2)(xiii). Where any person receives at any time during any PY any sum under such LIP, then, the income chargeable to tax u/s 56(2)(xiii) during the PY in which such sum is received has to be computed in the following manner.

SN	Situation	Income chargeable to tax during PY in which such sum is received
1	Where sum is received for first time during PY (first PY)	Taxable Amount = A - B A = Aggregate sum received during the first PY B = Aggregate premium paid during the term of LIP till the date of receipt in first PY <i>that has not been claimed as deduction under any other provision of the Act.</i>
2	Where sum is received during PY subsequent to first PY (subsequent PY)	Taxable Amount = C - D C = Sum or aggregate of sum received under the LIP during the subsequent PY; & D = Aggregate of the premium paid during the term of the LIP till the date of receipt of the sum in the subsequent PY not being premium which (a) has been claimed as deduction under any other provision of the Act; or (b) is included in "B" or "D" in any of the PY(s).

CLUBBING OF INCOME



TRANSFER OF INCOME WITHOUT TRANSFER OF ASSET [Section 60]

If any person transfers the income from any asset without transferring the asset, such **transferred Income** is **included in Total Income of the transferor**. Transfer can be **Revocable** or **Irrevocable**.

CQ1. Mr. Vatsan has transferred income arising from a godown to his son through a duly registered document, without transferring the godown. In whose hands will rental income from godown be charged? **[ICAI SM Q1]**

Answer: According to Section 60 transfer of income without transfer of asset is chargeable in the hands of the transferor. Thus, rental income from godown will be charged in the hands of Mr. Vatsan.

INCOME ARISING FROM REVOCABLE TRANSFER OF ASSETS [Section 61]

➤ If any Asset is transferred under 'Revocable Trust', Income from such asset is **included in TI** of transferor.

➤ **Meaning of Revocable Transfer:** A transfer shall be deemed to be **Revocable if Transfer:**

- (a) **Contains ANY Provision** for **RE-TRANSFER** (directly/indirectly) of whole/part of the Asset or Income to the transferor, **during the Life-Time of Beneficiary or Transferee**.

Ex 1: X transfers a house property to a trust for the benefit of A & B. However, X has a right to revoke the trust during the lifetime of A or B. It is a revocable transfer & income arising from house property shall be included in the hands of X.

Ex 2: X transfers a house property to A. However, X has a right to revoke transfer during the lifetime of A. It is a revocable transfer & income arising from the house property is taxable in the hands of X.

Ex 3: X transfers an asset. As per T&C of transfer, he has a right to utilize the income of the asset for his benefit. However, he has not exercised this right as yet. Income of the asset would be taxable in the hands of X, even if he has not exercised the aforesaid right.

- (b) **Gives Right to the Transferor to RE-ASSUME Power (directly/indirectly) over the whole/part of the Asset or Income during the Life-Time of Beneficiary or Transferee.**

Ex: X transfers an asset. As per T&C of transfer, he has a right to use the asset for the personal benefits of his family members whenever he wants. Till date, he has not exercised this right. It is a revocable transfer. The entire income from the asset would be taxable in the hands of X.

➤ **Exceptions [Section 62]** → Income will NOT be clubbed even in case of revocable Transfer

- ✍ If transfer is **not revocable** during the **Lifetime of Beneficiary/Transferee**. In such cases, Income shall be taxable in the hands of transferee provided transferor derives no benefit.

Ex: R transfers his house property to a trust for the benefit of G till his death. In this case, this transfer is irrevocable till the death of G. Thus, till the death of G, Income from house property is taxable in the hands of Transferee (trust). However, on death of G, income from such house shall be included in total income of R since on that date the transfer has become revocable. In above case, if R had reserved a right to get back house or its income from G during lifetime of G, then, such transfer shall be revocable & Income from such house shall be taxable in hands of R from beginning.

PC Note: Income arising from revocable transfer of the asset/income is taxable when the power to revoke the transfer arises **even if the power to revoke has not been exercised by transferor.**

CLUBBING OF INCOME ARISING TO SPOUSE [SECTION 64(1)(ii)]

A. REMUNERATION TO SPOUSE

- **Any Remuneration** received by Spouse from a **Concern** in which **other Spouse** has **Substantial Interest**, shall be clubbed in the hands of the spouse who has Substantial Interest.
- **NO CLUBBING** → **If Remuneration is received by Spouse due to his/her Qualifications.**
- **Substantial Interest:** Individual is deemed to have substantial interest in concern if Individual along with his relatives beneficially holds **20 % or more equity** shares at any time during PY.
- **Relative** = Husband, wife, brother or sister or Lineal Ascendant or Descendant of the individual.

Ex: Mr. X is a partner in a partnership concern & is entitled to 50% share of the profit of the firm. Mrs. X is employed as the General Manager of the firm & is getting a salary of 25,000 p.m. Taxable salary of Mrs. X will be clubbed with TI of Mr. X u/h 'Income from salaries'. However, if Mrs. X is receiving the salary on account of her technical or professional knowledge or experience, then the salary would not be clubbed.

CQ2. Mr. X is a CA in practice. He engages his wife Mrs. X as an employee for audit works & pays a sum of Rs. 20,000 p.m. towards salary. Mrs. X before marriage has completed her CA articleship & is presently awaiting result of the final examination. Examine the tax implication.

Answer: Where the spouse of the assessee has qualification, remuneration received will not be clubbed. Thus, Income of Mrs. X should not be clubbed with that of Mr. X.

PC Note:

1. **Clubbing is Mandatory**, even if such clubbing in some case results into benefit to the assessee.
2. If **both Husband & Wife** have **Substantial Interest** & **both** are in **Receipt of Remuneration without qualification** from the **Same Concern** → Remuneration of other spouse will be **clubbed** in total income of Husband/Wife **whose Total Income excluding such remuneration is Greater.**
3. Once clubbing is done in the hands any spouse (Say X) since his income was greater in 1st year of clubbing than income of other spouse (Mrs. X), Income of Mrs. X shall be clubbed in the hands of X in subsequent years also even if Income of Mrs. X is greater in subsequent year.

CQ3. Mr. A & Mrs. A, whose other incomes are Rs. 5,60,000 & Rs. 5,80,000 respectively are both employed in X Ltd & getting remuneration of Rs. 20,000 p.m. & Rs. 18,000 p.m. respectively. Their shareholding in the company along with relatives are Mr. A - 10%, Mrs. A - 5%, Mr. A's brother - 6%, Mrs. A's brother - 8%. Calculate their incomes if they opt out of the default tax regime u/s 115BAC.

Ans: In this case A & Mrs. A both have substantial interest determined as:

Mr. A: His own share 10% + 5% (Mrs A's share) + 6% (A's brother's share) = 21%.

Mrs. A: Her own share 5% + 10% (A's share) + 8% A's brother's share = 23%.

Thus, the income of Mr. A from X Ltd. will be clubbed in the hands of Mrs. A.

Mrs. A's Total Income		
Salary Income (18,000 x 12) Less Std Deduction of Rs. 50,000	1,66,000	
A's Salary Income (20,000 x 12 = 1,20,000) Less Std Deduction of Rs. 50,000	1,90,000	3,56,000
Other Income		5,80,000
Gross total income		10,36,000
Mr. A's Total Income		
Other incomes		5,60,000
Gross Total Income		5,60,000

B. INCOME FROM ASSET TRANSFERRED TO SPOUSE (Section 64(1)(iv))

➤ If Individual transfer any **asset (other than house property)** to his/her spouse **for inadequate consideration**, Income from such asset shall be included in Total Income of the transferor.

Ex: Mr. PC transfers debentures of X ltd to his wife for inadequate consideration. Interest income on such debentures shall be clubbed in the hands of Mr. PC.

PC Note:

- Transfer of House Property by Individual to Spouse for Inadequate Consideration → Transferor shall be **deemed as Owner** of House Property **u/s 27** & Income from such House Property is taxed in the hands of the transferor as he is deemed owner as per section 27.
PC Note: CAPITAL GAIN on Transfer of such House Property → **Clubbed** in hands of Transferor.
- Marriage should exist both at the time of Transfer & when Income is Accrued. **[Transfer before Marriage & After Divorce → No Clubbing]**
- If Any **Property** is acquired by the Wife out of the **Pin Money** → **No Clubbing**.
- Transfer should be for inadequate Consideration. [Adequate Consideration → No Clubbing].**
☞ Transfer of Asset **in connection with Agreement to Live Apart** → Deemed to be transfer with Adequate Consideration & thus **No Clubbing**.
☞ If Consideration is Payable in Parts → Only Proportionate Income shall be clubbed.
- CHANGE IN IDENTITY OF TRANSFERRED ASSET:** If transferred asset has changed the shape & Identification, then Income from such Changed Asset shall be Clubbed.
Ex: Mr. PC gifted shares to his wife. His wife sold the shares & acquired a house which was let out, the income from house property shall be clubbed in the hands of Mr. PC.
- NO CLUBBING ON ACCRETION OF INCOME**
Income from Transferred Asset is to be Clubbed. But Income on Income is Not Clubbed: Income derived on the accretion of transferred property cannot be clubbed except in case of Minor Child.
Ex: X transfer 10,000 bonds of IDBI to his wife Mrs. X. Mrs. X receives interest of 70,000 per annum on these bonds. Rs. 70,000 is to be clubbed in the hands of Mr. X. However, if Mrs. X accumulates such received interest of Rs. 50,000 & deposits it with the company at an interest of 10% p.a, then interest of Rs. 5,000 p.a received by her on the deposit will not be clubbed in Income of Mr. X.

ASSET TRANSFERRED TO SON'S WIFE FOR INADEQUATE CONSIDERATION [SECTION 64(1)(vi)]

- If Individual Transfers any Asset to his/her son's wife for Inadequate Consideration → Income from such Asset shall be clubbed in Total Income of the Transferor.

Ex: Mr. PC transfers debentures of X Ltd to his son's wife for inadequate consideration. Interest income on such debentures shall be clubbed in the hands of Mr. PC.

PC Note: All Provisions relating to Transfer of Asset to Spouse shall also apply to Son's Spouse.

ASSETS TRANSFERRED TO ANY PERSON FOR BENEFIT OF SPOUSE/SON'S WIFE [Section 64(1)(vii)/ 64(1)(viii)]

When Individual transfers any assets to Any Person/AOP for **Inadequate consideration**, Income from such transferred Assets shall be clubbed in the Income of the transferor (to the extent of benefit which accrues to the spouse/son's wife).

Ex: Mr. X transfers a house to Mr. Y with a direction that 50% of Rental Income is to be used for the benefit of his wife Mrs. X & 50% for others, then Rental Income to the extent of 50% shall be included in TI of X.

INCOME OF A MINOR CHILD [SECTION 64(1A)]

- All Income which accrues to Minor Child → Clubbed in the hands of **Either of his Parents**.
- **Clubbing in Father's or Mother's Hands:** Income of Minor shall be clubbed in the hands of that Parent whose Total Income (excluding Income of Minor) is Greater.
- **If Marriage of his Parents does not Subsist:** Income shall be clubbed in the hands of that Parent who maintains the minor child in the PY.
- **If Both Parents are Dead:** Income of Minor **cannot** be assessed in hands of his grandparents.
- **Rs. 1500 Exemption to Minor's Parent u/s 10(32) → Available in OLD Scheme only**
Parent in whose Income, the income of Minor is clubbed will get exemption of (a) Rs. 1,500 OR (b) Amount of Income Clubbed (whichever is less) i.r.o. **each minor child (only if opted out of default tax regime)**

NO CLUBBING:

1. Income has been earned by the Minor due to his **own Skills**.
2. **Minor is suffering from disabilities** referred in **Section 80U**.

PC Note:

1. Section 64(1A) apply to **Minor Married Daughter**. Income of Minor Married Daughter is also clubbed.
2. If Minor attains **Majority during PY** → Income till the date he was minor in that PY is clubbed.

PC Analysis:

- If asset transferred to a minor child (not being a minor married daughter) without consideration or for inadequate consideration is a house property, then, by virtue of section 27(i), transferor-parent will be the deemed owner of the house property. Therefore, income from house property will be taxable in the hands of transferor-parent, being deemed owner and not in the hands of the minor child. Consequently, clubbing provisions u/s 64(1A) would not be attracted i.r.o. such income, due to which the benefit of exemption u/s 10(32) (discussed above) cannot be availed against such income.
- However, if house property is transferred by a parent to his or her minor married daughter, without consideration or for inadequate consideration, then, section 27(i) is not attracted. In such a case, the income from house property will be included u/s 64(1A) in the hands of that parent, whose total income before including minor child's income is higher; and benefit of exemption u/s 10(32) can be availed by that parent i.r.o. the income so included.

CQ4. Mr. A has three minor children – two twin daughters, aged 12 years & one son, aged 16 years. Income of the twin daughters is Rs. 2,000 p.a. each and that of the son is Rs. 1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2024 out of natural love and affection. Flat was let out on same date & rental income from the flat is Rs. 10,000 p.m. Compute the income i.r.o. minor children, to be included in the hands of Mr. A & Mrs. A u/s 64(1A) (assuming that Mr. A's total income is higher than Mrs. A's total income, before including income of minor children). Both Mr. A & Mrs. A exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Answer: Taxable income, in respect of minor children, in the hands of Mr. A is:

	Particulars	Rs.	Rs.
1	Twin minor daughters [Rs. 2,000 × 2]	4,000	
	Less: Exempt u/s 10(32) [Rs. 1,500 × 2]	(3,000)	1,000
2	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

PC Note: As per section 27(i), Mrs. A is the deemed owner of house property transferred to her minor son. Natural love and affection do not constitute adequate consideration for this purpose. Accordingly, the income from house property of Rs. 84,000 [i.e., Rs. 1,20,000 (-) Rs. 36,000, being 30% of Rs. 1,20,000] would be taxable directly in her hands as the deemed owner of the said property. Consequently, clubbing provisions u/s 64(1A) would not be attracted in respect of income from house property, owing to which exemption u/s 10(32) cannot be availed by her.

CQ5. The following details are furnished i.r.o. Mr. X & his family members. Determine their GTI under old scheme:

Particulars	Mr. X	Mrs. X	Minor Child
Income as child Artist in films	-	-	60,000
Business Income (Own)	(40,000)	-	-
Salary from X Ltd. in which Mr. X holds 25% Voting power	-	30,000	-
Share of profit from Firm AB & Co.	80,000 (40%)	-	20,000 (10%)
Commission from AB & Co.	-	20,000	--
Interest Income	8000	5000	4000

Note:

1. Mrs. X possesses B. Com degree & works as accountant of X Ltd. & she does not render any services to AB & Co.
2. Interest received by Mrs. X is from investment of Rs. 40,000 gifted by Mr. X & Rs. 40,000 from her own resource.
3. Ignore standard deduction u/s 16(ia) for GTI calculation.

Answer:

Particulars	Mr. X	Mrs. X	Minor Child
Salaries: Salary from X Ltd	-	30,000	--
Profits & gains from business/ Profession: Income /(Loss)	(40,000)	--	60,000
Income from other sources			
(i) Interest income Own (Mr. X) = 8,000		2,500	
Add: Spouse – Sec 64(1) [5000 x 40,000/80,000] = 2,500	10,500	--	--
Total Income for Clubbing of Minor's Income	(29500)	32,500	-
Interest Income of Minor Child Rs. 4,000	--	2,500	--
Less: Exempt u/s. 10(32) (Rs. 1,500) Rs. 2,500			
Commission income of spouse u/s. 64(1)	20,000	--	--
Gross Total Income	(9,500)	35,000	60,000

Notes:

1. Share of profit from firm is exempt from tax u/s. 10(2A).
2. Income of the minor child will be clubbed in the hands of the parent whose income before such clubbing is greater. Thus, the interest income of minor child is clubbed in the hands of Mrs. X.

INCOME FROM SELF-ACQUIRED PROPERTY CONVERTED TO HUF PROPERTY [SEC 64(2)]

- If Self-Acquired Property of Individual is converted into HUF Property for Inadequate Consideration → Income derived by HUF from such property is Clubbed in Income of transferor.

Ex: Mr. X owns a house property from which he derives an income of Rs. 6,00,000 p.a. It is income of Mr. X & shall be included in computation of his TI u/h 'Income from House Property'. If he converts this property as the property of HUF of which he is a member, income shall henceforth be received by HUF but it shall be deemed to be income of Mr. X & shall be taxed to in the hands of Mr. X & not to HUF.

- **CLUBBING AFTER PARTITION:** If converted property is subsequently transferred amongst the members of the family, Income from such converted property which is received by Spouse of Transferor + Minor Child (subject to T&C) shall be clubbed in the hands of the transferor.

Ex: In the example given above, if there is partition in the family & there are 5 members entitled to a share in the HUF property i.e. Mr. X, Mrs. X, a minor child of X & two major sons of X assuming they decide to share the property equally then the income from the property shall be treated as follows:

- (a) Income from 1/5th share of X Rs. 120000;
- (b) Income from 1/5th share of Mrs. X Rs. 1,20,000 (to be clubbed with the income of X);
- (c) Income from 1/5th share of minor child of X Rs. 1,20,000 (to be clubbed with the income of X or Mrs. X, whose income is higher u/s 64(1A). However, X can claim exemption upto Rs. 15,000);
- (d) Income from 2/5th share of other members shall be taxable in the hands of major sons individually.

CLUBBING OF LOSSES [Explanations 2 to sec. 64]

- **Income includes Loss. Thus, Losses shall also be Clubbed.**
i.e Where an income is liable to be clubbed, loss from the same source shall also be clubbed.
- Clubbing provisions is mandatory and shall be applied even in those cases where the application of such provision causes loss of revenue to the Income tax department.

RELEVANT HEAD FOR CLUBBING - NET INCOME SHALL BE CLUBBED

- Firstly, Income shall be computed in the hands of Recipient & then clubbing shall be done headwise.
- All expenditures related to such income shall be allowed as per the respective provisions of the Act & then, the net income shall be clubbed.
- Ex:** Standard deduction u/s 16(ia) from gross salary shall be allowed to recipient & **net income shall be clubbed.**
- **Deduction under chapter VIA - Allowed:** If clubbed income is eligible for deduction u/s 80C to 80U, then such deduction shall be allowed to the assessee in whose hands such income is clubbed.
- Ex:** If interest on saving bank A/c of minor is clubbed in hands of parent, then parent can claim deduction u/s 80TTA.

CROSS TRANSFERS

- ❖ **Instances:** Two transactions are **Inter-connected** in such a way that they **seem to be two different transactions** but **in reality**, they are the **parts of the same transaction**.
- ❖ **In case of Cross Transfers** → Income from transferred assets would be assessed in the hands of the deemed transferor if transfers are so intimately connected as to form part of a single transaction, and each transfer constitutes consideration for the other.
- ❖ **CIT v. Keshavji Morarji [1967]:** SC observed that if two transactions are inter-connected & are parts 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.

CQ6. Mr. Ramesh gifted Rs. 5 lacs to his brother's minor son. His brother gifted debentures worth Rs. 6 lacs to Mrs. Ramesh. Son of Mr. Ramesh's brother invested the amount in fixed deposit with BOI @ 9% p.a. ROI & Mrs. Ramesh received interest of Rs. 45,000 on debentures received by her. Discuss.

Answer:

- Mr. Ramesh gifted Rs. 5 lacs to his brother's minor son & simultaneously, his brother gifted debentures worth Rs. 6 lacs to Mr. Ramesh's wife. Mr. Ramesh's brother's minor son invested the gifted amount of Rs. 5 lacs in fixed deposit with Bank of India. These transfers are in the nature of cross transfers.
- Accordingly, income from 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 & each transfer constitutes consideration for the other by being mutual or otherwise.
- If two transactions are inter-connected & are part of same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, implication of clubbing provisions would be attracted. Accordingly, interest income arising to Mr. Ramesh's brother's son from fixed deposits would be included in TI of Mr. Ramesh's brother, assuming that Mr. Ramesh's brother's TI is higher than his wife's total income, before including minor's income. Mr. Ramesh's brother can claim exemption of Rs. 1,500.
- Interest on debentures arising in the hands of Mrs. Ramesh would be taxable in the hands of Mr. Ramesh.
- This is because both Mr. Ramesh & his brother are the indirect transferors of the income to their spouse & minor son, respectively, with an intention to reduce their burden of taxation.
- In the hands of Mr. Ramesh, interest received by his spouse on debentures of Rs. 5 lacs alone would be included & not entire interest income on debentures of 6 lacs, since cross transfer is only to the extent of Rs. 5 lacs.
- Hence, only proportional interest ($\frac{5}{6}$ th of interest) Rs. 37,500 would be includible in the hands of Mr. Ramesh.

SECTION 61 VIS-À-VIS SECTION 64

- **Section 61:** Section 61 applies only to **Revocable transfer** made **by ANY Person**.
- **Section 64:** It applies to Revocable & Irrevocable Transfers made only by **Individuals**.

APPROPRIATION WHEN TRANSFERRED ASSET IS INVESTED IN A BUSINESS

1. Find Total Investment of the Transferee (spouse) in the business on 1st day of PY.
2. Find out the amount Invested by the transferee (spouse) out of the assets transferred to her for Inadequate consideration on 1st day of PY in the said business.
3. Find out Taxable Income from Business. [If transferee becomes partner of a Firm by investing said Asset (Capital Contribution), only Interest is considered (share of profit from firm is Exempt)].
4. Amount which shall be included in the hands of Transferor is determined as follows: $\left[\frac{2 \times 3}{1} \right]$

CQ6. Mr. Vaibhav started a proprietary business on 1st April 2023 with a capital of Rs. 5,00,000. He incurred a loss of Rs. 2 Lacs during PY 23-24. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of Rs. 5 Lacs on 1st April 2024, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of Rs. 4 Lacs during PY 24-25. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for AY 25-26. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed? [ICAI SM Q5]

Ans: Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.

In this case, Mr. Vaibhav received a gift of Rs. 5,00,000 on 1.4.2024 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the AY 25-26 is computed as under:

Particulars	Mr. Vaibhav's capital contribution	Capital contribution out of gift from Mrs. Vaishaly	Total (Rs.)
Capital as on 1.4.2024	3,00,000 (5L – 2L)	5,00,000	8,00,000
Profit for PY 24-25 to be apportioned on the basis of capital employed on first day of PY i.e. on 1.4.2024 (Ratio 3:5)	1,50,000 (4,00,000 x 3/8)	2,50,000 (4,00,000 x 5/8)	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the AY 25-26 is Rs. 2,50,000. In case Mrs. Vaishaly gave the said amount of Rs. 5,00,000 as a bona fide loan, then, clubbing provisions would not be attracted.

Note: Since Mr. Vaibhav has incurred loss of Rs. 2,00,000, remaining amount of Rs. 3,00,000 is the amount of capital he has in the business on 1.4.2024.

CQ7. X & Y form a partnership from 1st April 2024 (PSR - 2: 3) by investing Rs. 10 Lacs & Rs. 15 Lacs respectively. The investment has been financed from the following sources.

Particulars	X	Y
Gift from Mrs. X	6,60,000	-
Gift from Mrs. Y	-	8,00,000
Past savings of X & Y	3,40,000	7,00,000

For PY 24-25, Share of Profit from the firm is as follows:

Interest on Capital @ 12%	1,20,000	1,80,000
Salary as working partner	24,000	24,000
Share of Profit	1,08,000	1,62,000

Find out the Income chargeable to tax in the hands of X & Mrs. X for AY 25-26.

Answer:

Particulars	Mr. X	Mrs. X
Share of profit [Exempt u/s 10(2A)]	Nil	-
Salary from Firm	24,000	-
Interest on Capital [*(Rs. 1,20,000 × Rs.6.6 lacs)/Rs. 10 lacs]	40,800	79,200*
Business income	64,800	79,200

CQ8. Compute the gross total income of Mr. A & Mrs. A from the following information assuming both exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A): **[SM Q8]**

	Particulars	Rs.
(a)	Salary income (computed) of Mrs. A	2,30,000
(b)	Income from profession of Mr. A	3,90,000
(c)	Income of minor son B from company deposit	15,000
(d)	Income of minor daughter C from special talent	32,000
(e)	Interest from bank received by C on deposit made out of her special talent	3,000
(f)	Gift received by C on 30.09.2024 from friend of Mrs. A	2,500

Brief working is sufficient. Detailed computation under various heads of income is not required.

Answer:

As per the provisions of section 64(1A) of the Income-tax Act, 1961, all the income of a minor child has to be clubbed in the hands of that parent whose total income (excluding the income of the minor) is greater.

The income of Mr. A is Rs. 3,90,000 and income of Mrs. A is Rs. 2,30,000. Since the income of Mr. A is greater than that of Mrs. A, the income of the minor children have to be clubbed in the hands of Mr. A. It is assumed that this is the first year when clubbing provisions are attracted.

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be clubbed. Hence, the income of minor child C from exercise of special talent will not be clubbed.

However, interest from bank deposit has to be clubbed even when deposit is made out of income arising from application of special talent.

GTI of Mrs. A is Rs. 2,30,000. The total income of Mr. A giving effect to the provisions of section 64(1A) is as follows:

Computation of gross total income of Mr. A for AY 25-26

	Particulars	Rs.	Rs.
1	Income from profession		3,90,000
2	Income of minor son B from company deposit	15,000	
	Less: Exemption u/s 10(32)	(1,500)	13,500
3	Income of minor daughter C		
	From special talent – not to be clubbed	Nil	
	Interest from bank	3,000	
	Gift of Rs. 2,500 received from a non-relative is not taxable u/s 56(2)(x) since < Rs. 50,000	Nil	
	Less : Exemption u/s 10(32)	(1,500)	1,500
	Gross Total Income		4,05,000



SET-OFF & CARRY FORWARD OF LOSSES



- ❖ **Total Income** earned by the Assessee during the PY is taxable under Income Tax Act.
- ❖ It is worthy to be noted that **Total Income from All Sources/Heads** is to be taxed & not the Income from Individual source/head. Thus, it becomes important to know mechanism of set off & carry forward of Losses.
Ex: Mr. PC carries on two businesses. He gets loss in one business & profit in another one. His PGBP income will be the net income i.e. after an adjustment of the loss.
- ❖ It might also happen that Net Result from a Particular Source/Head of Income may be Loss. This Loss can be Set off against other Source/Head in a Specified Manner.
- ❖ Thus, it can be said that **Loss from one Source/Head can be Adjusted against Income form other Source/Head Subject to Certain Conditions.**

SET-OFF & CARRY FORWARD OF LOSSES

Set off of Loss	Adjustment of Losses against Profits from Another Source/Head of Income in Same AY.
Carry Forward of Losses	If Losses cannot be Set-off in Same Year due to Inadequacy of Eligible Profits, then such Losses are carried forward to Next AY for Adjustment against Eligible Profits of that year.

THIS TOPIC CAN BE DIVIDED INTO 2 PARTS:

A.	Set off of Loss in Same Year 1. Intra-Head/Inter-Source Adjustments [Set off within Same Head of Income] 2. Inter Head Adjustments [Set off against other Head of Income]
B.	Carry Forward & Set off of Loss in Next Year

PART A. SET OFF OF LOSSES

1. INTRA HEAD ADJUSTMENT [SECTION 70]

⇒ Loss from any source of income can be set off against income from any other source **under SAME HEAD**.

Examples:

- Loss from one house property can be set off against the income from another house property as both these sources of income fall under one head of income.
If the assessee has two house & income from one house is Rs. 30,000 while loss from another house is Rs. 10,000, then such loss shall be adjusted against other income from same source & after set off, income u/h HP = Rs. 20000.
- Loss from one business (textiles) can be set off against income from any other business (printing) in same year as both these sources of income fall under one head of income.

EXCEPTIONS to Intra Head Adjustment: In following cases, Loss from one source cannot be adjusted against Income from another source even if both falls under same head:

Nature of Loss	Details
Speculation Business Loss [Sec 73(1)]	<ul style="list-style-type: none"> Speculation business loss can be set off against income of any other speculation business only. Thus, speculative business loss cannot be set off from normal business Income.
PC Note: Normal business loss can be adjusted against speculation business profits.	
Loss of Specified Business u/s 35AD [Sec 73A]	<ul style="list-style-type: none"> Loss from specified business CANNOT be set off against Normal/Speculative Business Income. Loss of specified business can be set off against Income of ANY specified business only (in OLD Scheme Only). <p>We know that New (Default) Scheme does not allow deduction u/s 35AD. Thus, if assessee is paying tax under new scheme, he will neither be allowed any deduction u/s 35AD nor be allowed to set off any loss from such specified business. So, to get deduction or to set off any loss, he will have to opt out of new scheme.</p>
PC Note: Normal business losses can be set off against specified business income.	
Loss from Activity of Owning & Maintaining Race Horses [Sec 74A]	<ul style="list-style-type: none"> Such Loss can be set-off only against Income from Activity of Owning & Maintaining Race Horses only.
Long Term Capital Loss [Sec 70(3)]	<ul style="list-style-type: none"> LTCL can be set off against LTCG only & NOT even against STCG. However, STCL can be set off against both STCG & LTCG.
Loss from Lottery, Puzzles, Card Games	<ul style="list-style-type: none"> No set off against any income. It is Taxable @ 30%. Even expenditure incurred for buying lottery ticket → Not Deductible.
Exempt Source	<ul style="list-style-type: none"> Loss from Exempt Source cannot be set-off against Profits from Taxable Source.

CQ1. R carries two businesses A & B. Business A is a manufacturing business while business B is a speculative business. State whether the loss can be set off in the following two situations:

Particulars	Situation I	Situation II
Manufacturing Business	(+) 3,00,000	(-) 15,00,000
Speculation Business	(-) 1,40,000	(+) 2,00,000

Answer:

Situation I: Set off is NOT Possible as speculation loss can be set off only against speculation Income. Thus, Loss from speculation business cannot be set off against Normal Business Income & it will be carried forward to Next year & will be adjusted against profit from speculation business (if any).

Situation II: Set off is **Possible** since Loss from Normal Business can be set off against profit from Speculative Business. Thus, Normal business loss of Rs. 2,00,000 can be adjusted against Speculation Business Income. Remaining Business loss of Rs. 13,00,000 will be carried forward to Next year & will be adjusted against profit from Normal Business only (if any).

CQ2. Give the provisions regarding Set off & carry forward in the following situations:

Particulars	Situation I	Situation II
Short-term Capital Gain	(-) 5,00,000	(+) 3,00,000
Long-term Capital Gain	(+) 7,00,000	(-) 2,00,000

Answer:

Situation I: STCL of Rs. 5,00,000 can be set off against LTCG. Hence, Net LTCG = Rs. 2,00,000;

Situation II: LTCL can be set off from LTCG only. It cannot be set off from STCG. Hence, STCG of Rs. 3,00,000 shall be taxable & Rs. 2,00,000 of LTCL will be carried forward to Next year & adjusted against LTCG only (if any).

2. INTER HEAD ADJUSTMENT [SECTION 71]

General Rule: Loss from one Head can be set off against Income from Another Head.

Ex: Mr. X has loss from Business/Profession of Rs. 3,00,000 & Income from House Property of Rs. 5,00,000. In such case, Loss from business (One head) can be set off against Income from House Property (Another Head).

EXCEPTIONS to Inter Head Adjustment:

1	Capital Loss	<ul style="list-style-type: none"> Loss u/h Capital Gains can be set off against Income u/h Capital Gains only. Loss u/h 'Capital Gains' CANNOT be set-off against Income under Any other Head.
2	Loss u/h PGBP [Sec 71(2A)]	<ul style="list-style-type: none"> Loss u/h PGBP CAN be set off against Income from Any Head of Income Except Income from Salary.
3	House Property Loss	<ul style="list-style-type: none"> Loss u/h 'House Property' can be set off against any head upto Rs. 2 Lacs only if assessee opts out of the default tax regime (in old scheme). HP LOSS IS NOT ALLOWED TO BE SET OFF AGAINST INCOME FROM ANY HEAD IN DEFAULT (NEW) SCHEME NOR CARRIED FORWARD TO NEXT YEAR. <p>Note: Maximum HP Loss which can be set-off = Rs. 2 lacs (in OLD Scheme Only)</p>
4	Since Intra-Head Adjustment is NOT permitted in following cases & thus Inter-Head Adjustment is also NOT Permitted <ol style="list-style-type: none"> Loss from Speculation Business; Loss from Specified Business u/s 35AD; Loss from Activity of owning & Maintaining Race Horses; Loss of Lottery, Crossword Puzzles, Card Games; Loss from Exempt Source of Income. 	

PC Note

- Loss from any Head (other than Capital Gain & PGBP) can be adjusted against Income from ANY Head of Income, including Capital Gain & Salary in Same AY.
- Assessee may choose to set off the losses in the manner which is Most Beneficial to him.
- It is Mandatory to Set off Loss if Eligible Income is there. Assessee cannot ignore it.

PART B. CARRY FORWARD OF LOSSES

- If Loss cannot be set off either under Same Head or under other Heads of Income
- due to Absence of Eligible Income in Same AY,
- it shall be carried forward to the next year &
- Set off against Income from Same Head in next AYs subject to prescribed Time Limit.

PC Note:

- Once a Loss is carried forward, it can be set off only against Income from Same Head.
- Loss from Lottery cannot be set off nor Carried Forward.

TREATMENT OF VARIOUS LOSSES IN DETAIL

[V.IMP]

Loss u/h	Combined Provisions of Set off & Carry Forward
House Property [Section 71B] [Refer CQ4]	<p>⇒ Intra Head Adjustment</p> <p>Loss from one house property shall be adjusted against income from another house property. [Intra head adjustment (set off) → Allowed in both new & old scheme.</p> <p>⇒ Inter Head Adjustment</p> <ul style="list-style-type: none"> ▪ Old Scheme: HP Loss can be set-off against income from any other head upto Rs. 2 Lacs. Remaining (Unabsorbed) Loss will be carried forward to Next Year. B/f HP Loss can be set-off against Income u/h 'House Property' only in next PY. ▪ New Scheme: HP Loss is not allowed to be set off against income from any head in new scheme. Also, it will be not be carried forward to the next year.
Normal Business Loss [Section 72]	<ul style="list-style-type: none"> ▪ Firstly, Normal business loss can be set off against income u/h 'PGBP'. ▪ If still there is unabsorbed Loss, it can be set off against Income under any other head Except "salaries". ▪ If still there is a loss, it can be carried forward to Next Year. ▪ Such b/f Loss can be set-off against 'income u/h PGBP' only in Next PY. <p>PC Note:</p> <ul style="list-style-type: none"> ❖ Unabsorbed Depreciation can be set off against ANY HEAD OF INCOME. ❖ It is not necessary that Business whose Loss is being set off must be continued. ❖ Business Losses can be set off only by the assessee who has incurred loss: Only the person who has incurred the loss is entitled to c/f or set off the loss. Thus, successor of a business cannot c/f or set off losses of his predecessor except in case of succession by inheritance.
Specified Business Loss [Section 73A]	<p>New Tax Regime:</p> <ul style="list-style-type: none"> ▪ We know that New (Default) Scheme does not allow deduction u/s 35AD. ▪ Thus, if assessee is paying tax under new scheme, he will neither be allowed any deduction u/s 35AD nor be allowed to set off any loss from such specified business. ▪ So, to get deduction or to set off any loss, he will have to opt out of new scheme. <p>Old Tax Regime</p> <ul style="list-style-type: none"> ▪ Specified business loss u/s 35AD can be set off only against income of any other specified business. ▪ Unabsorbed loss will be c/f to next AY & set off against income from Specified Business. <p>Note: Loss from a specified business can be set-off against Profit of another specified business u/s 73A even if other specified business is not eligible for deduction u/s 35AD.</p> <p>Ex: Assessee can set-off Losses of Hospital/Hotel Business which is eligible for deduction u/s 35AD against Profits of Existing Business of Hotel (Above 2 star) even if Hotel business is not eligible for deduction u/s 35AD.</p>
Owning & Maintaining Race Horse [Sec 74A]	<ul style="list-style-type: none"> ▪ Losses from Activity of owning & Maintaining Race Horses can be set off only against Income from Activity of owning & Maintaining race horses only. <p>Loss = Stake money – Revenue Expenditure for Maintaining Race Horses.</p>

Capital Loss

- STCL can be set off against both STCG & LTCG.
- LTCL can be set-off only against LTCG & **not** against **STCG**.
- Carry Forward:
 - (a) **STCL**: It can be set off against ANY Capital Gains.
 - (b) **LTCL**: It can be set off **ONLY** against LTCG.
- **Capital Loss cannot** be set off against Income under any other Head.

PC Note: LTCG exceeding Rs. 1,25,000 arising on sale of equity shares or units of equity-oriented fund or business trust on which STT is paid is taxable u/s 112A @ 10% or 12.5%, as the case may be.

LTCL on sale of such shares/units can, therefore, be set-off and carried forward for set-off against LTCG by virtue of section 70(3) and section 74.

Speculation Business Loss [Section 73]

- Speculation Business Losses can be set off only against any other Speculation Business Income.
- If there is no other Speculation Income, it can be c/f to subsequent years & set-off only against income from any speculation business carried on by the assessee.

PC Note: It is not necessary that same speculation business must continue in AY in which Loss is to be set off.

- **PC Note:** Loss from activity of trading in derivatives is not treated as speculative loss.

CQ3. Compute the Taxable Income in following situation:

Particulars	Situation I	Situation II
Long term capital gain/loss	30,000	(3,00,000)
Short term capital gain/loss	(50,000)	1,10,000
Business income/loss	(80,000)	(90,000)

Answer:

Particulars	Situation I	Situation II
Long term capital Gain/Loss	30,000	(3,00,000) [Note 4]
Short term capital Loss/Gain	(50,000)	1,10,000
Income u/h Capital Gain after Set off	Nil [Note 1]	1,10,000 [Note 2]
Set off of Business Income/Loss	Nil [Note 4]	(90,000) [Note 3]
Total income	Nil	20,000

Note:

1. STCL can be set off against LTCG. Thus, STCL of Rs. 30,000 will be set off against LTCG. Remaining STCL will be carried forward to next year & will be set off in next year against income u/h 'Capital Gains'.
2. LTCL can only be set off against LTCG. It cannot be set off against STCG also. Thus, LTCL of Rs. 3,00,000 will be carried forward & set off in next year against LTCG.
3. Business Loss can be set off against Income under any head except salary. Business loss can be set off against CG.
4. Business Loss of Rs. 80,000 will be carried forward & will be set off in next year against income u/h "PGBP".

SET-OFF OF BROUGHT FORWARD LOSSES & MAXIMUM TIME LIMIT

Nature of Loss to be c/f	Income against which Brought Forward Loss can be set-off	Maximum Period for Carry Forward of Losses
House Property Loss	Any Income u/h House Property	8 AYs
Normal Business Loss	Any Income u/h PBGP.	8 AYs
Speculation Business Loss	Any Speculation Business Income	4 AYs
Specified Business Loss	Any Specified Business Profit	Indefinite Period
Long Term Capital Loss	Long Term Capital Gains	8 AYs
Short Term Capital Loss	STCG/LTCG	8 AYs
Loss from Activity of owning & Maintaining Race Horses	Income from Activity of owning & Maintaining Race Horses.	4 AYs

ORDER OF SET-OFF OF LOSSES [SECTION 72(2)]

[IMP]

1. Current year Depreciation/Current year Capital Expenditure on Scientific Research
2. Brought Forward Business Loss [Section 72(1)]
3. Unabsorbed Depreciation of Earlier Years [Section 32(2)]
4. Unabsorbed Capital Expenditure on Scientific Research of Earlier Years [Section 35(4)]
5. Unabsorbed Expenditure on Family Planning of Earlier Years [Section 36(1)(ix)].

COMPULSORY FILING OF ROL BEFORE DUE DATE U/S 139(1) [SECTION 80]

- Return of Loss u/s 139(3) shall be filed within time limit of section 139(1) to carry forward losses.
- However, Loss u/h "House Property" & Unabsorbed Depreciation can be carried forward even if **Return of Loss is not filed within DD u/s 139(1)**.

BUSINESS LOSS CAN BE CARRIED FORWARD FOR MORE THAN 8 AY [Sec 41(5)]

- If Business/Profession is No Longer in Existence & there is Deemed Income Taxable u/s 41(1), 41(3), 41(4)/(4A) i.r.o. that Business/Profession;
- then Any Loss (Except Speculation Loss) of such Discontinued Business in the year of Discontinuance
- which **could not be set off** in the year of Discontinuance can be set off against Deemed Income u/s 41(1), 41(3), 41(4)/(4A).

BROUGHT FORWARD LOSSES MUST BE SET OFF IN IMMEDIATELY SUCCEEDING YEARS WHEN ELIGIBLE INCOME IS AVAILABLE

- Losses which are carried forward must be set off against Eligible Income of Immediately succeeding year & if there is any balance still to be set off, it should be set off in Immediately Next succeeding years within the time allowed.
- If Losses are not set off against Income of Immediately Next year, it cannot be set off in Later year.

CQ4. Compute Total Income of Mr. A for AY 25-26 from the following details:

[SM Q1]

Income from salary	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 AY 25-26, assuming that

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

(b) He pays tax under the default tax regime.

Answer: Computation of total income of Mr. A for AY 25-26 under normal provisions of the Act (Old regime)

	Particulars	Amount	Amount
1	Income from salary	4,00,000	
	Less: Loss from house property of Rs. 2,20,000 to be restricted to Rs. 2 lacs	(2,00,000)	2,00,000
	Note: Balance loss of Rs. 20,000 from house property to be carried forward to next AY		
2	Income from other sources (interest on fixed deposit with bank)	80,000	
	Less: Business loss of Rs. 1,00,000 set-off to the extent of Rs. 80,000	(80,000)	-
	Business loss of Rs. 20,000 to be carried forward for set-off against business income of next AY		
	GTI [See Note below]		2,00,000
	Less: Deduction under Chapter VI-A		Nil
	Total income		2,00,000

Note:

- (a) GTI includes salary income of Rs. 2,00,000 after adjusting loss of Rs. 2,00,000 from house property. The balance loss of Rs. 20,000 from house property to be carried forward to next AY for set-off against income from house property of that year.
- (b) Business loss of Rs. 1,00,000 is set off against bank interest of Rs. 80,000 & remaining business loss of Rs. 20,000 will be carried forward as it cannot be set off against salary income.

Computation of total income of Mr. A for AY 25-26 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 Rs. 1,00,000 set-off to the extent of Rs. 80,000	(-) 80,000	-
Business loss of Rs. 20,000 to be carried forward for set-off against business income of next AY		
GTI/ Total Income		4,00,000

Notes:

- (a) Under the default tax regime, loss from house property of Rs. 2,20,000 cannot be set off against income under any other head & cannot be carried forward to next AY.
- (b) Business loss of Rs. 1,00,000 is set off against bank interest of Rs. 80,000 & remaining business loss of Rs. 20,000 will be carried forward as it cannot be set off against salary income.

CQ5. Compute the taxable income in the following two situations:

Particulars	Situation I	Situation II
Income from Manufacturing business (Normal Business)	1,50,000	(3,60,000)
Income from Speculation Business	(80,000)	3,50,000
Loss from a Specified Business u/s 35AD	(40,000)	40,000
Short Term Capital Gains	(1,70,000)	(1,70,000)
Agricultural Income	(40,000)	60,000

Answer:

Particulars	Situation I	Situation II	Notes for Situation II
Income from manufacturing business	1,50,000	(3,60,000)	Loss from Normal Business can be set off against Speculative Income & specified business Income also.
Income from speculation business	Nil [Note 1]	3,50,000	
Loss from specified business	Nil [Note 1]	40,000	
Total income	1,50,000	30,000	

Note:

1. Loss from Speculation/Specified Business can be set off only against Income from Speculative/Specified business respectively. Thus, Loss of Rs. 80,000 & Rs. 40,000 will be c/f to next year & will be set off in next year against Speculative/Specified Business Income respectively.
2. STCL cannot be set off from any other head. It will be carried forward & set off against "Capital Gains".
3. Loss from exempt source cannot be set off against any income & No loss can be set off from agriculture income.

CQ6. Compute total income of A for AY 25-26:

Income from Salary	1,80,000
Income from House Property	40,000
Business Loss	(1,90,000)
Loss from Specified Business	(60,000)
Short-term capital Loss	(60,000)
Long-term capital Gain	2,40,000

Answer:

Computation of total income of A for AY 25-26

1	Income u/h "Salary"		1,80,000
2	Income u/h "House Property"	40,000	
	Less: Business loss adjusted against House property Income	(10,000)	30,000
3	Business Loss	(1,90,000)	
	Less: Set off against Capital Gain	1,80,000	
	Less: Set off against House Property Income	10,000	Nil
	Loss from specified business not allowed to be set off	(-) 60,000	
4	Income u/h "Capital Gain"		
	Long-term Capital Gain	2,40,000	
	Less: Short-term capital loss	(60,000)	
	Less: Business loss adjusted	(1,80,000)	Nil
	Gross total income/Total Income		2,10,000

Note:

- (1) Business loss should first be set off from LTCG as it is taxable @ 20% whereas HP is taxable @ 5%.
- (2) Business loss cannot be set off against income u/h salary.

CQ7. Mr. B, a resident individual, furnishes the following particulars for the PY 24-25:

[SM Q2]

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 AY 25-26, assuming that he pays tax u/s 115BAC?

Answer:

Total income of Mr. B for AY 25-26

SN	Particulars	Amount	Amount
1	Income from salaries		45,000
2	Income from house property		
	Loss from HP can neither be set-off nor can be carried forward, since Mr. B is paying tax under the default tax regime u/s 115BAC	Nil	
3	Profits & gains of business & profession		
	Business loss to be carried forward [Note (a)]	(22,000)	
	Speculative loss to be carried forward [Note (b)]	(4,000)	
4	Capital Gains		
	Long term capital gain taxable u/s 112	19,000	
	STCL Rs. 25,000 set off against LTCG to the extent of Rs. 19,000 [Note (c)]	(19,000)	
		Nil	
	Balance short term capital loss of Rs. 6,000 to be carried forward [Note (d)]		
	Taxable income		45,000

Notes:

- Business loss cannot be set-off against salary income. Therefore, loss of Rs. 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.
- Loss of Rs. 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.
- Short term capital loss can be set off against both short term capital gain & long-term capital gain. Therefore, short-term capital loss of Rs. 25,000 can be set-off against long-term capital gains to the extent of Rs. 19,000. The balance short term capital loss of Rs. 6,000 cannot be set-off against any other income & has to be carried forward to the next year for set-off against capital gains, if any.

CQ8. R had incurred a business loss of Rs. 4,00,000 during PY 23-24. During PY 24-25, he has earned business income of: (a) 5,00,000; (b) 2,50,000. What will be the consequences if he does not set off the loss in AY 24-25 & wishes to set off the same in AY 25-26?

Answer:

- R can set off the loss of Rs. 4,00,000 in AY 25-26 against the income of Rs. 5,00,000. If he does not do so, he cannot carry forward such loss of 4,00,000 to AY 25-26.
- R can set off the loss of Rs. 2,50,000 only out of loss of Rs. 4,00,000 in AY 25-26. If he does not do so, he will not be able to carry forward & set off Rs. 2,50,000 in Next AY. However, he can carry forward the balance Rs. 1,50,000 which could not be set off due to insufficient income during AY 25-26.

CQ9. During PY 24-25, Mr. C has following incomes & brought forward losses:

[SM Q3]

Short term capital gains on sale of shares	1,50,000
Long term capital loss of AY 23-24	(96,000)
Short term capital loss of AY 24-25	(37,000)
Long term capital gain u/s 112	75,000

What is the capital gain taxable in the hands of Mr. C for AY 25-26?

Answer: Taxable capital gains of Mr. C for AY 25-26

Particulars	Rs.	Rs.
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short-term capital loss of the AY 24-25	37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward LTCL of AY 23-24 Rs. 96,000 set off to the extent of Rs. 75,000 [Note]	(75,000)	Nil
Taxable short-term capital gains		1,13,000

PC Note: LTCL cannot be set off against STCG. Hence, unadjusted LTCL of AY 23-24 of Rs. 21,000 (i.e. Rs. 96,000 – Rs. 75,000) can be carried forward to the next year to be set-off against LTCG of that year.

CQ10. Mr. D has the following income for PY 24-25:

[SM Q4]

Income from the activity of owning & maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss	50,000
Brought forward loss from activity of owning & maintaining race horses (relating to AY 22-23)	96,000

What is the total income in the hands of Mr. D for AY 25-26?

Answer: Total income of Mr. D for the AY 25-26

Particulars	Rs.
Income from the activity of owning & maintaining race horses	75,000
Less: B/f loss of Rs. 96,000 from owning & maintaining race horses set-off to the extent of Rs. 75,000	(75,000)
	Nil
Balance loss of Rs. 21,000 (Rs. 96,000 – Rs. 75,000) from the activity of owning & maintaining race horses to be carried forward to AY 26-27	
Income from textile business	85,000
Less: Brought forward business loss from textile business	(50,000)
Total income	35,000

PC Note: Loss from the activity of owning & maintaining race horses cant be set- off against any source/head of income.

CQ11. Mr. E has furnished his details for AY 25-26 as under:

[SM Q5]

Income from salaries	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
STCG	80,000
LTCL of AY 23-24	(30,000)
Winning from lotteries (Gross)	20,000

What is the taxable income of Mr. E for AY 25-26?

Answer:

Computation of total income of Mr. E for AY 25-26

Particulars	Rs.	Rs.
Income from salaries		1,50,000
Income from speculation business	60,000	
Less: Loss from non-speculation business	(40,000)	20,000
Short-term capital gain		80,000
Winnings from lotteries		20,000
Taxable income		2,70,000

PC Note: LTCL can be set off only against LTCG. Therefore, LTCL of Rs. 30,000 has to be carried forward to the next AY.



CHAPTER VI A - DEDUCTIONS FROM GTI



DIFFERENCE B/W EXEMPT INCOMES & DEDUCTIONS FROM GTI

Exempt Incomes	<ul style="list-style-type: none"> Some Incomes are NOT at all included in Income Computation process (Section 10). Such Incomes are called Exempt Incomes. They are NOT INCLUDED in GTI.
Deductions	<ul style="list-style-type: none"> There are certain incomes which are first included in GTI & then they are allowed as deductions on certain basis while calculating Taxable Income. Such Deductions are given in Chapter VI-A which are allowed as deduction from GTI.
PC Note: Deduction is allowed from GTI. If NO GTI → NO DEDUCTION.	

PC Note: Chapter VI-A Deductions are NOT ALLOWED from (i) Capital Gains (ii) Casual Incomes

Only following deductions will be allowed under default (new) tax regime:

- Section 80CCD(2)** [Employer's contribution to pension scheme of CG]
- Section 80CCH(2)** [CG's contribution to assessee's account in Agniveer Corpus Fund] &
- Section 80JJAA**

MEANING OF GROSS TOTAL INCOME & TOTAL INCOME

Gross Total Income	Total Income computed under each of the 5 heads, after applying Provisions for Clubbing of Income & Set off of Losses is known as Gross Total Income.
Total Income	Gross Total Income – Deductions under Chapter VI-A.

TYPES OF DEDUCTIONS

Investment based deductions	Deductions given when certain Payments & Investments are made.
Income based deductions	Deductions given i.r.o. Certain Incomes included in GTI.

BASIC RULES OF DEDUCTIONS

Sec. 80A	<ul style="list-style-type: none"> Total Amount of Deductions u/s 80C - 80U shall NOT Exceed GTI. Thus, there cannot be a Loss as a result of Chapter VI-A deductions. Deductions cannot be carried forward to next year if GTI < Eligible Deductions. Chapter VI-A Deductions shall be allowed ONLY IF they are claimed in ROI.
Sec. 80AB	For computing Profit/Income-Linked deductions, Net Income Calculated as per Income-tax Act ((before making deduction under Chapter VI-A) shall be regarded as the income received by the assessee & which is included in his GTI.
Sec. 80AC	Income Based Deductions u/s 80 IA/IAB/IB/IC/ID/IE shall be allowed to the assessee only if he furnishes a ROI on or before the due date specified u/s 139(1).

CQ1. 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.

Answer: 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.

CQ2. Filing of belated return u/s 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction u/s 80QQB if the assessee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A) (i.e., he pays tax under the optional tax regime).

Answer: 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 u/s 80QQB (PC: 80QQB is income-based deduction).

A. INVESTMENT/PAYMENT BASED DEDUCTIONS

PAYMENT OF LIC PREMIUM, DEFERRED ANNUITY, CONTRIBUTION TO PF, SUBSCRIPTION TO CERTAIN EQUITY SHARES or DEBENTURES [Section 80C]

Eligible Assessee	Only Individual or HUF (R/NR)
Deduction	Lower of ► (i) Amount Invested/Paid or ► (ii) Rs. 1,50,000.

Payments/Investments/Contribution eligible for deductions u/s 80C

1 PREMIUM PAID ON LIFE INSURANCE POLICY ON LIFE OF ↓

Assessee	Premium paid on the life of ↓
Individual	<ul style="list-style-type: none"> Individual himself; Spouse of the individual; Any Child of such Individual. (Married/Single/Dependent/Independent).
HUF	Any Family Member .

Maximum amount of Premium Eligible for deduction u/s 80C [Already covered in IFOS in detail]

Premium paid on Insurance Policy ↓	Deduction u/s 80C
1. Issued before 1.4.2003	Upto 20% of sum assured.
2. Issued between 1.4.2003 & 31.3.2012	Upto 20% of sum assured.
3. Issued on/after 1.4.2012 but before 1.4.2013	Upto 10% of sum assured.
4. Issued on/after 1.4.2013 on life of a person (a) with Disability referred u/s 80U or (b) Suffering from Specified Disease u/s 80DDB	Upto 15% of sum assured.

EXEMPTION ON RECEIPTS OF MATURITY AMOUNT FROM LIC [Sec. 10(10D)]

(a) Maturity Amount received (including Bonus) under Life Insurance Policy is **NOT Exempt** if **Premium paid** for any year during the term of Policy **Exceeds SPECIFIED %** given in Sec 80C.

PC Note: Maturity Amount of Policy issued before 1.4.2003 → Always Exempt.

(b) **Any Sum received u/s 80DD(3) & Keyman Insurance Policy** → Not Exempt u/s 10(10D).

CQ3. Compute deduction u/s 80C on life insurance premium paid by Mr. G:

Date of Issue of policy	Person Insured	Sum assured	Premium Paid in PY
30.3.2012	Self	Rs. 8,00,000	Rs. 48,000
1.05.2018	Spouse	Rs. 1,50,000	Rs. 20,000
1.06.2021	Handicapped Son	Rs. 4,00,000	Rs. 80,000

2 CONTRIBUTION TOWARDS SPF/PPF/RPF/SAF

- Contribution to be made → In the name of Individual/Spouse/Any Children
- For HUF:** Contribution shall be made in the account of any member of the family.

3 Subscription to **SUKANYA SAMRIDHI ACCOUNT** Scheme in the name of:

- Girl child/Individual himself (in case assessee is a girl child).

4 SUBSCRIPTION TO

- National Saving Scheme, 1992**
- Bonds** issued by **NABARD**.
- Approved Equity Shares/Debentures** of wholly public company where such proceeds are utilized for infrastructure company. [Lock-in-period: 3 years].
- Notified Deposit Scheme/Pension Fund** set up by National Housing Bank. (Home Loan Account Scheme of the National Housing Bank has been notified).
- National Savings Certificates** (VIII or IX Issue)
- Notified units of MF/UTI**

5 Any sum deposited in -

- Account under the **Senior Citizens Saving Scheme** Rules, 2004.
- **5-years' time deposit** in an account under the Post Office Time Deposit Rules, 1981.
- **Term deposit** for a fixed period of **not less than 5 years** with a scheduled bank.

6 Payment made by Individual for **NON-COMMUTABLE DEFERRED ANNUITY** on life of:
(a) Individual himself; (b) Spouse & (c) Any Child of such Individual.**7** Any Sum deducted from **Salary of Government Employee** for **DEFERRED ANNUITY**

- **Maximum Sum deducted Eligible for deduction u/s 80C = 20% of Salary.**
- Deferred Annuity shall be for the benefit of Individual, Spouse, Any Children.

8 Payment of TUITION FEES IN INDIA for FULL TIME EDUCATION [MAX. 2 CHILDREN]

Any sum paid as tuition fees **excluding** any payment towards development fees or donation

- at any time on admission or afterwards.
- to any university, college, school or other educational institution in India.
- for full-time education.
- for **any 2 Children** of such Individual.

PC Class Note:

9 Contribution to **National Housing Bank (Tax Saving) Term Deposit Scheme, 2008****10** Contribution in **Unit-Link Insurance Plan of UTI or LIC Mutual Fund.**

PC Note: Contribution may be made in the name of any person mentioned in (1) above.

11 Contribution to **Approved Annuity Plan** (New Jeevan Dhara/I & New Jeevan Akshay/I/II)**12** **Subscription to Notified Deposit Scheme of:**

Public Sector Company engaged in providing LT finance for Construction/Purchase of houses in India for **Residential Purposes** [**Ex: Public Deposit Scheme of HUDCO**]

13 REPAYMENT OF HOUSING LOAN including Stamp Duty, Registration Fee [Principal Only]

Such payment may be made towards:

- Installment of Amount due under any self-financing scheme or other notified scheme.
- Installment of Amount due towards the cost of the house property allotted to him.
- Repayment of the amount borrowed by the assessee from:
 - CG/SG/Bank, LIC, National Housing Bank.
 - Indian Public Company carrying on business of providing LT finance for construction or purchase of houses in India for residential purposes.
 - Public company/Co-operative society engaged in financing construction of Houses.
 - Employer of Assessee if such employer is Public Sector company/University/College.
- Stamp Duty, Registration fee & other expenses for transfer of such house.

FOLLOWING PAYMENTS ARE NOT ALLOWED AS DEDUCTION:

- Admission Fee, Cost of Share of co-operative society & Initial Deposit
- Cost of Renovation/Repair/Alteration of the house after issue of completion certificate.
- Any Expenditure i.r.o. which deduction is allowable u/s 24.

14 CONTRIBUTION TO ADDITIONAL ACCOUNT UNDER NPS by CG Employee

- ❖ Contribution by CG employee to additional A/c under NPS (specified A/c) referred to in section 80CCD for a fixed period of not less than 3 years in accordance with the scheme notified by CG.
- ❖ **There are two types of NPS account i.e., Tier I & Tier II, to which an individual can contribute.**
 - Section 80CCD provides deduction i.r.o contribution to individual pension A/c [Tier I A/c].
 - Deduction u/s 80C is allowable i.r.o contribution to additional A/c [Tier II] of NPS which does not qualify for deduction u/s 80CCD.
 - Thus, **Contribution to Tier II A/c is allowed as deduction u/s 80C only to CG employee.**

PC Note:

1. Deduction u/s 80C is available on **Payment Basis**.
2. **Interest Accrued on NSC every year (except for Last Year) → Deemed to be Reinvested & Such Amount of Interest is also entitled for deduction u/s 80C.**
3. Such Payment/contribution/deposit can be made out of taxable Income or Exempt Income. **[MCQ Point]**

Termination of Insurance Policy or ULIP or Transfer of House Property or Withdrawal of Deposit

If in any PY, an assessee:

1. **Terminates his contract of Insurance** by notice OR where the contract of insurance has ceased because of non-payment of premium & the assessee does not revive the contract
 - (a) In case of Single Premium Policy → Within 2 years after date of commencement of Insurance;
 - (b) In any other case → Before Premiums have been paid for two years.
2. **Terminates ULIP** by notice OR where his participation has ceased because of non-payment of premium & assessee does not revive his ULIP before participation have been paid for 5 years.
3. **Transfers House** before expiry of 5 years from the end of FY in which possession is obtained by him, then **NO further Deduction will be allowed & Total Deductions allowed in earlier PYs is deemed to be the Income of the assessee of such PY & shall be taxed in AY relevant to such PY.**
4. If amount deposited under Senior Citizens Savings Scheme is withdrawn before the expiry of 5 years from the date of its deposit, **then withdrawn amount is deemed to be the Income of the assessee of PY in which the amount is withdrawn. Amount so withdrawn is taxable in the AY relevant to such previous year.**
 - ❖ If Interest received/withdrawn is taxed in earlier PYs → It will not be taxed again.
 - ❖ If Interest on deposit was not taxed in earlier PYs → Such Interest would be taxed.
 - ❖ Amount received by Legal heir on the death of assessee → Not taxable in hands of Legal Heir.

CQ4. Mr. A, (age 61 years) has earned a lottery of Rs. 1,20,000 (gross) during PY 24-25. He also has interest on FD of Rs. 30,000. He invested Rs. 10,000 in PPF & Rs. 24,000 in NSC. What is the total income of Mr. A for AY 25-26 if assessee exercises the option of shifting out of default tax regime (i.e., he pays tax under the optional tax regime)?

Answer:

Particulars	Rs.	Rs.
Income from other sources		
Interest on Fixed Deposit		Rs. 30,000
Lottery income		Rs. 1,20,000
Gross Total Income		Rs. 1,50,000
Less: Deductions under Chapter VIA [See Note below]		
u/s 80C - Deposit in Public Provident Fund	Rs. 10,000	
- Investment in National Saving Certificate	Rs. 24,000	
Total Eligible Investments for deduction u/s 80C	Rs. 34,000	
But Deduction u/s 80C is restricted to		(Rs. 30,000)
Total Income		Rs. 1,20,000

Note: Even though eligible investment is Rs. 34,000, however, deduction under Chapter VIA is not available against casual Incomes. Therefore, maximum permissible deduction u/s 80C = Rs. 1,50,000 – Rs. 1,20,000 = Rs. 30,000.

CQ5. Mr. Bharat has made the investments as given below. Compute deduction u/s 80C for AY 25-26.

- Fixed deposit with State Bank for two years: Rs. 5,000.
- Deposit in Public Provident Fund Account in the name of minor son: Rs. 8,000.
- LIC Premium of major married independent daughter on 15.09.2024: Rs. 9,000. (Sum assured Rs. 1,00,000).
- LIC Premium of major married independent son on 11.11.2024: Rs. 5,000. (sum assured Rs. 20,000)
- Investment in Home Loan A/c Scheme of National Housing Bank Rs. 15,000 (Investment made from Past saving)
- Investment in units of MF notified u/s 10(23D) Rs. 25,000. (Investment was made from Exempt Income).
- Investment in Equity Shares of Infrastructure Companies Rs. 35,000.
- Payment of Tuition fees of his son to a private coaching centre for coaching in taxation Rs. 5,000.

Answer: **Computation of Deduction u/s 80C**

Fixed deposit with State Bank for two years	Nil
Public Provident Fund (Minor Son)	Rs. 8,000
LIC in name of Major married Independent daughter (10% of Sum assured is deductible)	Rs. 9,000
LIC policy in name of major married independent son [10% of Sum Assured is only allowed]	Rs. 2,000
Home Loan Account Scheme	Rs. 15,000
Units of Mutual Funds	Rs. 25,000
Equity Shares of Infrastructure Companies	Rs. 35,000
Tuition Fees (Since paid to private coaching centre)	Nil
Total Deduction u/s 80C	1,00,000

CONTRIBUTION TO CERTAIN PENSION FUNDS [SECTION 80CCC]

Assessee	Only Individuals (R/NR)
Qualifying Payment	<ul style="list-style-type: none"> Amount Deposited during PY by such individual for any Annuity Plan of LIC or any other Insurer for receiving Pension out of his taxable income.
PC Note:	Interest/Bonus accrued → Not deemed as Contribution & thus No deduction will be available.
Deduction	Lower of (a) Amount Deposited (Excluding Interest/Bonus) or (b) Rs. 1,50,000.
⇒ Pension received is taxable in the PY of Receipt of Maturity Amount.	
⇒ If Deduction is Allowed u/s 80CCC, Deduction u/s 80C will NOT be available.	

CONTRIBUTION TO PENSION SCHEME NOTIFIED BY CG [SECTION 80CCD]

Eligible Assessee	▪ Employee of CG (Compulsory to Join NPS); Any other employees (Optional to join NPS)		
	▪ Self-employed individual (Optional to join NPS)		
Deduction	Employee’s Contribution [80CCD(1)]	Upto 10% of Salary is deductible.	
	Employer’s Contribution [80CCD(2)]	Employer	Deduction
	[Allowed in New Scheme Also]	CG/SG	Upto 14% of salary
		Other than CG Employer	Old Regime: Upto 10% of salary New Regime: Upto 14% of salary
	For Self-employed Individual	Upto 20% of GTI is deductible.	
<ul style="list-style-type: none">▪ Meaning of Salary is same as that in the case of HRA.▪ Employer’s Contribution is firstly taxable as Salary Income in the hands of Employee.▪ Atal Pension scheme has been notified by CG till now.▪ No deduction shall be allowed u/s 80C if deduction has been claimed u/s 80CCD.			

Additional Deduction of Rs. 50,000 u/s 80CCD(1B) – [To be studied after Section 80 CCE]

Additional Deduction upto Rs. 50,000 of Payment under NPS is allowed u/s 80CCD(1B) over & above deduction u/s 80CCD(1).

PC Note: Deduction u/s 80CCD(1) is subject to overall limit of Rs. 1.50 lacs u/s 80CCE. But, deduction u/s 80CCD(1B) is in addition to overall limit of Rs. 1.50 lacs u/s 80CCE.

➔ **Additional Deduction of Rs. 50,000 u/s 80CCD(1B) → Allowed in Old Scheme Only.**

MAXIMUM COMBINED CEILING u/s 80C, 80CCC & 80CCD(1) [Sec 80CCE]

- Total Deduction u/s 80C + 80CCC + 80CCD(1) → **cannot Exceed Rs. 1,50,000.**
- PC Note:** Maximum Limit of Rs. 1,50,000 is not applicable to employer's contribution u/s 80CCD(1B).

Section	Maximum Deduction	Max deduction (80CCE)
80C	Rs. 1,50,000	} Rs.1,50,000
80CCC	Rs. 1,50,000	
Employee's Contribution u/s 80CCD(1)	10% of Salary	
Additional Deductions u/s 80CCD(1B)	Rs. 50,000	Not Applicable
Employer's contribution u/s 80CCD(2)	14% or 10% of Salary	Not Applicable

CQ6. Basic salary of Mr. A is Rs. 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain tax treatment i.r.o. 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? **[SM Q5]**

Answer:

(1) Tax treatment in the hands of Mr. A i.r.o employer's & own contribution to pension scheme referred in section 80CCD, where Mr. A has exercised the option of shifting out of default tax regime u/s 115BAC(1A)

- 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, Rs. 1,80,000, being 15% of basic salary of Rs. 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	Rs.
Basic salary (Rs. 1,00,000 x 12)	12,00,000
Dearness allowance 40% of Rs. 12,00,000	4,80,000
50% of Dearness Allowance forms part of pay = 50% of Rs. 4,80,000	2,40,000
Salary for the purpose of deduction u/s 80CCD	14,40,000
Deduction u/s 80CCD(1) is restricted to 10% of Rs. 14,40,000 (against actual contribution Rs. 1,80,000, being 15% of basic salary of Rs. 12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto Rs. 50,000 is allowable. Therefore, deduction u/s 80CCD(1B) is Rs. 36,000 (Rs. 1,80,000 - Rs. 1,44,000)	36,000

Rs. 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 Rs. 1,50,000 u/s 80CCE. Rs. 36,000 allowable as deduction u/s 80CCD(1B) is outside the overall limit of Rs. 1,50,000 u/s 80CCE.

Alternative Treatment: Rs. 50,000 can be claimed as deduction u/s 80CCD(1B). The balance Rs. 1,30,000 (Rs. 1,80,000 - Rs. 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 Rs. 1,44,000, even though entire employer's contribution of Rs. 1,80,000 is included in salary. However, this deduction of employer's contribution of Rs. 1,44,000 to pension scheme would be outside the overall limit of Rs. 1,50,000 u/s 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of Rs. 1,50,000.

(2) 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) i.r.o his contribution to pension scheme under the default tax regime u/s 115BAC. However, he would be allowed deduction of upto Rs. 2,01,600, being 14% of salary [Rs. 14,40,000, computed in (i) above] u/s 80CCD(2) i.r.o. employer's contribution to pension scheme. Accordingly, entire employer's contribution of Rs. 1,80,000 would be allowed as deduction u/s 80CCD(2).

CQ7. Gross Total Income of Mr. X for AY 25-26 is Rs. 8,00,000. He has made following investments during PY 24-25:

Contribution to PPF	1,10,000
Payment of tuition fees to Apeejay School, for education of his son studying in Class XI	45,000
Repayment of housing loan taken from Standard Chartered Bank	25,000
Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deduction under Chapter VI-A for the AY 25-26 if Mr. X exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q6]**

Answer: **Computation of deduction under Chapter VI-A for AY 25-26**

Particulars	Rs.
Deduction u/s 80C	
- Contribution to PPF	1,10,000
- Tuition fees Payment to Apeejay School, New Delhi, education of his son studying in Class XI	45,000
- Repayment of housing loan	25,000
	1,80,000
Restricted to Rs. 1,50,000, being the maximum permissible deduction u/s 80C	1,50,000
Deduction u/s 80CCC	
- Contribution to approved pension fund of LIC	1,05,000
	2,55,000
As per section 80CCE, aggregate deduction u/s 80C, 80CCC & 80CCD(1) is restricted to Rs. 1,50,000	
Deduction allowable under Chapter VIA for AY 25-26	1,50,000

TAXABILITY OF PENSION RECEIVED

1. Amount received on Closing NPS Account or opting out of NPS	Taxable
2. If Amount is received by Nominee on the Death of Assessee	Exempt
3. Pension received out of NPS	Taxable
4. Amount received (Specified in 1,2,3) utilized for purchasing annuity plan in same PY	Exempt
5. Pension received out of Annuity Plan specified in (4)	Taxable

Payment from NPS to an employee on closure of his A/c or on his opting out of scheme

- ❖ **Section 10(12A):** Any payment from NPS to an assessee on account of closure or his opting out of the pension scheme referred to in section 80CCD, to the extent it does not **exceed 60% of the total amount** payable to him at the time of closure or his opting out of the scheme, shall be exempt from tax.
- ❖ **Section 10(12B):** Any payment from NPS to an employee under pension scheme referred to in section 80CCD, on partial withdrawn made out of his account shall be exempt from tax to the extent it does not **exceed 25% of amount of contributions** made by him.

CONTRIBUTION TO AGNIPATH SCHEME [SECTION 80CCH]

Meaning	<ul style="list-style-type: none"> ▪ Scheme (2022): It is a CG scheme for enrolment of Indian youth in Indian Armed Forces. ▪ Agniveer Corpus Fund: It means a fund in which consolidated contributions of all Agniveers & matching contributions of CG along with interest on both these contributions are held. 	
Scheme	<ul style="list-style-type: none"> ▪ Each Agniveer will contribute 30% of his monthly customized Agniveer Package to the individual's Agniveer Corpus Fund. ▪ Further, CG will also contribute a matching amount to 'Agniveer Corpus Fund'. ▪ CG will also pay to the subscriber interest as approved from time to time on the contributions standing in his account. 	
Deduction	Self-Contribution [Sec 80CCH(1)]	Amount deposited (Only Old Scheme)
	CG's Contribution [Sec 80CCH(2)]	Amount deposited by CG [Both Old & New Scheme]
<ul style="list-style-type: none"> ▪ CG's contribution would be included in the salary of the assessee. However, deduction u/s 80CCH(2) would be available for the same. ▪ Section 10(12C): Any payment from Agnipath Corpus Fund to a person enrolled under the Agnipath Scheme or to his nominee would be exempt. 		

DEDUCTION I.R.O. MEDICAL INSURANCE PREMIUM [SECTION 80D]

Eligible Assessee		Only Individual or HUF [Resident/Non-Resident]		
Mode of Payment		Any Mode other than Cash [Preventive Health Check-up → Cash is Allowed]		
MAXIMUM AMOUNT OF DEDUCTION u/s 80D				
Particulars		INDIVIDUAL		HUF
For whose benefit payment shall be made →		Family	Parents	Member
1	(a) Medical Insurance Premium	✓	✓	✓
	(b) Contribution to CG Health Scheme	✓	×	×
	(c) Preventive Health Check-up [Max. Rs. 5000]	✓	✓	×
❖ Maximum Deduction for (a), (b), (c)		Rs. 25000	Rs. 25000	Rs. 25000
❖ Additional Deduction on (a) when Medi-claim policy is taken on Life of Senior Citizen = Rs. 25,000.		Rs. 25,000	Rs. 25,000	Rs. 25,000
2	Medical Expenditure on health of Senior citizen if NO Medical Insurance is paid on his health (Max. Limit)	Rs. 50,000	Rs. 50,000	Rs. 50,000
3	Combined Maximum Deduction for 1 & 2	Rs. 50,000	Rs. 50,000	Rs. 50,000

PC Note:

- ❖ Maximum Deduction for Preventive Health Check-up of Family + Parents → Rs. 5,000.
- ❖ Family = Individual + Spouse + Dependent Children.
- ❖ Parents = Father + Mother (Dependent or independent); Father-in-Law & Mother-in-Law → ✗
- ❖ Notified Scheme = Contributory Health Service Scheme of Department of Space.

LUMP SUM HEALTH INSURANCE PREMIUM PAID FOR MORE THAN ONE YEAR

- Deduction u/s 80D for each PY shall be allowed on Proportionate basis.

CQ8. Mr. A, aged 40 years, paid medical insurance premium of Rs. 20,000 during the PY 24-25 to insure his health as well as the health of his spouse. He also paid medical insurance premium of Rs. 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed Rs. 3,600 to CG Health Scheme during the year. He has incurred Rs. 3,000 in cash on preventive health check-up of himself and his spouse & Rs. 4,000 by cheque on preventive health check-up of his father. Compute deduction allowable u/s 80D for AY 25-26 if Mr. A has exercised the option of shifting out of default tax regime provided u/s 115BAC(1A). **[SM Q7]**

Answer: Deduction allowable u/s 80D for AY 25-26

SN	Particulars	Actual Payment	Maximum deduction
1	Premium paid & medical expenditure incurred for self and spouse		
(a)	Medical insurance premium paid for self and spouse	20,000	20,000
(b)	Contribution to CGHS	3,600	3,600
(c)	Exp. on preventive health check-up of self & spouse	3,000	1,400
		26,600	25,000
2	Premium paid or medical expenditure incurred for father, who is a senior citizen		
(a)	Mediclaime premium paid for father, who is over 60 years of age	47,000	47,000
(b)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction u/s 80D (Rs. 25,000 + Rs. 50,000)		75,000

Notes:

- (1) The total deduction under 1 (a), (b) & (c) above should be < Rs. 25,000. Therefore, expenditure on preventive health check-up for self & spouse would be restricted to Rs. 1,400, (Rs. 25,000 – Rs. 20,000 – Rs. 3,600).
- (2) The total deduction under B. (i) and (ii) above should not exceed Rs. 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to Rs. 3,000, being (Rs. 50,000 – Rs. 47,000).
- (3) In this case, the total deduction allowed on expenditure on preventive health check-up of self, spouse and father is Rs. 4,400 (i.e., Rs. 1,400 + Rs. 3,000), which is within the maximum permissible limit of Rs. 5,000.

CQ9. Mr. Y, aged 40 years, paid medical insurance premium of Rs. 22,000 during the PY 24-25 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of Rs. 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of Rs. 20,000 on his father, aged 71 years, who is not covered under mediclaime policy. His father is also not dependent upon him. He contributed Rs. 6,000 to CG Health Scheme during the year. Compute deduction allowable u/s 80D for AY 25-26 if Mr. Y has exercised the option of shifting out of default tax regime. **[SM Q8]**

Answer: Deduction allowable u/s 80D for the AY 25-26

	Particulars	Rs.	Rs.
1	Medical insurance premium paid for self, spouse and dependent children	22,000	
2	Contribution to CGHS	6,000	
	Restricted to	28,000	25,000
3	Mediclaime premium paid for mother, who is over 60 years of age	33,000	
4	Medical expenditure incurred for father, who is >60 years of age & not covered by any insurance	20,000	
		53,000	
	Restricted to		50,000
			75,000

DEDUCTION FOR MAINTENANCE/MEDICAL TREATMENT OF DEPENDANT DISABLED [Section 80DD]

Assessee	Resident Individual/HUF
Eligible Payment	<ul style="list-style-type: none"> ➤ Expenditure for Medical Treatment (including nursing), training & rehabilitation of a dependant disabled. ➤ Amount paid under approved scheme for Maintenance of Dependant Disabled.
Deduction	<ul style="list-style-type: none"> ➤ Rs. 75,000; ➤ Rs. 1,25,000 with severe disability.

PC Note:

- ❖ Deduction u/s 80DD is allowed irrespective of the amount of Actual Expenditure incurred.
- ❖ **Meaning of 'Dependant'**
 - (a) For Individual: Spouse, Children, Parents, Brothers & Sisters of Individual.
 - (b) For HUF: Any member of HUF; dependant wholly/mainly on such individual/HUF for support & who has not claimed any deduction u/s 80U during PY.
- ❖ Person with severe disability = Person with 80% or more of one or more disabilities.
- ❖ If Dependant Disabled dies before Assessee → Amount deposited is deemed as Income in PY of receipt.

CQ10. Mr. X is a resident individual. He deposits a sum of Rs. 50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute deduction available u/s 80DD for AY 25-26, if Mr. X has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q9]**

Answer: 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.

CQ11. What will be the deduction if Mr. X had made this deposit for his dependant father? **[SM Q10]**

Answer: Since expense was incurred for dependant disabled person, Mr. X will be entitled to claim deduction of Rs. 75,000 u/s 80DD, irrespective of amount deposited. In case his father has severe disability, deduction = Rs. 1,25,000.

DEDUCTION I.R.O. MEDICAL TREATMENT, ETC. [SECTION 80DDB]

Eligible Assessee	Resident Individual/HUF	
Eligible Payment for Deduction	Expenditure on Medical Treatment of Specified Disease in Rule 11DD for:	
	Assessee	Expenditure for
	Individual →	Himself or Dependant
	HUF →	Member of HUF
Deduction	<ul style="list-style-type: none"> ➤ Amount Actually Paid or Rs. 40,000 (whichever is Lower) ➤ Senior Citizen: Amount Actually Paid or Rs. 1,00,000 (whichever is Lower) 	

PC Note: If any amount is received under insurance or reimbursed by employer for medical treatment, received amount shall be reduced from the deduction allowable under this section.

INTEREST PAID ON LOAN TAKEN FOR HIGHER EDUCATION [SECTION 80E]

Eligible Assessee	Individuals only
Source of Loan	Loan must have been taken from: (a) Bank (b) Financial institution (c) Approved charitable institution
Purpose of Loan	Loan must have been taken for pursuing higher education of (a) Assessee himself; (b) His Relatives (Spouse/Children); (c) Student for whom the assessee is Legal Guardian. PC Note: Courses after Class XII or Equivalent → Qualify for deduction. ❖ Loan can be taken for study in India or Outside India also. ❖ Course may be Full-time or Part-time.
Deduction	Interest paid during PY on higher Education Loan out of taxable Income.
Period of Deduction	Deduction shall be allowed for 8 AYs starting from the AY in which the assessee starts paying the interest on loan.

CQ12. Mr. B has taken three education loans on 1st April 2024. Compute deduction u/s 80E for AY 25-26.

Particulars	Loan 1	Loan 2	Loan 3	Loan 4	Loan 5
For whose education loan was taken	B	Son of B	Daughter of B	Spouse	Y, his Friend
Purpose of Loan	MBA	B. Sc.	10 th	BA	CA
Amount of Loan	5,00,000	2,00,000	4,00,000	10,00,000	6,00,000
Annual repayment of Loan	1,00,000	40,000	80,000	2,00,000	1,20,000
Annual repayment of Interest	20,000	10,000	18,000	40,000	24,000

Answer:

- Deduction u/s 80E is available to Individual for any Interest paid by him in PY i.r.o. loan taken for pursuing higher education of himself/spouse/children. No deduction is available for loan taken for 10th class.
- Therefore, Interest repayment of Loan 1, Loan 2, Loan 4 will qualify for deduction.
- Deduction u/s 80E = 20,000 + 10,000 + 40,000 = Rs. 70,000.

INTEREST ON LOAN TAKEN FOR ACQUISITION OF RESIDENTIAL HOUSE [SEC 80EE]

Eligible Assessee	Individuals only [R/NR]
Source of Loan	Loan must have been taken from: (a) Bank; (b) FI; (c) Housing finance company
Purpose of Loan	Loan must be taken for Acquisition of Residential House Property.
Conditions	<ul style="list-style-type: none"> ➤ Loan must have been sanctioned during FY 2016-17. ➤ Amount of Loan Sanctioned ≤ Rs. 35 Lacs. ➤ Value of Residential House Property ≤ Rs. 50 Lacs. ➤ Assessee should not own any Residential House on the Date of Sanction of Loan.
Deduction	LOWER of (a) Interest paid on Loan during FY or (b) Rs. 50,000. This deduction is over & above deduction u/s 24(b) for interest paid i.r.o. loan borrowed for acquisition of a self-occupied property.
Period of Deduction	Deduction is available Till Repayment of loan continues.

CQ13. Mr. A purchased a residential house property for self-occupation at a cost of Rs. 45 lacs on 1.4.2017, i.e. which he took a housing loan of Rs. 35 lakh from Bank of India@11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction i.e. interest on housing loan for AY 25-26 if Mr. A has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A), assuming that entire loan was outstanding as on 31.3.2025 and he does not own any other house property. [SM Q12]

Answer:

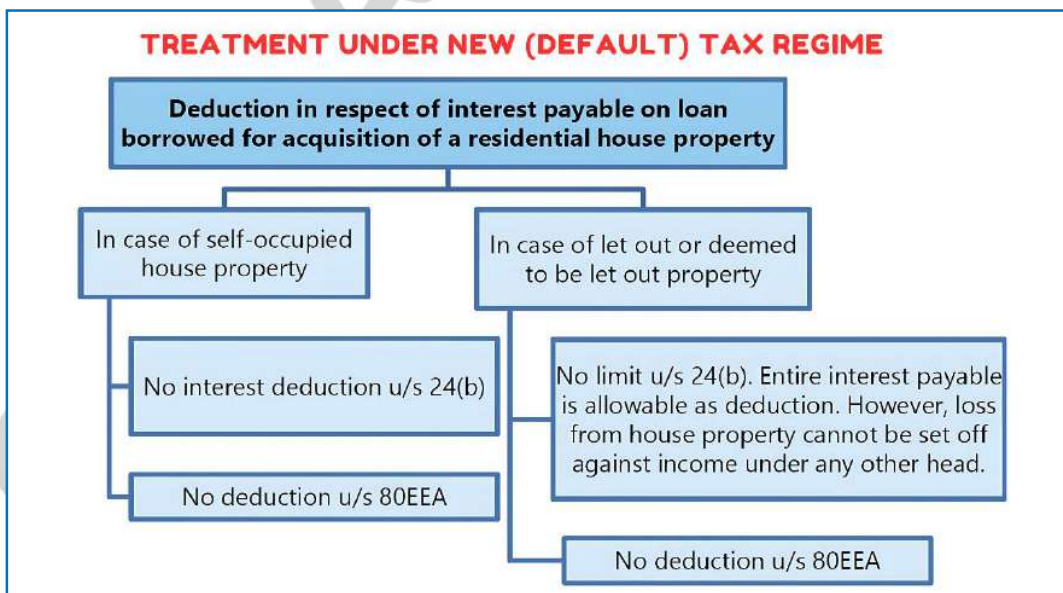
Interest deduction for AY 25-26		Rs.
(i)	Deduction allowable while computing income u/h "HP"	
	Deduction u/s 24(b) Rs. 3,85,000 [Rs. 35,00,000 × 11%] but Restricted to	2,00,000
(ii)	Deduction under Chapter VI-A from Gross Total Income	
	Deduction u/s 80EE Rs. 1,85,000 (Rs. 3,85,000 – Rs. 2,00,000) but Restricted to	50,000

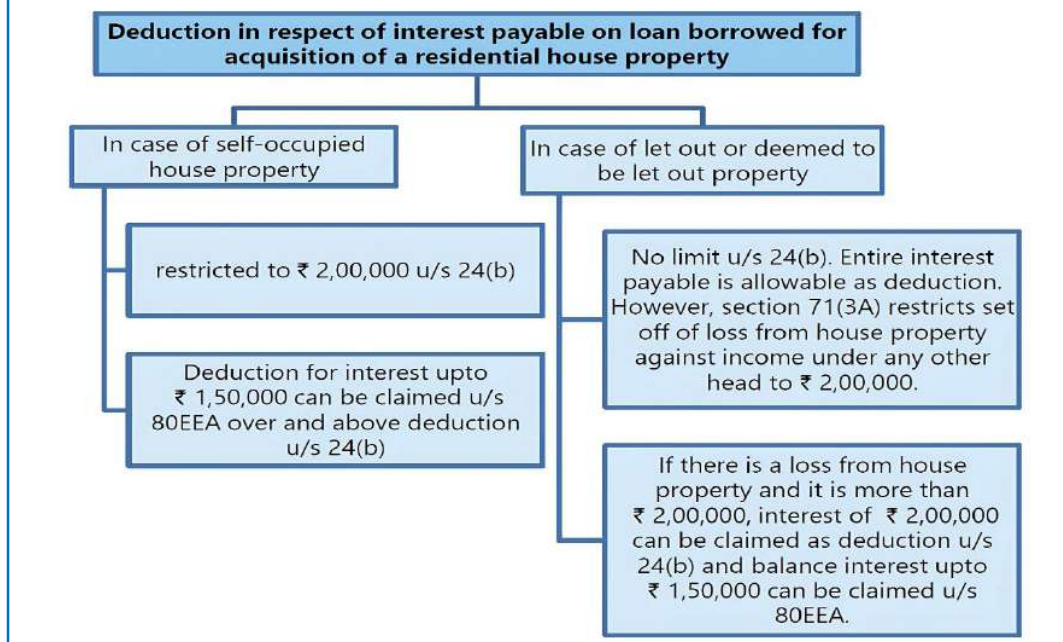
INTEREST ON LOAN TAKEN FOR ACQUISITION OF RESIDENTIAL HOUSE PROPERTY [SECTION 80EEA]

Eligible Assessee	Individuals only [R/NR]
Source of Loan	Loan must have been taken from: (a) Bank; (b) FI; (c) Housing finance company
Purpose of Loan	Loan must be taken for Acquisition of Residential House Property.
Conditions	<ul style="list-style-type: none"> ➤ Individual should not be eligible to claim deduction u/s 80EE. ➤ Loan must have been sanctioned b/w 1.4.2019 & 31st March 2022. ➤ SDV of Residential House Property ≤ Rs. 45 Lacs. ➤ Assessee should not own any Residential House on Date of Sanction of Loan.
Deduction	LOWER of (a) Interest paid on Loan during FY or (b) Rs. 1,50,000.
Period of Deduction	Deduction is available Till Repayment of loan continues.

PC Note:

- SOP → Interest deduction u/s 24(b) is restricted to Rs. 2 Lacs.
- Section 71(3A) restricts amount of HP loss to be set-off against any other head of income to Rs. 2 Lacs.
- Accordingly, if interest payable i.e. acquisition of eligible house property is more than Rs. 2,00,000, excess can be claimed as deduction u/s 80EEA, subject to fulfilment of conditions.



TREATMENT UNDER OLD TAX REGIME - IF OPTED OUT**INTEREST ON LOAN TAKEN FOR PURCHASE OF ELECTRIC VEHICLE [SECTION 80EEB]**

Eligible Assessee	Individuals only [R/NR]
Source of Loan	Loan must have been taken from: (a) Bank; (b) Any deposit taking NBFC; (c) Systemically important non-deposit taking NBFC.
Purpose of Loan	Loan must be taken for Purchase of Electric Vehicle.
Conditions	➤ Loan must have been sanctioned b/w 1.4.2019 & 31.3.2024 .
Deduction	(a) Interest paid on Loan during FY or (b) Rs. 1,50,000 [whichever is lower]
Period of Deduction	Deduction is available Till Repayment of loan continues.

CQ14. Following are the particulars of Mr. A, B, C & D, salaried individuals, for AY 25-26:

[SM Q13]

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan	Rs. 43 Lacs	Rs. 45 Lacs	Rs. 20 Lacs	Rs. 15 Lacs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Sanction Date	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Disbursement	1.5.2021	1.5.2020	1.5.2020	1.5.2019
Purpose of loan	Acquisition of residential house for self-occupation	Acquisition of residential house for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
SDV of house	Rs. 45 Lacs	Rs. 48 Lacs	-	-
Cost of E- Vehicle	-	-	Rs. 22 Lacs	Rs. 18 Lacs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable for AY 25-26 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 i.r.o any of the above loans upto 31.3.2025.

Answer:

Mr. A: Interest deduction for AY 25-26		
1	Deduction allowable while computing income u/h "Income from house property"	
	Deduction u/s 24(b) Rs. 3,87,000 [Rs. 43,00,000 × 9%] but Restricted to	2,00,000
2	Deduction under Chapter VI-A from Gross Total Income	
	Deduction u/s 80EEA Rs. 1,87,000 (Rs. 3,87,000 – Rs. 2,00,000) but Restricted to	1,50,000
Mr. B: Interest deduction for AY 25-26		
1	Deduction allowable while computing income u/h "Income from house property"	
	Deduction u/s 24(b) Rs. 4,05,000 [Rs. 45,00,000 × 9%] but Restricted to	2,00,000
2	Deduction under Chapter VI-A from Gross Total Income	
	Deduction u/s 80EEA is not permissible since: (i) loan is taken from NBFC; (ii) stamp duty value exceeds Rs. 45 lakh. Deduction u/s 80EEA would not be permissible due to either violation listed above.	Nil
Mr. C: Deduction under Chapter VI-A from Gross Total Income		
	Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [Rs. 20 lakhs × 10% = Rs. 2,00,000, restricted to Rs. 1,50,000, being maximum permissible deduction]	1,50,000
Mr. D: Deduction under Chapter VI-A from Gross Total Income		
	Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.	Nil

DONATIONS TO CHARITABLE INSTITUTIONS/FUNDS [SECTION 80G]

Eligible Assessee	Any Assessee (R/NR)
Eligible Payment	Donations made to specified funds which are approved u/s 80G.
Mode of Payment	<ul style="list-style-type: none"> ➤ Amount shall be paid by Any Mode other than Cash. However, Donations ≤ 2000 can be made in Cash. ➤ Donation in kind → No Deduction Allowed (Donation should be made in Money). ➤ Donations can be from Earlier year's Income/Exempt Income.
Adjusted GTI	Adjusted GTI = GTI as Reduced by the following: <ul style="list-style-type: none"> ▪ LTCG u/s 112 & 112A ▪ STCG u/s 111A ▪ All Permissible Deductions u/s 80C - 80U [Except deduction u/s 80G] ▪ Exempt Income
Qualifying Limit	Qualifying Limit = 10% of Adjusted GTI
Deduction	Deduction u/s 80G = Total of Deductions permissible under A, B, C & D.

AMOUNT OF DEDUCTION u/s 80G

[Refer "How to calculate Deduction" Below]

A	Donations Eligible for 100% Deduction WITHOUT QUALIFYING LIMIT
	<ul style="list-style-type: none"> National Defence Fund/National Foundation for Communal Harmony; Zila Saksharta Samiti/State/National Blood Transfusion Council; PM's National Relief Fund/[(Maharashtra CM's/PM's Armenia) Earthquake Relief Fund] Africa (Public Contributions India) Fund; Approved University/Educational Institution of National Eminence; Fund set up by SG of Gujarat for providing relief to Victims of Earthquake in Gujarat; Fund set up by SG to provide Medical Relief to Poor People; Army/Airforce Central Welfare Fund/Indian Naval Benevolent Fund; Andhra Pradesh CM's Cyclone Relief Fund, 1996; CM's Relief Fund/Lieutenant Governor's Relief Fund in any State or Union Territory. National Illness Assistance Fund/National Sports Fund/National Cultural Fund; Fund for Technology Development & Application set up by CG. National Trust for Welfare of persons with Autism, Cerebral Palsy, Mental Retardation etc; National Fund for control of Drug Abuse (Inserted by FA, 2015 w.e.f. A.Y. 2016 -17) Donations to Swachh Bharat Kosh/Clean Ganga Fund set up by CG, National Children's Fund. Prime Minister's Citizen Assistance & Relief in Emergency Situations Fund (PM Cares Fund)
B	Donations Eligible for 50% Deduction WITHOUT QUALIFYING LIMIT
	<ul style="list-style-type: none"> Prime Minister's Drought Relief Fund.
C	Donations Eligible for 100% Deduction SUBJECT TO QUALIFYING LIMIT
	<ul style="list-style-type: none"> Donation to Government/Approved LA/Institution for Promoting Family Planning; Donations by Company to Indian Olympic Association/any other association established in India & notified by CG for Sponsorship/Development of Infrastructure for Sports & Games.
D	Donations Eligible for 50% Deduction SUBJECT TO QUALIFYING LIMIT
	<ul style="list-style-type: none"> Donation to Government/Approved LA/Institution for any charitable purpose other than Promoting Family Planning. Authority constituted for satisfying housing needs/improvement of cities, towns & villages. Corporation established by CG/SG specified u/s 10(26BB) for Promoting Interests of Minority Notified Temple, Mosque, Gurdwara, Church notified by CG to be of historic importance, for Renovation/Repair of such Place.

How to Calculate Deduction u/s 80G

[V.IMP]

- Calculate Adjusted GTI.
- Calculate Qualifying Limit [= 10 % of Adjusted GTI]
- Eligible donations in C & D (which are subject to Qualifying Limit) should be Aggregated.
- Qualifying Limit gives us "Total Amount of Donations" eligible for Deduction. [It is mistaken that Qualifying Limit gives us Maximum Possible Deduction]
- Firstly, Donations eligible for 100% Deduction (C) should be adjusted against Qualifying Limit.
- Balance Qualifying Limit shall be adjusted against Donations Eligible for 50% Deduction & then deduction of 50% shall be calculated.
- Total Deduction under (C) & (D) should be limited to Qualifying Limit (10% of Adjusted GTI)
- Donations made under (A) & (B) are fully allowed as deduction without QUALIFYING LIMIT.

CQ15. Mr. Shiva (age 58 years) has GTI of Rs. 7,75,000 comprising of income from salary & house property. He made following investment:

- (i) Premium paid to insure life of major daughter (policy taken - 1.4.2018) (Sum Assured: Rs. 1,80,000): Rs. 20,000
- (ii) Medical Insurance Premium for self - Rs. 12,000; Spouse - Rs. 14,000.
- (iii) Donation to a public charitable institution registered u/s 80G - Rs. 50,000 by way of Cheque.
- (iv) LIC Pension Fund - Rs. 60,000.
- (v) Donation to National Children's Fund - Rs. 25,000 by way of Cheque.
- (vi) Donation to Prime Minister's Drought Relief Fund - Rs. 25,000 by way of Cheque.
- (vii) Donation to approved institution for promotion of family planning - Rs. 40,000 by Cheque.
- (viii) Deposit in PPF - Rs. 1,00,000.

Compute the total income of Mr. Shiva for AY 25-26 if he exercises the option of shifting out of default tax regime.

Answer:

Computation of Total Income of Mr. Shiva for AY 25-26	Rs.	Rs.
Gross Total Income		7,75,000
Less: Deduction u/s 80C		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value Rs. 1,80,000, as the policy is taken after 31.3.2012)	18,000	
Deduction u/s 80CCC i.r.o LIC pension fund	60,000	
	1,78,000	
As per section 80CCE, deduction u/s 80C & 80CCC is restricted to		1,50,000
Deduction u/s 80D		
Medical Insurance premium i.r.o. self & spouse: Rs. 26,000 but Restricted to		25,000
Deduction u/s 80G (See Working Note below)		87,500
Total income		5,12,500

Working Note: Computation of deduction u/s 80G

Particulars of donation	Donation	% of deduction	Deduction
National Children's Fund	25,000	100%	25,000
Prime Minister's Drought Relief Fund	25,000	50%	12,500
Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
Public Charitable Trust	50,000	50% subject to qualifying limit (See Note below)	10,000
			87,500

Note: Adjusted TI = GTI – deductions u/s 80C to 80U except 80G i.e., Rs. 6,00,000, in this case.

Rs. 60,000, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of Rs. 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of Rs. 50,000 to public charitable trust is restricted to 20,000 (being, Rs. 60,000 - Rs. 40,000), 50% of which would be the deduction u/s 80G. Therefore, deduction u/s 80G i.r.o donation to public charitable trust would be Rs. 10,000, which is 50% of Rs. 20,000.

DEDUCTIONS I.R.O. RENT PAID [SECTION 80GG]

Assessee	<ul style="list-style-type: none"> Any Self-Employed Individual OR Employed Individual (Not in Receipt of HRA/Rent-Free Accommodation)
Payment	Rent paid for his Residential Accommodation along with his family.
Deduction	(a) Rs. 5,000 per month (b) Excess of Rent paid over 10% of Adjusted GTI (c) 25% of Adjusted GTI [Whichever is lower]
Adjusted GTI	Adjusted GTI for this purpose means GTI as REDUCED by: <ol style="list-style-type: none"> LTCG which have been included in GTI & STCG u/s 111A. All Deductions u/s 80C-80U Except Deduction u/s 80GG.

- Assessee should not be receiving any HRA exempt u/s 10(13A).
- Rented House should be occupied by the assessee for his own residence.
- Assessee, spouse or minor child or HUF of which assessee is a member, does not own any residential accommodation at the place where assessee ordinarily resides or at the place where he works or carries on his business or profession.
- If assessee owns any residential accommodation at any place, other than the place of residence or work of the assessee, then the concession i.r.o. self-occupied property is not claimed by the assessee.

CQ16. Mr. Ganesh, a businessman, whose total income (before allowing deduction u/s 80GG) for AY 25-26 is Rs. 4,60,000. He paid house rent at Rs. 12,000 p.m. i.r.o. residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him u/s 80GG for AY 25-26 if he opts out of default tax regime u/s 115BAC.

Answer: Deduction u/s 80GG will be computed as follows:

(1) Actual rent paid less 10% of total income: Rs. 1,44,000 - $\frac{(10 \times 4,60,000)}{100}$ = Rs. 98,000

(2) 25% of total income = $\frac{(25 \times 4,60,000)}{100}$ = Rs. 1,15,000

(3) Amount calculated at Rs. 5,000 p.m. = Rs. 60,000

Deduction allowable u/s 80GG [least of (i), (ii) and (iii)] = Rs. 60,000

DONATION FOR SCIENTIFIC RESEARCH/RURAL DEVELOPMENT [SEC 80GGA]

Assessee	Any Assessee NOT having PGBP Income
Eligible Payment	Payment made during PY to the following: <ul style="list-style-type: none"> Approved Research Association/University/College to be used for Scientific or Social or Statistical Research or Rural Development as specified u/s 35CCA. Notified rural development fund/National Urban Poverty Eradication Fund. Public sector company/LA/Association/Institution approved by National Committee, for carrying out any eligible project/scheme specified in Sec. 35AC National Urban Poverty Eradication Fund (NUPEF)
Deduction	100% of the Donation Paid.
Mode of Payment	<ul style="list-style-type: none"> Amount shall be Paid by any mode other than Cash. Donations ≤ 2,000 can be made in Cash.

PC Note: Deduction allowed to the assessee shall not be denied even if approval granted to any of the above institution is withdrawn after the payment of donation by the assessee.

CONTRIBUTIONS GIVEN BY COMPANY TO POLITICAL PARTY [SEC 80GGB]

Eligible Assessee	Indian Companies only.
Eligible Payment	Any sum contributed in PY to any Political party or Electoral Trust. Expenditure on advertisement in Brochure of Political party → Eligible.
Deduction	100% of the Donation Paid.
Mode of Payment	Amount shall be paid by Any mode other than Cash.

CQ17. During PY 24-25, ABC Ltd, Indian company contributed Rs. 2 lacs to an electoral trust & incurred Rs. 25,000 on advertisement in a brochure of political party. Is the company eligible for deduction i.r.o such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? ABC Ltd. does not opt for section 115BAA/115BAB.

Answer:

- An Indian company is eligible for deduction u/s 80GGB i.r.o any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word “contribute” in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.
- Therefore, ABC Ltd. is eligible for a deduction of Rs. 2,25,000 u/s 80GGB i.r.o sum of Rs. 2 lakh contributed to an electoral trust and Rs. 25,000 incurred by it on advertisement in a brochure of a political party.
- It may be noted that there is a specific disallowance u/s 37(2B) i.r.o expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of Rs. 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income u/s 80GGB.

CONTRIBUTIONS GIVEN BY ANY PERSON TO POLITICAL PARTY [80GGC]

Eligible Assessee	Any Person [Except Local Authority & Every AJP funded by Government]
Eligible Payment	Any sum contributed in PY to any Political party or Electoral Trust.
Deduction	100% of the Donation Paid.
Mode of Payment	Amount shall be paid by Any mode other than Cash.

PC Note: Government companies **cannot** give political donations.

B. INCOME BASED DEDUCTIONS

DEDUCTION OF "INTEREST ON DEPOSIT IN SAVING A/C" [SEC 80TTA]

Eligible Assessee	Individual/HUF whose GTI includes Interest on Deposits in Saving A/c in Bank/Co-operative Bank/Post office (Except Time Deposit repayable after Fixed Period)
Deduction	Interest on Saving Deposits (other than Time Deposits) upto Rs. 10,000.

PC Note:

- Interest from Deposit in Savings A/c held by firm/AOP/BOI → No Deduction to Partner/Member.
- Deduction u/s 80TTA is not available to Resident Senior Citizen eligible for deduction u/s 80TTB.
- Section 10(15)(i) → Saving A/c Interest in POST OFFICE is Exempt upto Rs. 3,500/Rs. 7,000.

INTEREST ON "DEPOSITS" IN CASE OF SENIOR CITIZENS [SEC 80TTB]

Eligible Assessee	Resident Senior Citizen whose GTI includes Interest on Deposits in Bank/Co-operative Bank/Post office.
Deduction	Interest on Saving Deposits upto Rs. 50,000.

PC Note: It may be Interest on Saving A/c, Fixed Deposit or any other Interest.

SPACE FOR PC Analysis - Section 80TTA Vs. 80TTB

CQ18. Mr. A, a resident individual aged 61 years, has earned business income (computed) of Rs. 1,35,000, lottery income of Rs. 1,20,000 (gross) during the PY 24-25. He also has interest on Fixed Deposit of Rs. 30,000 with banks. He invested an amount of Rs. 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the AY 25-26 if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)?

Answer: **Computation of total income of Mr. A for AY 25-26**

Particulars	Rs.	Rs.
Profits and gains of business or profession		1,35,000
Income from other sources		
- Interest on Fixed Deposit with banks		30,000
- lottery income		1,20,000
Gross Total Income		2,85,000
Less: Deductions under Chapter VIA [See Note below]		
Section 80C: Deposit in Public Provident Fund	1,50,000	
Section 80TTB: Interest on fixed deposits with banks	30,000	
	1,80,000	
Restricted to		1,65,000
Total Income		1,20,000

DEDUCTION I.R.O. ROYALTY ON PATENTS [SECTION 80RRB]

Eligible Assessee	Resident Individual who is registered as True & First Inventor under the Patents Act, 1970, including co-owner of the patent.
Deduction	Lower of (a) Amount of Royalty Received or (b) Rs. 3 lacs .
Income Eligible for Deduction	Royalty Income including Consideration for: <ul style="list-style-type: none"> (i) Transfer of Rights in the Patent or (ii) Providing information for working or use in India. It includes Advance Royalty which is Not Returnable. PC Note: Exemption is not Available on Consideration for Sale of Product Manufactured using of Patented process/Article for Commercial Use.
Royalty from Foreign Country	Royalty brought to India in Convertible Foreign Exchange within 6 Months or extended period (by RBI) shall only be allowed as Deduction. Assessee is required to furnish a Prescribed Certificate along with ROI.
Subsequent Revocation of Patent	If Patent is Subsequently Revoked → Deduction allowed shall be deemed to have been Wrongly Allowed & Assessment shall be rectified u/s 155. PC Note: Period of 4 years for Rectification u/s 155 shall be reckoned from the end of PY in which order of the Revocation is Passed.

ROYALTY INCOME OF AUTHORS OF BOOKS [SECTION 80QQB]

Eligible Assessee	Resident Individual who is an Author/Joint Author.
Deduction	Lower of (a) Amount of Royalty Received or (b) Rs. 3 lacs .
Income Eligible for Deduction	Royalty Income. <ul style="list-style-type: none"> ❖ Such book should be a work of Literary, Artistic or Scientific Nature. ❖ Royalty Income from Textbook for Schools, Guides, Commentaries, Newspapers, Journals, Pamphlets → Not Eligible for Deduction. PC Note: Royalty Income (before allowing Expenses attributable to such income) shall Not Exceed 15% of the value of books sold during PY . [If it Exceed 15%, Excess amount is Not deductible]. However, this condition is not applicable where Royalty is receivable in lumpsum in lieu of all rights of the author in the book.
Royalty from Foreign Country	Royalty brought to India in Convertible Foreign Exchange within 6 Months or extended period (by RBI) shall only be allowed as Deduction. Assessee is required to furnish a Prescribed Certificate along with ROI.

CQ19. Mr. X receives royalty of Rs. 1 Lacs @ 18% & incurs Rs. 10,000 as expenditure for earning royalty. The books are covered u/s 80QQB & royalty is received from abroad. Rs. 50,000 are remitted to India till 30th September 2025. Determine deduction u/s 80 QQB for AY 25-26.

Answer:

- Eligible income for deduction (before allowing expenditure) = $15\% = \frac{1,00,000}{18\%} \times 15\% = \text{Rs. } 83,334$.
- Income brought to India in convertible foreign exchange = Rs. 50,000.
- Thus, Income eligible for deduction = Rs. 50,000.
- Royalty Income = Rs. 50,000 – Rs. 10,000 (expenditures) = Rs. 40,000.
- Deduction u/s 80 QQB = Rs. 50,000 – Rs. 10,000 = Rs. 40,000.

CQ20. Mr. Aakash received royalty of Rs. 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. Rate of royalty is 18% of value of books. Expenditure incurred for earning this royalty was Rs. 40,000. Amount remitted to India till 31.10.2025 is Rs. 2,30,000. Remaining amount was not remitted till 31.03.2026. Compute the amount includible in GTI of Mr. Aakash if he opts out of default tax regime & deduction u/s 80QQB.

Answer: Net royalty of Rs. 2,48,000 (Rs. 2,88,000 – Rs. 40,000) is includible in gross total income.

Royalty	$\left[\frac{2,88,000 \times 15\%}{18\%} \right]$	Rs. 2,40,000
Restricted to		
Amount brought into India in convertible foreign exchange within the prescribed time		Rs. 2,30,000
Less: Expenses already allowed as deduction while computing royalty income		(Rs. 40,000)
Deduction u/s 80QQB		Rs. 1,90,000

DEDUCTION IN CASE OF PERSON WITH DISABILITY [SECTION 80U]

Assessee	Resident Individual certified by medical authority to be disabled person with disability.
Deduction	<ul style="list-style-type: none"> ➤ Rs. 75,000 [Person with disability]; ➤ Rs. 1,25,000 [Person with Severe Disability (over 80%)]
T&Cs	Assessee shall furnish a copy of Medical Certificate along with ROI.



C. OTHER DEDUCTIONS

DEDUCTION FOR "EMPLOYMENT OF NEW EMPLOYEES" [SECTION 80JJAA]

Most IMP: Deduction u/s 80JJAA is available under both new & old scheme.

Applicability	Assessee to whom Section 44AB (Tax Audit) Apply.
Deduction	30% of Additional Employee Cost incurred in the PY would be allowed for 3 AYs including the AY relevant to PY in which such Employment is provided.
Conditions	(a) Business should Not be formed by Splitting up or reconstruction of Existing Business (b) Business should Not be Acquired by the Assessee by way of Transfer from any other Person or as a result of any Business Re-organisation. (c) Prescribed Audit Report should be furnished along with ROI.
AEC (Additional Employee Cost)	AEC = Total Emolument Paid to Additional Employees Employed during PY. <u>A. In case of Existing Business: AEC = Nil</u> (i) If there is No Increase in Number of Employees from Total Number of Employees Employed on Last Day of Preceding Year; [Even if New Employees are Employed] (ii) If Payment is made otherwise than by A/c Payee Cheque/Draft/Netbanking. <u>B. In case of New Business:</u> AEC = Emoluments Paid to Employees Employed during that PY.
Additional Employee	Employee who has been Employed during PY & his employment has increased Total No. of Employees on the last day of Preceding year but does not include: (a) Employee whose Total Emoluments > Rs. 25,000 p.m; (b) Employee for whom Entire Contribution is Paid by Government under the Employees' Pension Scheme; (c) Employee Employed for < 240 days during PY. PC Note: If Assessee engaged in Business of Manufacturing of Apparel, Footwear, Leather Products → Employee employed for < 150 days during PY (d) Employee who does Not Participate in RPF.
Emolument	Any Sum Paid/Payable to Employee for his Employment but does Not Include: (a) Contribution Paid/Payable by Employer to Pension fund/PF/Any other Fund for the benefit of the Employee under any law; (b) Any Lump-sum Payment Paid/Payable to Employee at the time of Termination or Superannuation/Voluntary Retirement. [Ex: Gratuity, Pension, VRS etc]

CQ21. Mr. A has commenced the business of manufacture of computers on 1.4.2024. He employed 350 new employees during PY 24-25, the details of whom are as follows –

	No. of employees	Date of employment	Type	Total monthly emoluments per employee
(i)	75	1.4.2024	Regular	Rs. 24,000
(ii)	125	1.5.2024	Regular	Rs. 26,000
(iii)	50	1.8.2024	Casual	Rs. 24,500
(iv)	100	1.9.2024	Regular	Rs. 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 AY 25-26, if the profits and gains derived from manufacture of computers that year is Rs. 75 lakhs and his total turnover is Rs. 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2024?

Answer: Mr. A is eligible for deduction u/s 80JJAA since he is subject to tax audit u/s 44AB for AY 25-26 & he has employed “additional employees” during the PY 24-25.

(A) If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = Rs. 24,000 × 12 × 75 = Rs. 2,16,00,000

[See Working Note below]

Deduction u/s 80JJAA = 30% of Rs. 2,16,00,000 = Rs. 64,80,000.

Working Note: Number of additional employees

Particulars		Employees	
Total number of employees employed during the year			350
Less:	Casual employees employed on 1.8.2024 who don't participate in recognized PF	50	
	Regular employees employed on 1.5.2024, since total monthly emoluments > Rs. 25,000	125	
	Regular employees employed on 1.9.2024 since they have been employed for less than 240 days in the PY 24-25.	100	275
Number of “additional employees”			75

Notes:

- (1) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2024 also do not qualify as additional employees since their monthly emoluments exceed Rs. 25,000. Also, 100 regular employees employed on 1.9.2024 do not qualify as additional employees for the PY 24-25, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1.4.2024 qualify as additional employees, and the total emoluments paid or payable to them during the PY 24-25 is deemed to be the additional employee cost.

- (2) As regards 100 regular employees employed on 1.9.2024, they would be treated as additional employees for PY 25-26, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost i.e. such employees would be allowable as deduction u/s 80JJAA in hands of Mr. A for the AY 26-27.

(B) If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in manufacture of footwear, he would be entitled to deduction u/s 80JJAA i.e. employee cost of regular employees employed on 1.9.2024, since they have been employed for > 150 days in PY 24-25.

Additional employee cost = Rs. 2,16,00,000 + Rs. 24,000 × 7 × 100 = Rs. 3,84,00,000 Deduction u/s 80JJAA = 30% of Rs. 3,84,00,000 = Rs. 1,15,20,000.

CQ22. Mr. Gurnam, aged 42 years, has salary income (computed) of Rs. 5,50,000 for PY 24-25. He has earned interest of Rs. 14,500 on saving bank account with State Bank of India during the year. Compute total income of Mr. Gurnam for AY 25-26 from the following particulars, assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A):

(i)	Life insurance premium paid to Birla Sunlife Insurance in cash amounting to Rs. 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2021 and the sum assured on life of his dependent parents is Rs. 2,00,000.
(ii)	Life insurance premium of Rs. 19,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is Rs. 3,50,000 & life insurance policy was taken on 30.3.2012.
(iii)	Life insurance premium paid by cheque of Rs. 22,500 for insurance of his life. Insurance policy was taken on 08.09.2020 & sum assured is Rs. 2,00,000.
(iv)	Premium of Rs. 26,000 paid by cheque for health insurance of self and his wife.
(v)	Rs. 1,500 paid in cash for his health check-up and Rs. 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens
(vi)	Paid interest of Rs. 6,500 on loan taken from bank for MBA course pursued by his daughter
(vii)	Rs. 5,000 donated in cash to institution approved for purpose of section 80G for promoting family planning

Answer: **Computation of total income of Mr. Gurnam for the AY 25-26**

Particulars	Rs.	Rs.	Rs.
Income from salary			5,50,000
Interest on saving bank deposit			14,500
Gross Total Income			5,64,500
Less: Deduction under Chapter VIA			
Section 80C (See Note 1)			
Major son	19,500		
Self Rs. 22,500 restricted to 10% of Rs. 2,00,000	20,000	39,500	
Section 80D: Premium paid for Rs. 26,000 health insurance of self & wife by cheque restricted to (See Note 2)	25,000		
Payment made for health check-up for parents	4,500	29,500	
Section 80E: Payment of interest on loan taken from bank for MBA course of his daughter		6,500	
U/s 80TTA (See Note 4): Interest on savings bank A/c Rs. 14,500 restricted to		10,000	85,500
Total Income			4,79,000

Notes:

- (1) As per section 80C, no deduction is allowed i.r.o. premium paid for life insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable i.r.o. Rs. 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam. I.r.o insurance policy issued on/after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. If insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured. Therefore, in the present case, deduction of Rs. 19,500 is allowable in full i.r.o life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of Rs. 3,50,000. However, i.r.o premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of Rs. 2,00,000 since, the policy was issued on or after 01.04.2012 and the premium amount exceeds 10% of sum assured.

- (2) As per section 80D, in case the premium is paid i.r.o health of a person specified therein and for health check-up of such person, deduction shall be allowed up to Rs. 25,000. Further, deduction up to Rs. 5,000 in aggregate shall be allowed i.r.o health check-up of self, spouse, children and parents. In order to claim deduction u/s 80D, the payment for health-checkup can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash. Therefore, in the present case, i.r.o premium of Rs. 26,000 paid for health insurance of self and wife, deduction would be restricted to Rs. 25,000. Since the limit of Rs. 25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check-up for self and wife. However, deduction of Rs. 4,500 is allowable i.r.o health check-up of his parents, since it falls within the limit of Rs. 5,000.
- (3) No deduction shall be allowed u/s 80G in case the donation is made in cash of a sum exceeding Rs. 2,000. Therefore, deduction u/s 80G is not allowable i.r.o **cash donation** of Rs. 5,000 made to an institution approved for the purpose of section 80G for promotion of family planning.
- (4) As per section 80TTA, deduction shall be allowed from the gross total income of an individual/HUF i.r.o. income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of Rs. 10,000. Therefore, deduction of Rs. 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is Rs. 14,500.

EXEMPT INCOME & AGRICULTURAL INCOME

DEFINITION OF AGRICULTURAL INCOME [Section 2(1A)]

Agricultural Income consists of:

(a) **Rent/Revenue** derived from **letting of land** situated in **India** & used for **agricultural** purposes.

Rent: Rent received by the original tenant from sub-tenant would also be agricultural income.

Revenue: fees received for renewal of lease of land would be revenue derived from land.

PC Note: If agricultural land is situated in foreign country, Agricultural Income is taxable u/h IFOS.

PC Note: If rent has not been received in time & accordingly interest has been received, such interest shall not be considered to be agricultural income. It shall be taxable u/h 'IFOS'.

(b) **Income derived from Agricultural Operations or other related activities.**

(c) **Income derived from Farm building (in Rural Area) required for agriculture operations.**

Ex: Farm building used as dwelling house for farmers; as a store house for agricultural produce/tools.

PC Note: Income arising from use of farm building for any purpose other than agriculture referred in (a) & (b) above would not be agricultural income (**Ex:** Letting for residential purpose/for business)

PC Note: If Farm Building is in Urban Area, it should be constructed on agricultural land.

PC Note: Income from **saplings/seeds grown in Nursery** (whether/not basic operations were carried out on land) is also an agricultural Income.

DIVIDEND INCOME RECEIVED FROM AGRICULTURAL COMPANY

- Dividend received by any shareholder from a company having agricultural income shall not be considered to be agricultural income.
- It shall be treated as "Dividend Income" in the hands of shareholder.

CQ1. PC Ltd., an Indian company having agricultural income of Rs. 12 Crore distributes dividend of Rs. 60 lacs. Mr. AC (shareholder of PC Ltd.) has received dividend of Rs. 6 lacs. Discuss tax treatment.

Answer: Tax Treatment: Dividend received by Mr. AC shall be taxable to him at slab rate.

AGRICULTURAL INCOME OF FOREIGN COMPANY

- If any foreign company is doing agriculture, its agricultural income in India shall also be exempt.
- If company has paid dividend to shareholders, it will be taxable in the hands of the shareholder.

CQ2. What would be your answer if PC Ltd is a foreign Company in CQ1.

Answer:

- Tax Treatment in the hands of Mr. AC: Dividend received by Mr. AC shall be taxable in his hands.
- Tax payable on Rs. 6 Lacs = 1 Lacs x 20% + 2.5 Lacs x 5% = Rs. 32,500 + HEC @ 4% = Rs. 33,800.
- Tax Treatment in the hands of PC Ltd: Agricultural Income of Rs. 12 Crores shall be exempt u/s 10(1).

SOME EXAMPLES OF AGRICULTURAL INCOME & NON-AGRICULTURAL INCOME

AGRICULTURAL INCOME	NON-AGRICULTURAL INCOME
Income derived from the sale of seeds.	Income from breeding of livestock.
Income from growing of flowers & creepers.	Income from poultry farming.
Rent received from land used for grazing of cattle required for agriculture activities.	Income from fisheries.
Income from growing of bamboo.	Income from dairy farming.

SOME IMPORTANT CASE LAWS:

- ✍ Compensation received from an insurance company on account of damage caused to the crops is agricultural income [B. Gupta Private Ltd, v CIT, (HC)]
- ✍ Income from butter & cheese making is not agricultural income [Venkataswamy Naitlu vs CIT (SC)]
- ✍ Income from supplying surplus water to other agriculturists is not agricultural income [Sri Kanga Vilas Ginning & Oil Mills v. CIT, (HC)]
- ✍ If assessee was growing mulberry leaves, feeding them to silkworms & obtaining silk cocoons, income from sale of silk cocoons would not be agricultural income [K. Lakshmansa & Co. v CIT, (SC)].

CQ3. Mr. Amol Chandak is a professor in PKV Agricultural University, Akola & is getting salary of Rs. 50,000 p.m. He claims that it is his agricultural income. Discuss.

Answer: Income from PKV Agricultural university cannot be considered to be agricultural income. It is taxable u/h salary in the hands of Mr. Amol Chandak.

CQ4. Discuss whether Rent Received for letting out Agricultural land for a Movie shooting & amounts Received from Sale of saplings & seedlings in Nursery adjacent to Agricultural Land owned by Assessee can be regarded as Agricultural Income.

Answer:

Rent for Movie shooting: It is not an Agricultural Income, since it is not Income derived 'through Agriculture'. This constitutes Rental Income for 'non-agricultural purposes'.

Sales of saplings & seedlings in Nursery: As per Explanation 3 to section 2(1A), Income derived from Sale of Plants & Seedlings grown in Nursery constitutes Agricultural Income & thus exempt u/s 10(1).

PAYMENT RECEIVED BY PARTNER FROM PARTNERSHIP FIRM HAVING AGRICULTURAL INCOME

- ☞ If any partnership firm has agricultural income, it will be exempt from income tax and if partnership firm has paid any salary or interest to the partners, it will be considered to be agricultural income to the partners.
- ☞ If any partner has received any share out of profits of partnership firm, it will be exempt u/s 10(2A) & it does not matter whether partnership firm has agricultural income or non-agricultural income.

PROFIT ON TRANSFER OF URBAN AGRICULTURAL LAND: Whether Agricultural Income?

- ❖ **No**, as per Explanation to section 2(1A), CG arising from the transfer of urban agricultural land would not be treated as agricultural income u/s 10 but will be taxable u/s 45.

Ex: If I sell agricultural land situated in Mumbai for Rs. 10 lacs & make profit of Rs. 8 lacs over its COA. This surplus will not be an agricultural income exempt u/s 10(1). It will be taxable u/s 45 since it is urban agricultural Land & thus it is a capital asset.

RULE 7 - INCOME FROM GROWING & MANUFACTURING OF ANY PRODUCT

Business Income	Sale proceeds of final product manufactured by using agricultural produce – Market value of Agricultural produce used in manufacturing of such Product – Manufacturing Expenses.
Agriculture Income	Market Value of Agricultural produce – Cost of Cultivation.

CQ5. Mr. B grows sugarcane & uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for Rs. 10 lacs & cost of cultivation of such sugarcane is Rs. 5 lacs. Cost of cultivation of 70% is Rs. 14 lacs & market value of the same is Rs. 22 lacs. After incurring Rs. 1.5 lacs in manufacturing process on the balance sugarcane, the sugar was sold for Rs. 25 lacs. Compute B's business income & agricultural income. **[SM Q1]**

Answer: Income from sale of sugarcane is agricultural income & Income from sale of sugar is business income.

Business income = Sale proceeds - MV of 70% of sugarcane (used in manufacture of sugar) - Manufacturing expenses
= Rs. 25 lacs - Rs. 22 lacs - Rs. 1.5 lacs = Rs. 1.5 lacs.

Agricultural income = Market value of sugarcane produce - Cost of cultivation
= [Rs. 10 lacs + Rs. 22 lacs] – [Rs. 5 lacs + Rs. 14 lacs] = Rs. 13 lacs.

How to determine Market Value?

SN	Situation	Market Value
1	If Agricultural produce is capable of being sold in market as such/after ordinary processing	Value calculated at Average price at which it has been sold during the relevant PY.
2	If Agricultural produce is incapable of being sold in market as such/after ordinary processing	Cultivation Expenses + Rent paid for Land in which it was grown + Such profit as AO thinks to be reasonable.

CQ6. X Ltd. grows sugarcane to manufacture sugar. Data for the PY 24-25 is as follow:

1. Cost of cultivation of sugarcane	6,00,000
2. Market value of Sugarcane when transferred to factory	10,00,000
3. Other manufacturing cost	6,00,000
4. Sale of sugar	25,00,000
5. Salary of Managing Director who looks after all operation of the company	3,00,000

Determine the income of the company.

Answer:

Particulars	Rs.	Rs.
1. Profit & Gain of Business or Profession:		
Sales of sugar		25,00,000
Less: Average market Value of Sugarcane	10,00,000	
Salary to managing Director	3,00,000	
Manufacturing cost	6,00,000	(19,00,000)
Business Income		6,00,000
2. Computation of Agricultural Income:		
Market Value of Sugarcane		10,00,000
Less: Cost of Cultivation		(6,00,000)
Agricultural Income		4,00,000

APPORTIONMENT OF INCOME B/W BUSINESS INCOME & AGRICULTURE INCOME

Rule	Apportionment of Income in certain cases	Agriculture	Business
7A	Income from growing & manufacturing of rubber	65%	35%
7B	Income from growing & manufacturing of coffee		
	Income derived from sale of coffee grown & cured	75%	25%
	Income derived from sale of coffee grown, cured, roasted & grounded	60%	40%
8	Income from growing & manufacturing of tea	60%	40%

CQ7. Mr. C manufactures latex from rubber plants grown by him in India. These are then sold in market for Rs. 30 lacs. Cost of growing rubber plants is Rs. 10 lacs & that of manufacturing latex is Rs. 8 lacs. Compute his total income. [SM Q2]

Answer:

- Total income of Mr. C comprises of agricultural income & business income.
- Total profits from the sale of latex = Rs. 30 lacs – Rs. 10 lacs – Rs. 8 lacs = Rs. 12 lacs.
- Agricultural income = 65% of Rs. 12 lacs = Rs. 7.8 lacs; Business income = 35% of Rs. 12 lacs. = Rs. 4.2 lacs.

PARTIAL INTEGRATION OF AGRICULTURAL INCOME WITH NON-AGRICULTURAL INCOME [PIT]

Objective of PIT	Tax the non-agricultural Income at higher rates.
Applicability of PIT	Individuals, HUF, AOP/BOI & artificial persons. {Company & Firms}
Conditions for Partial Integration of Tax	1. Net Agricultural Income should exceed Rs 5,000 p.a. & 2. Non-Agricultural Income should exceed BEL .

- If such person is paying tax under default tax regime u/s 115BAC, then BEL = Rs. 3,00,000.
- If such person has opted out of new tax regime & paying tax under old regime, BEL = 2.5 Lac/3 Lac/5 Lac.

STEPS for calculation of tax in case of PIT

1. Calculate Tax on **Net Agricultural Income + Non-Agricultural Income**.
2. Calculate Tax on **Net Agricultural Income + BEL**.
3. **Income tax Calculated in Step 1 – Income Tax calculated in Step 2.**
4. Sum arrived in Step 3 shall be increased by SC (if applicable) & **reduced by rebate u/s 87A**.
5. Add Health & Education cess @ 4%.

CQ8. Mr. X, a resident, has provided the following particulars of his income for PY 24-25:

[SM Q12]

Income from salary (computed)	Rs. 10,80,000
Income from house property (computed)	Rs. 2,50,000
Agricultural income from a land in Nagpur	Rs. 4,80,000
Expenses incurred for earning agricultural income	Rs. 1,70,000

Compute tax liability of Mr. Shubham for AY 25-26 assuming his age is (a) 45 years (b) 70 years.

Answer:

(a) Computation of tax liability (age 45 years)**Computation of total income of Mr. X for AY 25-26 under default tax regime**

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

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

Particulars		Amount
1. Income from salary (computed)		Rs. 10,80,000
2. Income from house property (computed)		Rs. 2,50,000
3. Net agricultural income [Rs. 4,80,000 – Rs. 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	Nil
Gross Total Income		Rs. 13,30,000

Computation of tax Liability	
Step 1	Rs. 13,30,000 + Rs. 3,10,000 = Rs. 16,40,000 Tax on Rs. 16,40,000 = Rs. 1,82,000 (i.e., 5% of Rs. 4,00,000 + 10% of Rs. 3,00,000 + 15% of Rs. 2,00,000 + 20% of Rs. 3,00,000 + 30% of Rs. 1,40,000)
Step 2	Rs. 3,10,000 + Rs. 3,00,000 = Rs. 6,10,000 Tax on Rs. 6,10,000 = Rs. 15,500 (i.e. 5% of Rs. 3,10,000)
Step 3	Rs. 1,82,000 – Rs. 15,500 = Rs. 1,66,500
Step 4	Total tax payable = Rs. 1,66,500
Step 5	Rs. 1,66,500 + 4% HEC = Rs. 1,73,160.

Computation of total income of Mr. X for AY 25-26 under old tax regime

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

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

Particulars		Amount
1. Income from salary (computed)		Rs. 10,80,000
2. Income from house property (computed)		Rs. 2,50,000
3. Net agricultural income [Rs. 4,80,000 – Rs. 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	Nil
Gross Total Income		Rs. 13,30,000

Computation of tax Liability	
Step 1	Rs. 13,30,000 + Rs. 3,10,000 = Rs. 16,40,000 Tax on Rs. 16,40,000 = Rs. 3,02,000 (i.e 5% of Rs. 2,00,000 + 20% of Rs. 5,00,000 + 30% of Rs. 6,40,000)
Step 2	Rs. 3,10,000 + Rs. 2,50,000 = Rs. 5,60,000 Tax on Rs. 5,60,000 = Rs. 24,500 (i.e. 5% of Rs. 2,50,000 + 20% of Rs. 60,000)
Step 3	Rs. 3,04,500 – Rs. 24,500 = Rs. 2,80,000
Step 4	Total tax payable = Rs. 2,80,000
Step 5	Rs. 2,80,000 + 4% of Rs. 2,80,000 = Rs. 2,91,200.

(b) Computation of tax liability (age 70 years)**Computation of total income of Mr. X for AY 25-26 under default tax regime**

Tax liability of Mr. X would be same under default tax regime whether he is of age of 45 years or 70 years i.e., Rs. 1,73,160 since BEL for all the age person is Rs. 3,00,000 under new (default) tax regime.

Computation of total income of Mr. X for AY 25-26 under old tax regime

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

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

Particulars	Amount
1. Income from salary (computed)	Rs. 10,80,000
2. Income from house property (computed)	Rs. 2,50,000
3. Net agricultural income [Rs. 4,80,000 – Rs. 1,70,000]	3,10,000
Less: Exempt under section 10(1)	(3,10,000)
Gross Total Income	Rs. 13,30,000

Computation of tax Liability	
Step 1	Rs. 13,30,000 + Rs. 3,10,000 = Rs. 16,40,000 Tax on Rs. 16,40,000 = Rs. 3,02,000 (i.e. 5% of Rs. 2,00,000 + 20% of Rs. 5,00,000 + 30% of Rs. 6,40,000)
Step 2	Rs. 3,10,000 + Rs. 3,00,000 = Rs. 6,10,000 Tax on Rs. 6,10,000 = Rs. 32,000 (i.e. 5% of Rs. 2,50,000 + 20% of Rs. 1,10,000)
Step 3	Rs. 3,02,000 – Rs. 32,000 = Rs. 2,70,000
Step 4	Total tax payable = Rs. 2,70,000
Step 5	Rs. 2,70,000 + 4% of Rs. 2,70,000 = Rs. 2,80,800

DEDUCTION FOR NEWLY ESTABLISHED UNITS IN SEZ [SEC. 10AA] (OLD Scheme only)

Eligible profits	Profits derived from Export of articles/things or providing any service from the unit established in SEZ shall be allowed as deduction from total income.
Assessee	Assessee engaged in Export of articles/things or providing any service.
Quantum of Deduction	$= \text{Profits from unit in SEZ} \times \frac{\text{Export Turnover of unit in SEZ}}{\text{Total turnover of Unit in SEZ}}$ <p>Export turnover: Consideration in respect of export by the undertaking but does not include freight, telecommunication charges or insurance attributable to the delivery of the articles or things outside India or rendering services.</p> <p>PC Note: Freight, insurance, telecommunication charges & expenses incurred in foreign exchange for rendering services outside India are to be excluded both from 'Export turnover' & 'total turnover', while calculating deduction u/s 10AA to the extent they are attributable to the delivery of articles or things outside India.</p> <p>PC Note: Profits derived from on-site development of computer software (including services for development of software) outside India shall be deemed to be the profits & gains derived from the export of computer software outside India.</p>

Period of Deduction

Deduction u/s 10AA shall be allowed for a total period of 15 relevant AY.

For first 5 AY	100% of profits & gains of export .
For Next 5 AY	50% of profits or gains of export .
For Next 5 AY	Amount not exceeding 50% of profits debited to P&L A/c of PY in respect of which deduction is to be allowed & credited to SEZ Reinvestment Reserve Account & utilised for specified purposes.

PC Note: Deduction u/s 10AA shall **not exceed** such total income of assessee.**CQ9.** Mr. Y furnishes you the following information for the year ended 31.03.2025:**[SM Q21]**

Total turnover of Unit A located in Special Economic Zone	100 Lacs
Profit of the business of Unit A	30 Lacs
Export turnover of Unit A received in India in convertible foreign exchange on/before 30.9.2025	50 Lacs
Total turnover of Unit B located in Domestic Tariff Area	200 Lacs
Profit of the business of Unit B	20 Lacs

Compute deduction u/s 10AA for AY 25-26, assuming that Mr. Y commenced operations in SEZ & DTA in FY 2021-22 & Mr. Y has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

(b) What would be your answer if Mr. Y commenced operations in SEZ & DTA in FY 2020-21.

Answer: 100% of profit derived from export of articles/things or services is eligible for deduction u/s 10AA, assuming that PY 24-25 falls within first 5-years period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ.

Deduction u/s 10AA = Profits from unit in SEZ × Export Turnover of unit SEZ/Total turnover of Unit in SEZ
 = [30 Lacs * (50 Lacs/100 Lacs)] = **Rs. 15 Lacs.**

(b) If Mr. Y commenced operations in SEZ & DTA in FY 2020-21.

50% of the profit derived from export of articles or things or services is eligible for deduction u/s 10AA, since FY 2024-25 is sixth year commencing from the year of manufacture by the Unit in SEZ.

As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction u/s 10AA:

Profit of business of Unit A × $\frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 50\% = 30 \text{ lacs} \times \frac{50}{100} \times 50\% = \text{Rs. 7.5 lacs}$

Note: No deduction u/s 10AA is allowable in respect of profits of business of Unit B located in DTA.

Conditions for claiming deduction for further 5 years (after 10 years) [Sec 10AA(2)]

1. Amount credited to SEZ Re-Investment Reserve Account is utilized for:
 - (a) **Acquiring P&M** which is first put to use **before expiry of 3 years** following the PY in which reserve was created
 - (b) **Until acquisition of aforesaid P&M: For the business** of the undertaking.
2. **However, it should not be utilized for:**
 - (a) distribution of dividends/ remittance o/s India as profits; or (b) for the creation of any asset outside India;

Consequences of mis-utilisation or non-utilisation of reserve

Where any amount credited to SEZ Re-Investment Reserve Account –

- (a) has been utilised for any purpose other than those referred to in 10AA(2), amount utilized shall be deemed to be profits of the year in which the amount was utilized.
- (b) has not been utilised before the expiry of 3 years, unutilized amount shall be deemed to be profits of the year immediately following the said period.

Amalgamation/ Demerger [Section 10AA(5)]

- Deduction shall be allowable in the hands of the amalgamated or resulting company.
- No Deduction shall be allowed u/s 10AA to amalgamating company or demerged company for the PY in which amalgamation/demerger takes place.

CONDITIONS

1	Assessee has been granted a letter of approval by development commissioner to set a unit in SEZ.
2	It begins to manufacture articles or things or provide services during PY 2005-06 or after in SEZ.
3	It should not be formed by splitting up/reconstruction of business already in existence.
4	It should not be formed by transfer of old P&M to new business. Exception: It can be formed by transfer of old P&M upto 20% of total value of P&M. Imported P&M are not treated as old P&M.
5	Assessee should furnish report of CA with ROI certifying that deduction has been correctly claimed.
6	Return of Income shall be filed on/before due date of filing ROI u/s 139(1).
7	Deduction u/s 10AA would be available if proceeds from sale is received in, or brought into, India by the assessee in convertible foreign exchange, within 6 months from the end of PY. Export proceeds from sale shall be deemed to have been received in India where such export turnover is credited to a separate A/c maintained for that purpose by the assessee with any bank outside India with the approval of RBI.

RESTRICTION ON OTHER TAX BENEFITS

1	Business Loss or Capital loss or unabsorbed depreciation in so far as such loss relates to business of the undertaking (being the Unit) shall be allowed to be carried forward or set off in subsequent years.
2	WDV after tax holiday: During tax holiday period, depreciation is deemed to have been allowed on assets & WDV shall be computed after tax holiday as if depreciation has been claimed as deduction.
3	If deduction u/s 10AA is allowed from profit of specified business u/s 35AD, no deduction shall be allowed u/s 35AD for any AY.

EXEMPT INCOMES [SECTION 10]

ALLOWABILITY OF EXPENDITURE INCURRED FOR EARNING EXEMPT INCOME [SECTION 14A]

- **Any expenditure incurred to earn Exempt Income shall not be allowed as deduction** while computing income under any head since the exempt income is not taxable.

Method for determining amount of expenditure incurred to earn Exempt Income - Rule 8D

- If AO, having regard to the accounts of the assessee, is **not satisfied** with -
 - (a) **Correctness** of the claim of the **expenditure** incurred by the assessee; or
 - (b) Assessee has claimed that **no expenditure** has been **incurred to earn exempt income** in the PY,
 he shall determine amount of expenditure incurred to earn exempt income in following manner:

Expenditure incurred to earn Exempt Income = (i) + (ii)

- (i) Amount of Expenditure incurred directly to earn Exempt Income.
- (ii) **1% of Annual Average of Monthly Averages of value of investment**, income from which is Exempt.

However, (i) + (ii) shall not exceed total expenditure claimed as deduction in PY.

PC Note: Section 14A r/w Rule 8D states that expenditure incurred to earn exempt income shall be disallowed even if assessee has not earned any exempt income in a particular year.

PC Note: All the Exemptions u/s 10 will not be discussed in this chapter. Some exemptions u/s 10 are discussed in some of the chapters to be discussed later.

So, in this chapter we will discuss only those exemptions which will not be discussed in other chapters.

LIST OF EXEMPTIONS DISCUSSED IN RESPECTIVE CHAPTERS

Salaries	<ul style="list-style-type: none"> ▪ Leave Travel Concession & HRA [Allowed only in Old Scheme] ▪ Allowance payable outside India by GOI to a Citizen of India [Foreign Diplomats]. ▪ Gratuity/Commutated Pension/Leave Encashment [Salary]. [Allowed in Both Regime] ▪ Retrenchment Compensation & Voluntary Retirement Receipts. ▪ Income-tax paid by employer on behalf of employee. ▪ Payment from Provident Funds/Superannuation Fund. ▪ Special Allowance to meet expenses relating to duties or personal expenses. ▪ Specified Allowances & Perquisites paid to Chairman/Member of UPSC [Section 10(45)]
Deductions from GTI	<ul style="list-style-type: none"> ▪ Receipts from LIC. ▪ Payment from NPS Trust to an employee on Closure of his Account/Opting out of Pension Scheme/Partial Withdrawal. <p>Note: Deductions under chapter VI-A are allowed only in Old Scheme.</p> <p>Only Deduction u/s 80CCD(2), 80CCH(2), 80JJAA are allowed in Both Schemes.</p>
IFOS	<ul style="list-style-type: none"> ▪ Interest Income arising to Certain Persons. ▪ Family Pension received by Widow/Nominated heirs of Armed Forces Members.
Clubbing	<ul style="list-style-type: none"> ▪ Exemption (Rs. 1,500) i.r.o Minor's Income included in hands of Parent [Sec 10(32)]. ▪ Allowed only in old Scheme.
Capital Gains	<ul style="list-style-type: none"> ▪ Income on buy-back of Shares of Domestic Company [Sec 10(34A)] [Upto 30.09.2024] ▪ Capital Gain on Compulsory Acquisition of Urban Agricultural Land [Section 10(37)] ▪ Loan received by Individual under Reverse Mortgage Scheme → Exempt [Section 10(43)]

SHARE OF HUF INCOME RECEIVED BY A MEMBER FROM HUF [SECTION 10(2)]

- Income earned by the HUF is assessable in its own hands since HUF is a 'person' under Income Tax Act.
- Any sum received by an Individual as a member of HUF
 - either out of the family income or
 - out of the impartible estate belonging to the family
 shall be **exempt** in the hands of the member even if such income is exempt in the hands of HUF.

CQ1. Mr. A, member of HUF, received 10,000 as his share from income of HUF. Discuss Tax Treatment.

Answer: Such income is not includible in Mr. A's chargeable income since section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family.

SHARE OF PROFIT OF A PARTNER FROM A FIRM [SECTION 10(2A)]

- Share of the Partner in total income of the firm shall be exempt in the hands of partner even if taxable income becomes nil in the hands of firm due to any exemptions or deductions.

INTEREST ON NON-RESIDENT (EXTERNAL) A/C (only for Individual) [SEC 10(4)(ii)]

- **Interest** received on moneys in **Non-Resident (External) A/c** in any bank **in India** → **Exempt to NR.**

PC Note:

- ❖ **Exemption** is **available** only if such **NR** person is **permitted** by **RBI** to **maintain such account**.
- ❖ Joint-holders of NRE A/c will not be treated as AOP merely because they have A/c in joint names.
- ❖ Exemption will be available to each of the joint-holders only if they fulfill other prescribed T&Cs.

REMUNERATION RECEIVED BY INDIVIDUAL WHO ARE NOT CITIZEN [Section 10(6)]

↓ Sec.	Exemptions & Conditions for claiming Exemptions
(ii)	Remuneration of Foreign Diplomats in India: Conditions for Claiming Exemption: <ol style="list-style-type: none"> 1. Remuneration received by Indian official in such foreign countries should be Exempt. 2. Foreign officer is not engaged in any other business/profession/employment in India.
(vi)	Remuneration of Employees of a Foreign Enterprise for services rendered in India: Conditions for claiming Exemption: <ol style="list-style-type: none"> 1. Employees' Stay in India ≤ 90 days in PY. 2. Remuneration paid to such employee is not deductible from employer's income & 3. Employer is not engaged in any Business/Trade in India.
(viii)	Salary received by NR Non-citizen of India as a crew Member of Foreign Ship: Condition for claiming Exemption: His stay in India ≤ 90 days in a PY.
(xi)	Remuneration received by Foreign Gov. Employees from Foreign Government for specified training in India Training should be in any establishment/office of or in any undertaking owned by the following: <ol style="list-style-type: none"> (a) Government; (b) Any Statutory corporation; (c) Company wholly owned by CG/SG or Jointly by CG & SG or its Subsidiary company (d) Any registered society which is wholly financed by CG/SG/Jointly by CG & SG.

ALLOWANCES OR PERQUISITES O/S INDIA TO A CITIZEN OF INDIA [SECTION 10(7)]

Nature	Allowance & Perquisites [Basic Salary]	} Foreign Diplomats & Ambassadors
Paid by	Government of India	
Paid to	Citizen of India	
Paid for	Rendering services outside India to Government of India	

COMPENSATION RECEIVED ON ACCOUNT OF ANY DISASTER [SEC 10(10BC)]

- **Compensation** received for **any disaster** from **CG/SG/LA** by an **Individual/his legal heir** → Exempt.
- **No Exemption:** If the amount of Loss has been allowed as deduction.

PENSION RECEIVED BY RECIPIENT OF GALLANTRY AWARDS [SEC 10(18)]

- Pension received by Individual who was CG/SG employee & who has been awarded Param Vir Chakra/Maha Vir Chakra/Vir Chakra → Exempt.
- In **case of Death of Awardee:** Family pension received by the member of his family is exempt.
- Disability pension granted to disabled personnel of armed forces (naval, military or air) who have been invalided on account of disability attributable to or aggravated by such service would be exempt from tax.
Note: Exemption will not be available to personnel who have been retired on superannuation or otherwise.

INCOME OF A SIKKIMESE INDIVIDUAL [SECTION 10(26AAA)]

- Exempt Incomes:
 - Income from **any source** in the State of Sikkim; or
 - Income by way of **Dividend or Interest on securities**.
- **Exemption is not available** → Sikkimese woman who marry Non-Sikkimese man on/after 1.4.2008.

CQ2. Exemption is available to Sikkimese individual, only in respect of income from any source in Sikkim.
Comment.

Answer: Incorrect. Exemption u/s 10(26AAA) is available to a Sikkimese individual not only in respect of the said income, but also in respect of income by way of dividend or interest on securities.

MATURITY AMOUNT OF A LIFE INSURANCE POLICY [SECTION 10(10D)] [V. IMP]

SN	Nature of Policy	Tax Treatment
1	Sum received from a policy u/s 80DD(3)	Taxable
2	Sum received under a Keyman Insurance Policy	Taxable [PGBP/Salary/IFOS]
3	Other policy (sum received on death of Person)	Exempt
4	Other policy (not received on death of Person)	→ Sum assured + Allocated Bonus
	(i) Issued before 1.4.2003	Fully Exempt
	(ii) Issued on/after 1.4.2003 but before 1.4.2012	Exempt if Premium ≤ 20% of sum assured
	(iii) Issued during FY 2012-2013 [For All]	Exempt if Premium ≤ 10% of sum assured
	(iv) Issued on/after 1.4.2013 (for Disabled Person)	Exempt if Premium ≤ 15% of sum assured
	(v) Issued on/after 1.4.2013 (for Normal Person)	Exempt if Premium ≤ 10% of sum assured

Policies issued on/after 1.4.2023

- **Normal Person:** Exempt if Premium \leq 10% of sum assured
- **Disabled Person:** Exempt if Premium \leq 15% of sum assured

PC Note:

1. **Exemption will not be available if premium payable > Rs. 5 Lacs for any of PYs during policy's term.**
2. **If premium is payable for more than 1 LIP (other than ULIP) & aggregate of premium payable on such policies > Rs. 5 Lacs during any policy's term, exemption would be available i.r.o. any of those LIPs (other than ULIP), at the option of the assessee, whose aggregate premium payable does not exceed Rs. 5,00,000 for any of the previous years during their term.**

TAXABILITY OF SUM RECEIVED UNDER A LIP → We have already covered in IFOS Chapter in Detail

FOLLOWING RECEIPTS WILL ALSO BE EXEMPT

10(10CC)	Tax on Non-Monetary Perquisites paid by the Employer.
10(11)	Any Payment from PF/PPF set up by CG.
10(11A)	Interest & Withdrawals from Sukanya Samriddhi A/c.*
10(12)	Payment from Accumulated Balance of RPF to the employee.
10(12A)	Any payment from NPS trust to an assessee on closure/opting out of scheme u/s 80CCD is exempt upto 60% of total amount payable to him.
10(12B)	Any payment from NPS trust to an employee on partial withdrawals out of his account from NPS referred u/s 80CCD is exempt upto 25% of contributions made by him.
10(12C)	Payment from Agnipath Corpus Fund to the enrolled person enrolled or to his nominee.
10(13)	Any Payment from Approved Superannuation Fund.
10(15)	(i) Interest on Gold Deposit Bonds (ii) Interest on bonds issued by LA.
10(16)	Scholarships granted to meet the Cost of Education.
10(17)	Daily & Constituency allowance received by MPs & MLAs [Allowed only in Old Scheme]
10(17A)	Awards or Rewards given by CG/SG (in cash/kind).
10(19)	Family Pension received by Family Members of Armed Forces who died on duty.
10(19A)	Annual value of one palace of Ex-ruler
10(21)	Income of an approved research association
10(22B)	Income of specified news agency set-up in India solely for collection & distribution of news if such news agency does not distribute its income to the member.
10(23C)	Income of certain funds of National Importance set up by CG: (i) Swachh Bharat Kosh (ii) Clean Ganga Fund or such other specified funds. (iii) University/Educational institution formed solely for educational purpose & not for profit. (iv) Hospital/medical institution formed solely for philanthropic purpose & not for profit.
10(23D)	Income of Notified Mutual Funds
10(32)	Minor Child's Income clubbed in hands of a parent is exempt upto Rs. 1500. [Old Scheme]

10(37)	CG arising on transfer of urban agricultural land by way of compulsory acquisition to Individual/HUF is exempt if compensation is received on/after 1.4.2004. PC Note: Rural Agricultural land is not a capital asset & thus CG will arise in such case.
10(39)	Specified Income from International Sporting Event held in India.
10(43)	Amount received by Individual as loan under Reverse Mortgage Scheme → Exempt
10(44)	Income of NPS Trust is Exempt.
10(45)	Notified Allowance/Perquisite paid to Chairman/Member of UPSC.

MASTER QUESTION. Find out the net income & tax liability of Mr. X (35 years) for AY 25-26. [Modified RTP]

Income from the activity of owning & maintaining race horses	7,00,000
Winnings from camel races in Dubai	3,00,000
Winnings from Government lottery	1,00,000
Cost of purchase of Lottery ticket	11,000
Salary from A Ltd. (includes entertainment allowance of Rs. 5,000) engaged in cultivation & manufacture of coffee in India	5,50,000
Share of profit from LLP firm for PY 24-25 (X is a sleeping partner in the firm & share of profit includes LTCG on transfer of a plot of land of Rs. 1,50,000)	10,70,000
Share of profit from the family business	2,65,000
Interest income of minor child (of deposit made out of gift received by him from brother of Mrs. X)	21,500
Income of Mrs. X [It is interest on company deposit (50% deposit is made out of gift received from X & 50% is made out of gift received from her father).	1,00,000
PPF contribution	2,05,000
Receipt of accumulated balance of PPF A/c (it includes interest of Rs. 1,10,000)	6,10,000

Answer: **Computation of Total Income & tax liability of Mr. X**

(i) Salary (after standard deduction of Rs. 50,000) [Note 1]	5,00,000
(ii) Business income (owning & maintaining race horses)	7,00,000
(iii) Income from other sources -	
- Interest income of minor child [Rs. 21,500 - Rs. 1,500 exemption u/s 10(32)]	20,000
- Winnings from camel races (expenditure is not deductible)	3,00,000
- Winnings from lottery (expenditure is not deductible)	1,00,000
- Interest income of Mrs. X on deposit made by her out of money gifted by X	50,000
Gross total income	16,70,000
Less: Deduction u/s 80C	(1,50,000)
Total Income	15,20,000
Tax Payable = (30% of Rs. 4,00,000 + Normal tax @ Slab Rate = 11,20,000) + 4% HEC = Rs. 2,79,240.	

Note:

- Salary shall be taxable even if it is paid out of agricultural income by the employer.
- Accumulated balance of PPF & Interest on such balance is exempt u/s 10(11).
- Share of profit from a firm (LLP) is Exempt u/s 10(2A) even if X is a sleeping partner & profit includes LTCG.
- Share of profit from HUF Business received by the member of HUF is Exempt u/s 10(2).

TDS & TCS



INTRODUCTION - DEDUCTION AT SOURCE & ADVANCE PAYMENT [SECTION 190]

- We all know that income of the PY is assessed to tax in the next AY.
- However, Tax on such Income is taken from the assessee in the PY itself in following ways:
 - (a) TDS: In case of some income, tax is deducted at source by the payer at the prescribed rate.
 - (b) TCS: In some cases, tax is collected at source by the seller from buyer.
 - (c) Advance Tax: Sometimes assessee is under obligation to pay Advance Tax.
 - (d) Tax paid by the employer u/s 192(1A) on **non-monetary perquisites** provided to the employee.
- Taxes deducted/collected at source or paid as advance tax in PY itself are known as **pre-paid taxes**. Such prepaid taxes are deducted from the total tax due from the assessee.
- **Self-Assessment Tax (SAT) u/s 140A:** At the time of filing ROI, assessee has to pay SAT u/s 140A, after deducting (adjusting) the following
 - TDS & TCS, Advance Tax paid, Tax paid u/s 192(1A),
 - Relief u/s 89
 - **AMT credit** - Tax credit claimed to be set off in accordance with the provisions of section 115JD.
 - Tax or interest payable according to the provisions of section 191(2).

CQ1. Income of Mr. PC is Rs. 10 Lacs. In this income, Rs. 50,000 was earned by way of Interest on which payer deducted tax @ 10% (Rs. 5,000). He paid Advance Tax of Rs. 25,000 in different instalments. TCS collected at Source was Rs. 10,000. Calculate SAT to be paid u/s 140A at the time of filing ROI under old tax regime.

Answer:

- (i) Total Tax liability on Rs. 10 Lacs = Rs. 1,12,500.
- (ii) TDS + TCS + Advance Tax paid by Mr. Pranav Chandak = Rs. 5,000 + Rs. 25,000 + Rs. 10,000 = Rs. 40,000.
- (iii) SAT payable u/s 140A = Rs. 1,12,500 – Rs. 40,000 = Rs. 72,500.

PC Note: Since the amount of tax has been already deducted at the time of payment of Interest to Mr. PC, he will get the credit of that amount while calculating Tax payable u/s 140A.

DIRECT PAYMENT [SECTION 191]

In the following cases, tax is payable by the assessee directly –

- (a) in the case of income i.r.o. which tax is not required to be deducted at source; and
- (b) income i.r.o. which tax is liable to be deducted but is not actually deducted.

In view of this provision, the proceedings for recovery of tax necessarily had to be taken against the assessee whose tax was liable to be deducted, but not deducted.

Assessee in Default

If any person, including principal officer of a company –

- (i) who is required to deduct tax at source; or
- (ii) an employer paying tax on non-monetary perquisites u/s 192(1A),

does not deduct, or after deducting fails to pay such tax, or does not pay, the whole or part of the tax, then, such person shall be deemed to be an assessee-in- default.

However, if the assessee himself has paid the tax, this provision will not apply.

SALARY [SECTION 192]

Nature of Payment	Salary (Taxable Salaries only).
Deductor	Employer
Payee	Employee having taxable salary.
Exemption Limit	<ul style="list-style-type: none"> ▪ Basic Exemption Limit ▪ No TDS if Estimated Salary ≤ BEL (even if employee does not have PAN).
Rate of TDS	<ul style="list-style-type: none"> ▪ Tax should be deducted @ Average rate of tax on total income. ▪ Average Rate of Tax = $\frac{\text{Income Tax on Total Income using Slab Rate}}{\text{Total Income}}$

- Employer has to seek information from each of its employees regarding their intended tax regime & each such employee would intimate his intended tax regime for each year & upon intimation, deductor (employer) has to compute his total income & deduct tax at source according to the option exercised.
- If No intimation is not given by employee → presumed that employee continues to be in default tax regime u/s 115BAC and has not exercised the option to opt out of the default tax regime.

PC Note: Intimation would not amount to exercising option u/s 115BAC(6) & person shall be required to do so separately in accordance with the provisions of that section. Employee may change it at the time of filing ROI.

CQ2. Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to Rs. 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at Rs. 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

Answer:

Salary, allowances & monetary perquisites	7,30,000	<p>Mr. A can deduct Rs. 75,400 from salary of General Manager at the time of payment.</p> <p>Alternatively, Mr. A can pay tax on non-monetary perquisites as: Tax on non-monetary perquisites = 9.425% of 1,20,000 = Rs. 11,310 & Balance to be deducted from salary = Rs. 64,090.</p> <p>If Mr. A pays tax of Rs. 11,310 on non-monetary perquisites, it is not a deductible expenditure as per section 40(a). Tax paid towards non-monetary perquisite by the employer, however, is not taxable to employee as per section 10(10CC).</p>
Non-Monetary perquisites	1,20,000	
	8,50,000	
Less: Standard deduction u/s 16(ia)	(50,000)	
Total Income of Mr. A	8,00,000	
Tax Liability under old regime	75,400	
Average rate = Rs. 75,400/Rs. 8,00,000	9.425%	

Inclusion of Incomes & Losses from other heads.	<p>On application by employee, employer shall consider following while calculating TDS</p> <p>(a) Income from All Heads</p> <p>(b) Loss u/h House Property (if opted out of default tax regime)</p> <p>(c) Any TDS/TCS</p>
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Note: HP Loss would be adjusted against salary if the assessee intimated to the employer his intent to opt out of the default tax regime. However, HP loss shall be allowed to be set off against salary & income under any other head subject to maximum of Rs. 2,00,000.

PC Note: No set-off of HP loss is allowed under default (new) tax regime.

Tax on Non-Monetary Perquisite [Section 192(1A)]	<ul style="list-style-type: none"> ▪ Employer may (at his option) pay tax on non-monetary perquisites in lieu of deduction of tax at source from salary payable of the employee. ▪ Payment of tax will have to be made every month along with tax deducted at source on monetary payment of salary, allowances etc. <p>PC Note: Tax paid by the employer u/s 192(1A) shall be taken as if it was a tax deductible at source from salary payable to the employee.</p>
Relief u/s 89	Relief u/s 89 shall be considered while calculating TDS (if available).

When a person is employed by one or more employers during FY?

- ❖ In such case, tax will be deducted by the employer separately. However, employee will have choice to choose one employer & give details (in Form No. 12B) of other employment to the chosen employer.
- ❖ Chosen employer will deduct the balance tax on Aggregate Salary.

CQ3. Salary in Company 1 (ABC Ltd) = 20 Lacs & salary in Company 2 (XYZ Ltd) = 10 Lacs.

- Now, Employee will have to choose any one employer & give details about other employment.
- Suppose he chooses ABC Ltd & gives details regarding his salary in XYZ Ltd. to ABC Ltd.
- Since he has given details to ABC Ltd. & not to XYZ Ltd about his other employment, XYZ Ltd will deduct tax on Rs. 10 Lacs at average rate of tax.
- ABC Ltd. will deduct only balance amount of tax on Total Income & not tax calculated on Rs. 20 Lacs.
 - (i) Tax on Total Income (i.e Rs. 30 Lacs) = Rs. 7,12,500;
 - (ii) Tax on 10 Lacs deducted by XYZ Ltd. = Rs. 1,12,500;
 - (iii) ABC Ltd. will deduct only Rs. 6,00,000 [Rs. 7,12,500 – Rs. 1,12,500].

PREMATURE (TAXABLE) WITHDRAWALS FROM EMPLOYEES' PF [SECTION 192A]

Deductor	Trustees of the payment of Employees' PF Scheme, 1952. [Trustee of RPF]
Payee	Employee.
Eligible Payment	<ul style="list-style-type: none"> ▪ Taxable Premature Withdrawal of Accumulated balance from RPF. ▪ Withdrawal of Accumulated balance is taxable in the following cases: Refer Salary.
TDS Rate	10% (If PAN is not provided to the deductor of tax, then TDS @ MMR).
No TDS	If Aggregate Payment < Rs. 50,000.

For calculating 5 years time-limit, services rendered to previous employer shall be included if

1. If **previous employer maintained RPF & balance** of employee in PF A/c was **transferred to him by employer.**
2. If employment has been terminated because of certain **reasons which are beyond his control.**
3. If entire balance standing to the credit of the employee is transferred to his account under a pension scheme referred to in Sec 80CCD & notified by CG (NPS).

INTEREST ON SECURITIES [SECTION 193]

Payee	Resident Non-corporate assessee/Domestic company.
TDS Rate	10%
NO TDS on interest on	<ul style="list-style-type: none"> ❖ National Development Bonds/Notified Debentures by CG ❖ 7-year NSC (IV Issue) ❖ 54EC Capital Gains Bonds: PFCL & IRFCL Bonds. [If informed within 60 days] ❖ Securities of CG/SG <p>However, TDS is required i.r.o. interest on 8% saving (taxable) bonds 2003 or 7.75% Savings (taxable) Bonds, 2018 if interest payable during FY > Rs. 10,000.</p> <p>From 1.10.2024: TDS is required i.r.o. interest on Floating Rate saving bonds, 2020 (taxable) or any other notified securities of CG/SG if Interest during FY > Rs. 10,000</p> ❖ Interest ≤ Rs. 5,000 during FY on Debentures of public company (listed or not), <ul style="list-style-type: none"> ▪ to Resident Individual/HUF by A/c Payee Cheque ❖ Interest payable to LIC/GIC/Subsidiary of GIC/any other insurance company provided <ul style="list-style-type: none"> ▪ securities are owned by them or they have full beneficial interest in such securities.

DIVIDEND [SECTION 194]

Deductor	Principal officer of a domestic company.
Payee	Resident shareholders only.
TDS Rate	10%
NO TDS	<ul style="list-style-type: none"> ❖ Total dividend distributed or paid or likely to be paid to a shareholder \leq Rs. 5,000 & <ul style="list-style-type: none"> - Shareholder is an individual & - Dividend is paid by any mode other than cash during the FY& ❖ Payable to LIC/GIC/Subsidiary of GIC/any other insurance company provided shares are owned by them or they have full beneficial interest in such shares.

PC Note: Dividend includes dividends u/s 2(22)(a) to 2(22)(f).

INTEREST OTHER THAN INTEREST ON SECURITIES [SECTION 194A]

Deductor	(a) All Person (other than Individual/ HUF) & (b) Individual/HUF [if Tax Audit is required to be done u/s 44AB (a)(b) in Last PY]		
Payee	Resident Non-corporate Assessee/Domestic company.		
Rate	10%		
Exemption (No TDS)	1	Aggregate Interest paid or credited	\leq Rs 5,000
	2	Aggregate Interest paid by Bank/Co-operative Society/Post office on (a) Time deposits with bank/co-operative banks (b) deposits with post office under notified schemes. Senior Citizens Saving Scheme 2019 & Mahila Samman Savings Certificate 2023	\leq Rs 40,000
	PC Note: For 'Resident Senior Citizen' - Exemption Limit is Rs. 50,000.		

PC Note:

- Exemption Limit of Rs. 40,000/Rs. 50,000 shall be computed with reference to **each Branch**.
- But if **CBS is adopted**, limit of Rs. 40,000/Rs. 50,000 shall be computed with reference to **Whole bank (All branches)** & not with reference to Individual Branch.
- This applies on **Time Deposits including Recurring deposits**.

NO TDS even if amount paid/credited > Rs. 5,000:

- Interest on loans given to Banks/Fin. Institutions/LIC/UTI/Insurance company.
- Interest paid by Firm to partners.
- Interest paid on Refund of Tax by Government.
- Interest paid to Banks/Financial institutions/UTI/National Skill Development Fund/HUDCO.
- Interest on ZCBs.
- Interest paid by a Co-operative society to its member or to any other co-operative society; [However, Co-operative Banks → Members; TDS provisions will be applicable if interest credited/paid is > 40,000]
- Interest paid by Primary Agricultural Credit society or a Primary Credit society or a co-operative Land Mortgage bank or Co-operative Land Development Bank in respect of deposits with them.
- Interest on compensation awarded by Motor Accidents Claims Tribunal & paid by Insurance company → **NO TDS on CREDIT** of any Interest & **NO TDS ON PAYMENT \leq Rs. 50,000 in a FY.**

CQ4. Examine TDS implications u/s 194A in the cases mentioned hereunder:

[SM Q2]

- On 1.10.2024, Mr. Harish made a six-month fixed deposit of Rs. 10 Lacs @ 9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2025.
- On 1.6.2024, Mr. Ganesh made three 9-months FDs of Rs. 3 lacs each carrying interest @ 9% with Dwarka Branch, Janakpuri Branch & Rohini Branch of XYZ Bank (bank has adopted CBS). FD mature on 28.2.2025.
- On 1.10.2024, Mr. Rajesh started a 1-year recurring deposit of Rs. 2,00,000 p.m @ 8% p.a. with PQR Bank which matures on 31.3.2025.

Solution:

- ABC Co-operative Bank has to deduct tax at source @ 10% on interest of Rs. 45,000 ($9\% \times \text{Rs. 10 Lacs} \times \frac{1}{2}$) u/s 194A. TDS u/s 194A = Rs. 4,500.
- XYZ Bank has to deduct tax at source @ 10% u/s 194A, since aggregate interest on FD with 3 branches of the bank is Rs. 60,750 [$\text{Rs. 3 Lacs} \times 3 \times 9\% \times 9/12$] which exceeds Rs. 40,000.
Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered.
- No TDS u/s 194A by PQR Bank on interest of Rs. 28,000 falling due on RD on 31.3.2025 to Mr. Rajesh, since 'recurring deposit' is included in definition of 'time deposit' & interest does not exceed Rs. 40,000.

WINNING FROM LOTTERY, CARD GAMES, BETTING or HORSE RACE [SECTION 194B & 194BB]

Deductor	Bookmaker or a person to whom a license has been granted by the government for horse racing or for arranging for wagering or betting in any race course.
Rate of TDS	30% if Total Winning > Rs. 10,000.
Lottery in KIND	Winner shall pay tax first & then lottery amount can be claimed.

Note: Horse Race is covered u/s 194BB.

WINNING FROM ONLINE GAMES [SECTION 194BA]

Legal Text: Any person responsible for paying to any person any income by way of winnings from online games during FY is required to deduct tax @ 30% on net winnings in a person's user account at the end of the FY.

Deductor	Any person responsible for paying income.
Rate of TDS	30%
Exemption Limit	Nil
Time of TDS	At the end of FY.

TDS in case of withdrawal during FY: In case, there is withdrawal from user account during FY, tax would be deducted at the time of such withdrawal on net winnings comprised in such withdrawal. In addition, tax would also be deducted on remaining amount of net winnings in the user account as computed in prescribed manner at the end of FY.

Q1. There are a large number of gamers who play with very insignificant amount and withdraw also very small amount. Deducting tax at source u/s 194BA for each insignificant withdrawal would increase compliance for tax deductor. Can there be relaxation to ease compliance?

Answer: Tax may not be deducted on withdrawal if all of the following conditions are satisfied:

- Net winnings in withdrawal do not exceed ₹100 in a month &
- TDS is deducted later** when net winnings exceed ₹100 in the same or subsequent month, or at the **end of the financial year** if no further withdrawal occurs &
- Deductor ensures tax payment** if the user's account balance is insufficient at the time of TDS deduction.

Q2. When the net winnings is in kind how will tax deduction u/s 194BA operate?**Answer:**

- ⇒ If money in user account is used to buy an item in kind & given to user, it is considered **net winnings in cash**, and TDS must be deducted accordingly.
- ⇒ If **winnings are wholly or partly in kind** (where the cash portion is insufficient for TDS), then:
 - (a) Deductor **must ensure tax is paid** before releasing the prize.
 - (b) Deductee must provide **proof of tax payment** (e.g., Challan details)
- ⇒ **Alternative Option:** To simplify compliance, the **deductor may deduct TDS** under **Section 194BA** and directly pay it to the government.

Q3. How will the valuation of winnings in kind required to be carried out?**Answer:** Valuation would be based on FMV of the winnings in kind **except in following cases:**

- (i) Online game intermediary has purchased the winnings before providing it to the user: Value = Purchase price.
- (ii) Intermediary manufactures such items given as winnings: Value = Price charged to its customers for such items.

It is further clarified that GST will not be included for the purposes of valuation of winnings for TDS u/s 194BA.**PAYMENTS TO RESIDENT CONTRACTOR & SUB-CONTRACTOR [SECTION 194C]**

Deductor	<ul style="list-style-type: none"> ▪ Individual/HUF/AOP/BOI (if tax audit u/s 44AB(a)/(b) is done in Last PY). ▪ CG/SG/LA/Statutory corporation; Company, Firm; Cooperative society; Trust, Societies. ▪ Any statutory authority dealing with housing accommodations, ▪ Any university established under a Central, State or Provincial Act & institution declared to be a university under the UGC Act, 1956; ▪ Government of foreign State or foreign enterprise or any association established o/s India;
Rate (if paid to)	<p>Payee is Individual/HUF → 1%</p> <p>Payee is Other than Individual/HUF → 2%</p> <p>Tax should be deducted on -</p> <ul style="list-style-type: none"> (a) Invoice Value - Value of material (if value of material is shown separately in Invoice) (b) Whole of Invoice Value (if Not Shown separately in the Invoice)
No TDS	<ul style="list-style-type: none"> (a) Contract of Personal nature for Individual/HUF. (b) Single payment to a person ≤ Rs. 30,000 during a FY & (c) Aggregate payment to a person during a year ≤ Rs. 1,00,000. (d) Transport charges paid to Contractor in a business of leasing/hiring goods carriages not owning more than 10 trucks at any time & who furnishes PAN to payer [Section 194C(6)].
Nature of Payment	<ul style="list-style-type: none"> (a) Advertisement (b) Broadcasting & Telecasting (including production of programmes) (c) Transportation of Goods & Passengers by any mode (OTHER THAN by RAILWAYS) (d) Catering Services (e) Manufacturing or supplying a product according to the requirement or specification of the customer by using materials purchased from the customer or its associate, being a person related to the customer in such manner as defined u/s 40A(2)(b). <p>PC Note: If raw material is purchased from a person other than such customer or his associate, such a contract is a contract for 'sale' which is not covered u/s 194C.</p> <ul style="list-style-type: none"> (f) Any works contract including supply for labour. (Not for Contract of SALE).

From 1.10.2024, it is clarified that "work" shall also not include any sum referred to in section 194J(1).**PC Note:**

1. Section 194C will apply only to 'Works Contracts' & 'Labour Contracts' & will not cover contracts for Sale.

2. Separate provisions for 'fees for professional services' have been made u/s 194J & thus Section 194C will not be attracted in such cases.

CQ5. ABC Ltd. makes following payments to Mr. X, a contractor, for contract work

[ICAI SM Q2]

- (a) Rs. 20,000 on 1.5.2024; (b) Rs. 25,000 on 1.8.2024; (c) Rs. 28,000 on 1.12.2024.

On 1.3.2025, a payment of Rs. 30,000 is due to Mr. X on account of contract work. Whether ABC Ltd. is liable to deduct tax at source u/s 194C from payments made to Mr. X in PY 24-25.

Solution:

- In this case, Individual contract payments made to Mr. X does not exceed Rs. 30,000. However, since the aggregate amount paid to Mr. X during PY 24-25 exceeds Rs. 1 Lac (on account of last payment of Rs. 30,000, due on 1.3.2025, taking the total from Rs. 73,000 to Rs. 1,03,000), TDS provisions u/s 194C would get attracted.
- ABC Ltd. would be liable to deduct tax @ 1% on entire amount of Rs. 1,03,000 from last payment of Rs. 30,000.
- TDS = Rs. 1,03,000 × 1% = Rs. 1,030 & balance of Rs. 28,970 (i.e. Rs. 30,000 – Rs. 1,030) has to be paid to Mr. X.

INSURANCE COMMISSION [SECTION 194D]

Deductor	Any person paying commission to a Resident for soliciting or procuring insurance business
Rate	Non-corporate Payee: 5% & Payee is Domestic Company: 10%
Exemption	Commission ≤ Rs. 15,000 during a FY to a person on aggregate basis.

PAYMENT OF MATURITY AMOUNT OF LIFE INSURANCE POLICY [SECTION 194DA]

Deductor	Insurance Companies
Payee	A resident person.
Rate	<ul style="list-style-type: none"> ▪ 5% on Income [Sum Received – Insurance Premium paid] if not exempt u/s 10(10D) ▪ From 1.10.2024: TDS Rate = 2%
Exemption	< Rs. 1,00,000 (on Aggregate basis to a person in a FY)

CQ6. Examine the applicability of TDS provisions u/s 194DA in the following cases:

[SM Q10]

- (a) Mr. X, a resident, is due to receive Rs. 4.50 Lacs on 31.03.2025, towards maturity proceeds of LIC policy taken on 1.4.2022, for which the sum assured is Rs. 4 Lacs & annual premium is Rs. 1,25,000.
- (b) Mr. Y, a resident, is due to receive Rs. 3.95 Lacs on 31.3.2025 on LIC policy taken on 31.3.2012, for which the sum assured is Rs. 3.5 Lacs & annual premium is Rs. 30,100.
- (c) Mr. Z, a resident, is due to receive Rs. 95,000 on 1.8.2023 towards maturity proceeds of LIC policy taken on 1.8.2017 for which the sum assured is Rs. 90,000 & annual premium was Rs. 10,000.

Solution:

- (a) Since Annual premium > 10% of sum assured i.r.o a policy taken after 31.3.2012, maturity proceeds of Rs. 4.50 lacs are not exempt u/s 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @ 2% u/s 194DA on the amount of income comprised therein i.e on Rs. 75,000 [Rs. 4,50,000 – Rs. 3,75,000].
- (b) Since Annual premium < 20% of sum assured in respect of a policy taken before 1.4.2012, Sum of Rs. 3.95 lacs due to Mr. Y would be exempt u/s 10(10D) in his hands. Hence, **No TDS u/s 194DA to Mr. Y.**
- (c) Even though Annual premium > 10% of sum assured i.r.o a policy taken after 31.3.2012 & consequently, maturity proceeds of Rs. 95,000 would not be exempt u/s 10(10D) in the hands of Mr. Z, TDS provisions u/s 194DA are not attracted since the maturity proceeds are **less than 1 lac.**

COMMISSION ON SALE OF LOTTERY [SECTION 194G]

Deductor	Any person paying commission on sale of lottery tickets.	
Payee	Any person.	
Rate	Till 30.09.2024: 5%	From 01.10.2024: 2%
Exemption	Commission ≤ Rs. 15000	
PC Note: If an authorized lottery ticket agent purchases tickets in bulk at a discount from SG & sells the same at a price of his choice, Section 194G is not applicable.		

COMMISSION/BROKERAGE [SECTION 194H]

Deductor	(a) All Person (other than Individual/ HUF) & (b) Individual/HUF (if Tax Audit is done u/s 44AB (a)/(b) in Last PY)	
Rate	Till 30.09.2024: 5%	From 01.10.2024: 2%
Exemption	Aggregate Commission ≤ Rs. 15,000 to a person during FY.	
NO TDS	(i) Insurance Commission. (ii) Commission to Stock broker. (iii) Commission by BSNL/MTNL to their Public Call Office (PCO) franchisees. PC Note: This section is not applicable to professional services.	

RENT [SECTION 194I]

Deductor	(a) All person (other than Individual/ HUF) & (b) Individual/HUF (if Tax Audit is done u/s 44AB (a)/(b) in Last PY).		
Payee	Resident person only		
Payment	Rent of Land & Building (including factory building), P&M, F&F, Equipments.		
Rate	P&M, Equipments → 2%	L&B, F&F & others → 10%	[Excluding GST & Municipal Tax]
No TDS	(a) Aggregate of Rent paid/credited ≤ Rs 2,40,000 during a FY to a person. (b) Rent paid to GOVERNMENT/ REIT .		

CQ8. Mrs. Indira, a landlord, derived income from rent from letting a house property to M/s Vaibhav Corporation Ltd. of Rs. 1,00,000 p.m. She charged GST @ 15% on lease Rent charges. Calculate TDS to be made by M/s Vaibhavi Corporation Ltd. on payment made to Mrs. Indira.

Solution: GST paid by the tenant does not partake the nature of income of the landlord. Landlord only acts as a collecting agency for collection of GST. Therefore, TDS u/s 194-I would be required to be made on the amount of rent paid or payable excluding GST (TDS u/s 194-I on Rs. 12 lacs only). TDS = 12 Lacs × 7.5% = Rs. 90,000.

CQ9. XYZ Ltd. pays Rs. 50,000 per month as rent to the Mr. Kishore for a building in which one of its branches is situated. Discuss whether TDS provisions u/s 194-I are attracted. [SM Q6]

Ans:

- Section 194-I, which governs the deduction of tax at source on payment of rent, exceeding Rs. 2,40,000 p.a., is applicable to all taxable entities except individuals and HUFs, whose total sales, gross receipts or turnover from the business or profession carried on by him does not exceed Rs. 1 crore in case of business and Rs. 50 lakhs in case of profession during the financial year immediately preceding financial year in which such rent was credited or paid, is liable to deduct tax at source.
- Since the rent paid by XYZ Ltd. to Mr. Kishore exceeds Rs. 2,40,000, the provisions of section 194-I for deduction of tax at source attracted.
- TDS rate u/s 194-I on rent paid is 10%, assuming that Mr. Kishore had furnished his PAN to XYZ Ltd.
- Therefore, the amount of tax to be deducted at source = Rs. 6,00,000 x 10% = Rs. 60,000.

PAYMENT OF RENT BY INDIVIDUAL/HUF [SECTION 194 IB]

Deductor	Individual/HUF (if last year tax audit was NOT done u/s 44AB (a)(b);	
Payment	Rent of Land or Building or Both	
Rate	Till 30.09.2024: 5%	From 01.10.2024: 2%
Exemption	If Rent p.m or part of the month \leq Rs. 50,000 during the PY.	
Time of TDS	(a) At the time of credit of Rent for Last month of PY or Last month of tenancy (if property is vacated during the year)] to the account of the payee OR (b) At the time of Payment , whichever is earlier.	

PC Note: Deduction not to exceed rent for Last Month even if NO PAN is provided.

- Where tax is required to be deducted as per section 206AA, such deduction u/s 194IB shall not exceed rent payable for the last month of PY or last month of the tenancy.

CQ10. Mr. X, a salaried individual, pays rent of Rs. 55,000 p.m to Mr. Y from June, 2024.

[SM Q7]

- (a) Compute TDS; Time of deduction of Tax;
 (b) Would your answer change if Mr. X vacated the premises on 31st December 2024?
 (c) What would be your answer if Mr. Y does not provide his PAN to Mr. X?

Solution:

- (a) Since Mr. X pays rent exceeding Rs. 50,000 per month in PY 24-25, he is liable to deduct tax at source @ 5% till 30.09.2024 & thereafter @2%. Tax is to be deducted in last month of PY 24-25 i.e., March 2025 or in last month of tenancy, if the property is vacated during the year. Since property is not vacated during the year, Rs. 11,000 [(Rs. 55,000 x 2% x 10)] has to be deducted from rent payable for March, 2025.
- (b) If Mr. X vacated the premises in December, 2024, then tax of Rs. 7,700 [(Rs. 55,000 x 2% x 7)] has to be deducted from rent payable for December, 2024.
- (c) In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible@20%, instead of 2%.
 In Case (a) above, this would amount to Rs. 1,10,000 [Rs. 55,000 x 20% x 10], but the same has to be restricted to Rs. 55,000, being rent for March, 2025.
 In case (b) above, this would amount to Rs. 77,000 [Rs. 55,000 x 20% x 7], but the same has to be restricted to Rs. 55,000, being rent for December, 2024.

TRANSFER OF IMMOVABLE PROPERTY OTHER THAN RURAL AGRICULTURAL LAND [SEC 194IA]

Deductor	Any person paying consideration for transfer of immovable property
TDS Rate	<ul style="list-style-type: none"> ▪ 1% of [ASC or SDV whichever is Higher] ▪ 20% if no PAN is furnished by the payee.
No TDS	Consideration & SDV < Rs. 50 lacs.

PC Note: If Consideration or SDV ≥ Rs. 50 lacs, Section 194IA is applicable.

- TDS on compulsory acquisition of immovable property is covered u/s 194LA & thus, section 194-IA do not get attracted in that case.
- No requirement to obtain TAN u/s 203A to the deductor under this section.

Ex: Mr. X has purchased one building for Rs. 65 Lacs. In this case TDS shall be Rs. 65 lacs x 1% = Rs. 65,000. But if building was purchased for Rs. 47 Lacs, amount of TDS shall be nil since consideration < Rs. 50 Lacs.

From 01.10.2024, Where there is more than one transferor or transferee i.r.o any immovable property, then consideration shall be aggregate of amount paid/payable by all the transferees to the transferor or all the transferors for transfer of such immovable property.

CQ11. Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of Rs. 60 lacs & Rs. 15 lacs, respectively, to Mr. Y on 1.8.2024. He has purchased the house property & land in the year 2023 for Rs. 40 lacs & Rs. 10 lacs, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2024 is Rs. 85 lacs & Rs. 20 lacs for house property & rural agricultural land, respectively. Examine tax & TDS implications for Mr. X & Mr. Y assuming that both Mr. X & Mr. Y are resident Indians. **[SM Q11]**

Solution:❖ **Tax implications in the hands of Mr. X:**

As per section 50C, FVC = SDV since SDV > 110% of ASC. Therefore, STCG = Rs. 45 lacs (i.e., Rs. 85 lacs – Rs. 40 lacs) on transfer of house property.

Since rural agricultural land is not a capital asset, No Capital Gains will arise in the hands of Mr. X.

❖ **Tax implications in the hands of Mr. Y:**

If immovable property is received for inadequate consideration, difference between SDV & ASC (i.e discount) would be taxable u/s 56(2)(x), if such difference exceeds the higher of Rs. 50,000 & 10% of the consideration. Therefore, in this case Rs. 25 lacs (Rs. 85 lacs – Rs. 60 lacs) would be taxable in the hands of Mr. Y u/s 56(2)(x).

Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of “property” u/s 56(2)(x) includes only capital assets specified thereunder.

❖ **TDS implications in the hands of Mr. Y:**

Since the sale consideration of house property exceeds Rs. 50 lakh, Mr. Y is required to deduct tax at source u/s 194-IA on higher of ASC or SDV.

Thus, Tax to be deducted u/s 194-IA would be Rs. 85,000, being 1% of Rs. 85 lacs (Higher of ASC i.e 60 Lacs or SDV i.e 85 Lacs).

TDS provisions u/s 194-IA are not attracted i.r.o. transfer of rural agricultural land.

COMPENSATION ON COMPULSORY ACQUISITION OF IMMOVABLE PROPERTY (OTHER THAN AGRICULTURAL LAND) [SECTION 194LA]

Deductor	Any person paying compensation.
Payee	Resident Person only.
Payments	Compensation/enhanced compensation on account of compulsory acquisition of L/&B. (other than Agricultural Land).
Rate of TDS	10% of Initial/Enhanced Compensation
No TDS	Aggregate Payment ≤ Rs. 2.5 Lacs during FY to a Person.

FEES FOR PROFESSIONAL/TECHNICAL SERVICES [SECTION 194J]

Deductor	<ul style="list-style-type: none"> Every person other than Individual/HUF Individual/HUF [if Tax Audit is required to be done u/s 44AB (a)(b) in Last PY] are required to deducted tax at source for fees for professional & technical services only. 		
Payee	Resident Person		
Nature of Payment	(a) Professional services (b) Technical services (c) Any Remuneration or fees or commission (except salary to director of company) (d) Royalty (including royalty for sale, distribution or exhibition of cinematographic films) (e) Non-Compete Fees referred in Section 28(va).		
TDS Rate	Nature of payment	Rate	Separate Limit
	Fees for professional services	10%	30,000
	Fees for technical services (not being professional services)	2%	30,000
	Royalty for sale, distribution or exhibition of cinema films	2%	30,000
	Other royalty	10%	
	Any remuneration or fees or commission, by whatever name called, other than salary to a director of a company	10%	Nil
	Non-compete fees	10%	30,000
	Note: TDS Rate = 2% if payee is engaged only in business of operation of call centre.		
NO TDS	(a) on services provided to Individual/HUF for Personal Purposes. (b) Aggregate payment ≤ Rs 30,000 to a person in a FY.		

PC Note: Limit of Rs. 30,000 is available separately for Individual services. Thus, if payment to a person towards each of the above is < Rs. 30,000, no tax is required to be deducted at source, even though aggregate payment or credit > Rs. 30,000. However, **NO Exemption Limit is available for 'Director's fees'.**

Notified Professional Services for section 194J: Sports Person, Umpires & Referees, Coaches & Trainer, Team Physician & Physiotherapist, Event Manager, Commentator, Anchor & Sports Columnist.

Meaning of "Fees for technical services"

- Any consideration (including lumpsum consideration) for rendering following services: Managerial services; Technical services; Consultancy services; Provision of services of technical or other personnel.
- It is expressly provided 'fees for technical services' will not include following types of consideration:
 - Consideration for any construction, assembly, mining or like project or
 - Consideration which is chargeable under the head 'Salaries'.

CQ11. XYZ Ltd. makes payment of Rs. 28,000 to Mr. X on 2.8.2024 towards fees for professional services & another payment of Rs. 25,000 to him on same date towards fees for technical services. Whether Sec. 194J is attracted.

Answer: TDS provisions u/s 194J would not get attracted, since limit of Rs. 30,000 is applicable for fees for professional services & fees for technical services, separately. It is assumed that there is no other payment to Mr. X towards fees for professional services & fees for technical services during PY 24-25.

INCOME i.r.o. UNITS OTHER THAN CAPITAL GAINS [SECTION 194K]

Deductor	Any person responsible for paying any income i.r.o. <ul style="list-style-type: none"> units of a Mutual fund units from Administrator of the specified undertaking units from the specified company
Payee	Resident Person
TDS Rate	10% if aggregate amount > Rs. 5,000 in FY
NO TDS	Aggregate payment ≤ Rs 5,000 to a person in a FY

PAYMENT FOR CONTRACT WORK OR BY WAY OF FEES FOR PROFESSIONAL SERVICES OR COMMISSION OR BROKERAGE [SECTION 194M]

Deductor	Individual/HUF (other than those who are required to deduct tax u/s 194C/194H/194J)
Payee	Resident Person.
TDS Rate	5% if Aggregate amount of such sums credited/paid during PY > Rs. 50 Lacs. From 1.10.2024: Rate of TDS = 2%
Nature of Payment	Any Payment for <ul style="list-style-type: none"> (a) Carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract; or (b) Commission (not being insurance commission referred in sec 194D) or brokerage; (c) Fees for professional services.
No TAN	Provisions of sec. 203A containing requirement of obtaining tax deduction A/c number (TAN) shall not apply to the person required to deduct tax in accordance with section 194M.

CQ12. Examine whether TDS provisions would be attracted in the following cases, & if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents. **[SM Q9]**

SN	Payer	Nature of Payment	Aggregate Payment in PY 24-25
1	Mr. Ganesh, individual carrying on retail business with turnover of Rs. 2.5 crores in PY 23-24	Contract Payment for repair of house Payment of commission to Mr. Vallish for business purposes	Rs. 5 lacs Rs. 80,000 in Nov 2024
2	Mr. Rajesh, a wholesale trader whose turnover was 95 Lacs in PY 23-24	Contract Payment for reconstruction of residential house (made during Jan – Mar 2025)	Rs. 20 lacs in Jan 2025 Rs. 15 lacs in Feb 2025 Rs. 20 lacs in March 2025
3	Mr. Satish, salaried individual	Payment of brokerage for buying a residential house in March 2025	Rs. 51 lacs
4	Mr. Dheeraj, a pensioner	Contract payment made during Oct-Nov 2024 for reconstruction of residential house	Rs. 48 lacs

Solution:

SN	Payer	Nature of payment	Payments	Whether TDS?
1	Mr. Ganesh	Contract Payment for repair of house	Rs. 5 Lacs	TDS u/s 194C is not attracted since payment is for personal purpose & TDS u/s 194M is not attracted as total payment to a payee in PY 24-25 < Rs. 50 lacs.
		Payment of commission to Mr. Vallish for business	Rs. 80,000	Yes, u/s 194H, since payment > Rs. 15,000 & Mr. Ganesh's turnover > Rs. 1 crore in PY 23-24.
2	Mr. Rajesh	Contract Payment for reconstruction of house	Rs. 55 Lacs	Yes, u/s 194M @ 2% since aggregate of payments (i.e. Rs. 55 lacs) > Rs. 50 lacs. Since his turnover does not exceeds Rs. 1 Cr, he is not subject to tax audit in PY 23-24. Hence, TDS provisions u/s 194C are not attracted in respect of payments made in PY 24-25.
3	Mr. Satish	Payment of brokerage for buying a residential house	Rs. 51 Lacs	Yes, u/s 194M @ 2%, since payment of Rs. 51 lacs made in March 2025 > Rs. 50 lacs. Since Mr. Satish is a salaried individual, Sec. 194H is not applicable.
4	Mr. Dheeraj	Contract payment for reconstruction of house	Rs. 48 Lacs	TDS provisions u/s 194C are not attracted since Mr. Dheeraj is a pensioner & not liable to tax audit. Provisions u/s 194M are also not applicable since payment of Rs. 48 lacs < Rs. 50 lacs.

TDS ON CASH WITHDRAWALS [SECTION 194N]

Deductor	(a) Banking company; (b) Co-operative bank; (c) Post office
Payments	Aggregate cash payment during PY exceeding Rs. 1 crore to any person from one or more accounts maintained by such recipient-person with the Deductor.
TDS Rate	2% of sum exceeding Rs. 1 crore. Note: If recipient is a co-operative society, TDS on any sum exceeding Rs. 3 crore.

Modification in Rate of TDS & withdrawal limit for recipient who has not furnished ROI for last 3 PY

If recipient has not furnished ROI for all 3 AYs relevant to 3 PYs, for which time limit of filing ROI u/s 139(1) has expired, immediately preceding the PY in which the payment of the sum is made, *(the sum shall mean the amount or aggregate of amounts in cash > Rs. 20 lacs during PY)*, & tax shall be deducted at the rate of -

- **2% of sum** (where aggregate amount paid in cash > **20 Lacs but ≤ Rs. 1 Cr**) [3 Cr for co-operative society]
- **5% of sum** (where aggregate amount paid in cash > **Rs. 1 Cr**) [3 Cr for co-operative society]

CQ. Persons referred to in (i) to (vi) in Column (2) of the table below have always been filing their ROI on/before the due date u/s 139(1). The persons mentioned in (vii) to (x) in Column (2) of the table below have not filed their ROI for last 5 years. Determine the liability of TDS u/s 194N by bank/co-operative bank referred to in column (3) of the table below in each of the following individual cases, assuming that this is the only withdrawal in PY 24-25.

(1)	(2)	(3)	(4)	(5)	(6)
	Person making withdrawal	Bank from which money is withdrawn	Withdrawal Date	Withdrawn Amount	TDS u/s 194N
(i)	Mr. Harshit	SBI	1.7.2023	1,10,00,000	Rs. 10 Lacs x 2% = Rs. 20,000
(ii)	Mr. Pranav	SBI	1.8.2023	90,00,000	Nil (since withdrawals < Rs. 1 crore)
(iii)	ABC Co-op Society	SBI	1.9.2023	2,70,00,000	Nil (since withdrawals < Rs. 3 crore)
(iv)	XYZ Co-op Society	MNO Co-op bank	1.9.2023	3,10,00,000	Rs. 10 Lacs x 2% = Rs. 20,000
(v)	Mr. Vaibhav	MNO Co-op bank	1.9.2023	2,10,00,000	Rs. 1.10 Cr x 2% = Rs. 2,20,000
(vi)	A Ltd.	MNO Co-op bank	1.10.2023	1,05,00,000	Rs. 5,00,000 x 2% = Rs. 10,000
(vii)	M/s. DEF & Co (firm)	MNO Co-op bank	1.2.2024	90,00,000	Rs. 70,00,000 x 2% = Rs. 1,40,000
(viii)	Mr. Varun	BOI	1.2.2024	1,20,00,000	Rs. 80 Lacs x 2% (+) Rs. 20 Lacs x 5% = Rs. 2,60,000
(ix)	Mr. Rakesh	BOI	1.2.2024	45,00,000	Rs. 25,00,000 x 2% = Rs. 50,000
(x)	PQR Co-op Society	BOI	1.2.2024	3,30,00,000	Rs. 2.80 Cr x 2% (+) Rs. 30 Lacs x 5% = Rs. 7,10,000

Non-applicability of TDS u/s 194N [Second Proviso to section 194N]

Any payment made to:

- Government;
- Banking company or co-operative banks or a post-office;
- Business correspondent of a banking company or co-operative bank;
- White label ATM operator of a banking company or co-operative bank.

CG may specify, with the consultation of RBI, by notification, the recipient in whose case section 194N shall not apply or apply at reduced rate, subject to the satisfaction of the conditions specified in such notification. Accordingly, Central Government has, after consultation with RBI has specified

1	Cash Replenishment Agencies (CRA) & Franchise Agents of White Label ATM Operators (WLATMO)
2	Commission Agent/Trader operating under APMC (registered under any Law relating to AMP)
3	(a) Authorised Dealer & its Franchise Agent & Sub-Agent (b) Full-Fledged Money Changer (FFMC) licensed by RBI & its franchise agent;

PC Note [Sub-rule (3A) in Rule 37BA]

- Credit for TDS u/s 194N shall be given to the person from whose A/c tax is deducted & paid to CG
- For the AY relevant to PY in which such deduction is made.

TDS BY A SPECIFIED BANK IN CASE OF SPECIFIED SENIOR CITIZEN [SECTION 194P]

Applicability	TDS on the basis of rates in force by a specified bank, being a notified banking company, on total income of specified senior citizen for relevant AY, computed after giving effect to deduction allowable under Chapter VI-A; and rebate u/s section 87A.
Exemption	Specified senior citizen is exempted from filing his ROI for the AY relevant to the PY in which the tax has been deducted under this section.

❖ **Specified bank:** Banking company which is a scheduled bank & has been appointed as agents of RBI.

❖ **Specified senior citizen: Resident Individual (Age ≥ 75 yrs during PY) who is having pension income.**

He should have no other income except interest income from any account maintained by such individual only in **same specified bank** in which he is receiving his pension income; and has furnished a declaration to specified bank containing prescribed particulars.

PC Note:

CQ13. Mr. Sharma, a resident Indian (77 yrs) gets pension of Rs. 52,000/month from UP Government. It is credited to his savings A/c in SBI, Lucknow Branch. In addition, he gets interest @ 8% on fixed deposit of Rs. 20 lacs with said bank. Out of the deposit of Rs. 20 lacs, Rs. 2 lacs represents five-year term deposit made by him on 1.4.2024. Interest on savings bank credited to his SBI savings account for PY 24-25 is Rs. 9,500. **[SM Q12]**

- (1) Compute total income & tax liability of Mr. Sharma for AY 25-26.
- (2) What would be the amount of TDS by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his ROI for AY 25-26, if tax deductible at source has been fully deducted? Examine.
- (3) Would your answer to (b) be different if fixed deposit of Rs. 20 lacs was with Canara Bank instead of SBI?

Answer:**(1) Computation of total income of Mr. Sharma for AY 25-26**

	Particulars	Rs.	Rs.
1	Salaries		
	Pension (Rs. 52,000 x 12)	6,24,000	
	Less: Standard deduction u/s 16(ia)	(50,000)	5,74,000
2	Income from Other Sources		
	Interest on fixed deposit (Rs. 20 lacs x 8%)	1,60,000	
	Interest on savings account	9,500	1,69,500
3	Gross total income		7,43,500
	Less: Deductions under Chapter VI-A		
	Section 80C: Five-year term deposit (Rs. 2 lacs, restricted to Rs. 1.5 lacs)	1,50,000	
	Section 80TTB: Interest on fixed deposit and savings account, restricted to Rs. 50,000, since Mr. Sharma is a resident Indian of the age of 77 years	50,000	2,00,000
4	Total Income		5,43,500
5	Computation of tax liability for AY 25-26		
	Tax payable = [Rs. 43,500 x 20% + Rs. 10,000] + 4% HEC		19,448

- (2) SBI, being a specified bank, is required to deduct tax at source u/s 194P (after considering tax deducted on pension u/s 192) & remit the same to CG. Mr. Sharma would not be required to file his ROI u/s 139.
- (3) If fixed deposit of Rs. 20 lacs is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a "specified senior citizen", consequent to which SBI would not be liable to deduct tax u/s 194P. In this case, Mr. Sharma would have to file his ROI u/s 139, since his total income (without giving effect to deduction under Chapter VI-A) exceeds the basic exemption limit.

Note: TDS provisions u/s 192 would, in any case, be attracted in respect of pension income. Further, Canara Bank would, be liable to deduct tax @ 10% u/s 194-A on interest on fixed deposit, since the same exceeds Rs. 50,000.

TDS ON PURCHASE OF GOODS FROM RESIDENT > 50 Lacs in PY [SECTION 194Q]

Deductor	Buyer who is responsible for paying any sum to any resident-seller for purchase of goods of the value or aggregate of such value exceeding Rs. 50 lacs in a PY.
Rate if TDS	0.1% of such sum exceeding Rs. 50 Lacs
Time of deduction	Deduction is to be made at the time of credit of such sum to the account of the resident-seller or at the time of payment thereof by any mode, whichever is earlier.
No TDS	Tax is not required to be deducted under this section i.r.o. a transaction on which – (a) tax is deductible under any of the provisions of this Act; & (b) tax is collectible under the provisions of section 206C, other than section 206C(1H).
Note	In case of a transaction to which both section 206C(1H) & 194Q applies, tax is required to be deducted u/s 194Q.
Meaning of buyer	Person whose Sales/TO/GR > Rs. 10 crores during last FY. However, buyer does not include a person as notified by CG for this purpose, subject to fulfillment of T&Cs.

PC Note: Students are advised to read section 206AA, 206C(1H) & 206CC before solving this CQ.

CQ14. Mr. Gupta, a resident, is in retail business & his turnover for PY 22-23 was Rs. 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler & aggregate payment during PY 24-25 was Rs. 95 lacs (Rs. 20 Lacs on 1.6.2023, Rs. 25 Lacs on 12.8.2023, Rs. 22 Lacs on 23.11.2023 & Rs. 28 Lacs on 25.3.2024). 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 PY 22-23 was Rs. 15 crores.

- (a) Examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
 (b) Would your answer be different if Mr. Gupta's turnover for PY 22-23 was Rs. 8 crores?
 (c) Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required?

Answer:

- (a) Since Mr. Gupta's turnover for PY 23-24 > 10 crores & payments made by him to Mr. Agarwal, a resident seller > Rs. 50 lacs in PY 24-25, he is liable to TDS @ 0.1% of Rs. 45 lacs (in excess of 50 Lac).
- No TDS u/s 194Q on payments made on 1.6.2024 & 12.8.2024, since aggregate payments till that date i.e. 45 lacs, has not exceeded the threshold of Rs. 50 lacs.
 - TDS of Rs. 1,700 (i.e., 0.1% of Rs. 17 lacs) u/s 194Q from payment/credit of Rs. 22 Lacs on 23.11.2024 [Rs. 22 Lacs – Rs. 5 lacs, being the balance unexhausted threshold limit].
 - TDS of Rs. 2,800 (i.e., 0.1% of Rs. 28 Lacs) u/s 194Q from the payment/credit of Rs. 28 lacs on 25.3.2025.

Note: In this case, since both section 194Q and 206C(1H) applies, tax has to be deducted u/s 194Q.

- (b) If Mr. Gupta's turnover for PY 23-24 was only Rs. 8 crores, TDS provisions u/s 194Q would not be attracted. However, TCS provisions u/s 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds Rs. 10 crores in PY 23-24 & his receipts from Mr. Gupta exceed Rs. 50 lacs.
- No TCS u/s 206C(1H) on 1.6.2024 & 12.8.2024, since aggregate receipts till that date i.e. 45 lacs, has not exceeded the threshold of Rs. 50 lacs.
 - Tax of Rs. 1,700 (i.e., 0.1% of Rs. 17 lacs) has to be collected u/s 206C(1H) on 23.11.2024 (Rs. 22 Lacs – Rs. 5 lacs, being the balance unexhausted threshold limit).
 - Tax of Rs. 2,800 (i.e., 0.1% of Rs. 28 lacs) has to be collected u/s 206C(1H) on 25.03.2025.

- (c) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax @ 5%, instead of 0.1%. Accordingly, tax of Rs. 85,000 (i.e., 5% of Rs. 17 lacs) and Rs. 1,40,000 (5% of Rs. 28 lacs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2024 & 25.3.2025 respectively.

In case (2), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect tax @ 1% instead of 0.1%. Accordingly, tax of Rs. 17,000 (i.e., 1% of Rs. 17 lacs) and Rs. 28,000 (1% of Rs. 28 lacs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2024 & 25.3.2025 respectively.

GUIDELINES FOR SECTION 194Q

1	Adjustment for GST, various state levies & taxes other than GST, Purchase returns
	<ul style="list-style-type: none"> ▪ If component of 'GST' is indicated separately, No TDS on GST amount. ▪ In case of Advance payment, TDS is done on whole amount since invoice amount is not known. ▪ Purchase Return: TDS is already done. If money is refunded by seller against this return, then, tax deducted may be adjusted against next purchase against the same seller. ▪ Replacement: No adjustment is required if purchase return is replaced by other goods.
2	Can Non-resident be a buyer u/s 194Q?
	<ul style="list-style-type: none"> ▪ No. However, if such NR buyer has PE in India & purchase is effectively connected with that PE → 194Q apply.
3	Should tax be deducted when the seller is a person whose income is exempt?
	<ul style="list-style-type: none"> ▪ No. 194Q is not attracted if the income of seller is fully exempt. ▪ The above clarifications would not apply if only part of the income is exempt & thus 194Q will apply.
4	Should tax be deducted on advance payment?
	<ul style="list-style-type: none"> ▪ Advances paid before 1.07.2022 → No TDS. But if Advances paid on/after 1.07.2022 → TDS.
5	Would provisions of section 194Q apply to buyer in the year of incorporation?
	<ul style="list-style-type: none"> ▪ No since TO/GR in Last FY = Zero.
6	Would provisions of section 194Q apply to buyer if turnover from business is Rs. 10 crore or less?
	<ul style="list-style-type: none"> ▪ Sales/GR/TO from business carried on by him must exceed Rs. 10 crores. ▪ His turnover or receipts from non-business activity is not to be counted for this purpose.
7	Applicability of section 194Q in cases where exemption has been provided u/s 206C(1A)
	<ul style="list-style-type: none"> ▪ Section 206C(1A) provides that no TCS is required if resident buyer furnishes a declaration that goods are to be utilized for manufacturing/producing articles or for generation of power & not for trading purposes. ▪ Section 194Q does not apply i.r.o. those transactions where tax is collectible u/s 206C [except 206C(1H)]. ▪ Since by virtue of section 206C(1A), tax is not required to be collected for goods covered u/s 206C(1), in such cases, section 194Q will apply & buyer shall be liable to deduct tax under the said section.
8	Applicability of section 194Q in case of Government department not being a PSU or corporation
	<ul style="list-style-type: none"> ▪ As per section 194Q, for a person to be considered as a buyer if following conditions are fulfilled: <ol style="list-style-type: none"> (1) Such person shall be carrying out a business/commercial activity; (2) Total sales, gross receipt or turnover in Last FY from such business/commercial activity > Rs. 10 crores. ▪ If any Government Department is not carrying out any business activity, such an organisation would not be considered as 'buyer' for section 194Q & thus No TDS. ▪ However, if it is carrying on a business/commercial activity, section 194Q would apply. ▪ Government department will NOT be considered as a 'seller' for TDS u/s 194Q & no TDS is required. ▪ Any other person, such as a PSU or corporation established under Central or State Act or any other such body, authority or entity, shall be required to comply section 194Q and tax shall be deducted accordingly.
9	Cross application of section 194-O, section 206C(1H) and section 194Q
	<ul style="list-style-type: none"> ▪ If both section 194O & 194Q apply, Tax shall be deducted u/s 194-O & not u/s 194Q. ▪ If both section 194O & 206C(1H) apply, Tax shall be deducted u/s 194O & not u/s 206C(1H). ▪ If both section 194Q & 206C(1H) apply, Tax shall be deducted u/s 194Q & not u/s 206C(1H). ▪ However, if, for any reason, tax has been collected u/s 206C(1H) before buyer could deduct tax u/s 194Q on same transaction, such transaction would not be subjected to TDS again by the buyer. This concession is to remove difficulty, since rate of TDS u/s 194Q & TCS u/s 206C(1H) are same.

TDS ON BENEFITS/PERQUISITE I.R.O. BUSINESS OR PROFESSION [SEC 194R]

Deductor	Person paying or providing any benefit/perquisite to a resident arising out of business or profession.
Rate	10% if value of such benefit > Rs. 20,000 in a FY.
Deduction	Deduction is to be made before providing such benefit or perquisite.
No TDS	(a) Aggregate value of such benefit or perquisite < Rs. 20,000 during the FY. (b) Turnover of business of payee during last FY of such individual/HUF < Rs. 1 crore or (c) Turnover of profession of payee during last FY of such individual/HUF < Rs. 50 Lacs

Note: If benefit or perquisite is wholly in kind or partly in kind & partly in cash, but cash part < Rs. 20,000, then person responsible for providing such benefit has to ensure that TDS i.r.o. such benefit has been paid.

INCOME PAYABLE "NET OF TAX" [SECTION 195A]

- Where, under an agreement or other arrangement, the tax chargeable on any income is to be borne by the person by whom the income is payable, then, for the purposes of deduction of tax under those provisions such income shall be increased to such amount as would, after deduction of tax thereon, be equal to the net amount payable under such agreement or arrangement.
- However, no grossing up is required in the case of tax paid u/s 192(1A) by an employer on non-monetary perquisites provided to the employee.
- When an amount is paid net of tax, the taxability has to be calculated by grossing up the amount, since the tax itself represents the income of the payee.

NO TDS ON ANY SUMS PAYABLE TO GOVERNMENT, RBI or CERTAIN CORPORATIONS [SEC 196]

- No TDS on any sum payable to the following persons:
 - Government; RBI.
 - Corporation established by/under Central Act, which is exempt from Income-tax.
 - Mutual Fund specified u/s 10(23D).
- This provision for non-deduction is when such sum is payable to above entities by way of:
 - Interest/Dividend i.r.o. securities/shares owned (full beneficial interest) by them; or
 - Any income accruing or arising to them.

CERTIFICATE FOR TDS AT LOWER RATE [SECTION 197]

- Section 197 is operative in case of **section 192, 193, 194, 194A, 194C, 194D, 194G, 194H, 194I, 194J, 194K, 194LA, 194M & 194Q (w.e.f 1.10.2024)**
- In such cases, assessee can make an application to AO for TDS at Lower rate/No TDS.
- If AO is satisfied that TI of recipient justifies TDS @ lower rate or No TDS, he may give such certificate.
- Where AO issues such a certificate, then deductor shall deduct income-tax at such **lower rates specified in certificate or deduct no tax, until such certificate is cancelled by AO.**

NO TDS TO BE MADE IN CERTAIN CASES [SECTION 197A]

- **A declaration in writing** by the assessee in duplicate **that tax on his estimated TI of PY will be Nil.**
- Deductor shall deliver or cause to be delivered to PCC or CC or PC, one copy of the declaration on or before 7th day of the next month following the month in which the declaration is furnished to him.

1	Filing of declaration for receipt of dividend without TDS [Sub-section (1)] <ul style="list-style-type: none"> ▪ Resident individual whose estimated TI of the PY < BEL may file a declaration in duplicate to receive dividend (u/s 194) without TDS. ▪ Declaration shall state that tax on estimated TI of the declarant of the PY in which such income is to be included in computing his TI will be Nil. ▪ Declaration is to be furnished to the person responsible for paying such income u/s 194.
2	Declaration for non-deduction of tax u/s 192A, 193, 194A, 194D, 194DA, 194I, 194K by persons, other than companies & firms [Sub-section (1A)] <ul style="list-style-type: none"> ▪ If a person, who is not a company/firm, furnishes to the person responsible for paying any income referred to in these sections, a declaration in writing in duplicate that tax on his estimated TI of the PY in which such income is to be included in computing his total income will be Nil.
3	Filing of declaration is not permissible if income/aggregate of incomes > BEL [Sub-section (1B)] <p>Declaration cannot be furnished as per the above provisions, where -</p> <p>(a) Payments of dividend; (b) Payment of premature withdrawal from EPF; (c) Interest on securities & other interests; (d) Insurance commission; (e) Payment i.r.o. life insurance policy; (f) Rent; (g) Income from units;</p> <p>(h) Aggregate of the amounts of such incomes in (a) to (g) above credited/paid or likely to be credited/paid during PY in which such income is to be included > BEL.</p>
4	Filing of declaration by resident senior citizens for No TDS [Sub-section (1C)] <p>If a resident senior individual furnishes a declaration in writing in duplicate to the payer, that tax on his estimated TI of the PY in which such income is to be included in computing his total income is Nil, no TDS shall be made u/s 192A, 193, 194, 194A, 194D, 194DA, 194EE, 194I, 194K.</p> <p>The restriction contained in sub-section (1B) will not apply to resident senior citizens.</p>
5	Time limit for delivery of one copy of declaration [Sub-section (2)] <p>On receipt of the declaration referred to in sub-sections (1), (1A) or (1C), person responsible for making payment will be required to deliver or cause to be delivered to PCC/CC/PC/CIT, one copy of declaration on/before 7th of the month following the month in which declaration is furnished to him.</p>

TIME FOR DEDUCTION OF TAX AT SOURCE

For Sections	Time when Tax should be deducted
193, 194A/C/D/G/H/I/IA/IB/IC/J	(a) At the time of Credit of A/c of the payee (b) Date of Payment whichever is earlier
192, 192A, 194, 194B/BB/DA/EE/LA	On the Date of Payment

PC Note: A/c to which sum is credited may be called 'Suspense Account' or by any other name.

- ☞ Deduction is to be made at the time of credit of such sum to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.
- ☞ Where such sum is credited to any account, whether called suspense account or by any other name, in the books of accounts of the person liable to pay such sum, such crediting shall be deemed to be credit of such sum to the account of the payee and tax has to be deducted accordingly.

TIME LIMIT, FORM & MANNER OF DEPOSITING TDS u/s 194IA, 194IB & 194M

1	Time limit & prescribed form for remittance of TDS [Rule 30(2C)]
	Any sum deducted u/s 194-IA, 194-IB & 194M shall be paid to the credit of CG within 30 days from the end of month in which the deduction is made & shall be accompanied by a challan-cum statement in Form 26QB, 26QC, 26QD.
2	Manner of remittance of TDS [Rule 30(6C)]
	Where tax deducted is to be deposited accompanied by a challan-cum-statement in Form No. 26QD, amount of tax so deducted shall be deposited to the credit of Central Government by remitting it electronically within 30 days from the end of the month in which the deduction is made into RBI or SBI or any authorised bank.
3	TDS Certificate & time limit for furnishing such certificate to the payee [Rule 31(3C)]
	Every person responsible for deduction of tax u/s 194-IA, 194-IB & 194M shall furnish the TDS certificate in Form No. 16B, 16C & 16D, respectively, to the payee within 15 days from the due date for furnishing the challan-cum-statement in Form No. 26QB, 26QC & 26QD, respectively, under Rule 31A, after generating & downloading the same from web portal specified by the PDGIT (Systems) (in case of section 194-IB & 194M) or DGIT (Systems) or person authorized by him.
4	Time limit & manner of submission of Challan-cum Statement [Rule 31A(4C)]
	Every person responsible for deduction of tax u/s 194-IA, 194-IB & 194M shall also furnish to PDGIT (Systems) (in case of section 194IB & 194M), DGIT (Systems) or any person authorized by them, a challan-cum-statement in Form No. 26QB, 26QC & 26QD, respectively, electronically within 30 days from the end of the month in which the deduction is made.

TABLE A: DUE DATE FOR DEPOSIT OF TDS TO CG [Rule 30]

SN	Deductor	Cases	Due Date
1	Government	Tax paid without production of Tax Challan	Same Day of TDS
		Tax paid accompanied by Tax Challan	7 days from end of TDS month.
2	Any other Person	Deduction made in April - February	7 days from end of TDS month.
		If income is credited/paid in March	30 th April.

- Tax deducted u/s 194IA/IB/M have to be remitted within 30 days from the end of TDS month &
- Challan-cum-statement in Form 26QB/QC/QD → within 30 days from the end of TDS month.

QUARTERLY PAYMENT OF TDS:

- In special cases, AO may (with prior approval of JCIT) permit quarterly payment of TDS u/s 192/194A/D/H **on/before 7th of the month following the quarter for 1st three quarters in the FY & 30th April i.r.o. the quarter ending on 31st March.**

TABLE B: DUE DATES FOR FILLING QUARTERLY STATEMENT [Rule 31A]

Every person responsible for deduction of tax shall deliver quarterly statements to the DGIT (Systems).

Statement of TDS u/s ↓		Form No.			
1	Section 192	Form No. 24Q			
2	Other sections	Deductee is a NR/RNOR/Foreign company		Form No. 27Q	
		All other deductee		Form No. 26Q	
Quarter ending on		30 th June	30 th Sep	31 st Dec	31 st March
Due Date for filing statement		31 July of FY	31 Oct of FY	31 Jan of FY	31 May of next FY

- Tax deducted u/s 194IA/IB/M have to be remitted within 30 days from the end of the month of TDS.
- Challan-cum-statement in Form 26QB/QC/QD has to be furnished within 30 days from the month of TDS.

CONSEQUENCES OF FAILURE TO DEDUCT OR PAY TDS TO CG [SECTION 201]

1 Assessee in Default

Any person including principal officer of the company who is:

(a) Required to deduct Tax at Source or (b) Being an employer opts for payment of tax u/s 192 (1A) does not **deduct** or **pay (whole/part)** tax, such person shall be **deemed to be assessee in default**.

2 Payer NOT deemed to be "Assessee in Default"

- If such payee has filed ROI u/s 139 & has included such sum in computing his total income in ROI & has paid tax on such sum.

PC Note: No penalty u/s 221 if failure is due to good & sufficient reason.

3 INTEREST FOR DELAY IN DEDUCTION OR PAYMENT

If (i) No Tax is deducted **OR** (ii) Tax has been deducted but not paid to CG; interest payable will be:

Late Deduction **Simple Interest @ 1% p.m** or part of the month of **Late Deduction:**

From Date on which tax should have been deducted

Upto Date on which such tax was actually deducted

Late Payment **Simple interest @ 1.5% p.m** or part of the month of **Late Payment**

From Date on which tax was deducted

Upto Date on which such tax is actually paid to CG

CQ15. Rs. 40,000 was paid to Mr. X on 1.7.2024 towards professional fees w/o TDS. Subsequently, another payment of Rs. 50,000 was due to Mr. X on 28.2.2025, from which tax @ 10 % (Rs. 9,000) on entire amount of Rs. 90,000 was deducted. However, this tax of Rs. 9,000 was deposited only on 22.6.2025. Compute Interest u/s 201(1A).

Solution:

Computation of Interest u/s 201(1A)

Particulars	Rs
1% on tax deductible but not deducted [1% on Rs. 3,000 for 8 months (1.7.2024 to 28.2.2025)]	240
1.5% on tax deducted but not deposited [1.5% on Rs. 6,750 for 4 months (28.2.2024 to 22.6.2025)]	405
Total Interest u/s 201(1A)	645

4 Time Limit for deeming a person to be Assessee-in-default for failure to deduct tax at source

Order u/s 201(1) deeming a person as assessee in default shall be passed at any time before

- 7 years from the end of FY in which payment is made or credit is given. **[Whichever is later]**
- 2 years from the end of FY in which correction statement is delivered under proviso to sec. 200(3)

5 No Time Limit is prescribed deeming a person to be Assessee-in-default in following cases

- Tax has been deducted but **not paid** to the government;
- Employer has failed to pay tax (wholly/partly) u/s 192(1A) [Since No question of deduction arises];
- Deductee is a Non-Resident [It may not be possible to recover the tax from NR].

CERTIFICATE FOR TAX DEDUCTED [SECTION 203]

- Deductor shall issue a certificate to the payee of income that tax has been deducted & specify the amount deducted, rate at which tax has been deducted & such other prescribed particulars.
- Every Employer shall furnish to the employee a certificate (for Tax u/s 192(1A)) that tax has been paid & specify the amount of Tax paid, rate at which tax has been paid & such other prescribed particulars.

TDS CERTIFICATE [Rule 31]

TDS u/s 192	In Form No. 16 → Issued annually by 15 th June of next FY.
Other sections	In Form 16A → Issued Quarterly w/i 15 days from DD for filing TDS statement u/r 31A.

CORRECTION OF ARITHMETIC MISTAKES & ADJUSTMENT OF INCORRECT CLAIM DURING COMPUTERIZED PROCESSING OF TDS STATEMENTS [SECTION 200A]

1	Following adjustments can be made during the computerized processing of statement of TDS: <ul style="list-style-type: none"> ▪ Arithmetical Errors in the statement; or ▪ Incorrect claim if such incorrect claim is apparent from any other information in the statement.
2	'Incorrect claim apparent from any information in the statement' shall mean claim: <ul style="list-style-type: none"> ▪ which is Inconsistent with another entry of the same or some other item in such statement; ▪ where Rate of TDS is not in accordance with the provisions of the Act.
3	Interest has to be computed on the basis of the sums deductible as computed in statement
4	Fee u/s 234E: A fee of Rs. 200 per day is levied u/s 234E for late furnishing of TDS statement. <ul style="list-style-type: none"> ▪ From: DD of furnishing of TDS statement - To: Date of Actual furnishing of TDS statement. ▪ Total fee u/s 234E shall not exceed Total Amount of TDS/TCS. ▪ Such fee has to be paid before delivering the TDS statement.
5	Sum payable by the deductor should be determined after Adjustment of Interest & Fee against the amount paid u/s 200/201/234E & any other amount paid by way of Tax/Interest/Fee.
6	Intimation will be sent to the deductor, specifying his tax liability or refund due within 1 year from the end of FY in which statement is filed. Refund due shall be granted to the deductor.

MANDATORY REQUIREMENT OF FURNISHING PAN [SECTION 206AA]

- ❖ Both deductor & deductee have to compulsorily quote PAN of the deductee in all the correspondences, bills, vouchers & other documents exchanged between them.
- ❖ **In case of failure to provide PAN, RATE OF TDS shall be higher of the following rates:**
 - (a) Rate prescribed in the Act;
 - (b) Rate in force (i.e. rate mentioned in Finance Act) or
 - (c) **20% [5% in case tax is required to be deducted at source u/s 194O & 194Q]**
- ❖ Above provision is also applicable if taxpayer files a declaration in Form 15G/15H but does not provide PAN. Similar **No certificate u/s 197 will be granted by AO if PAN is not furnished.**
- ❖ If PAN provided is invalid or it does not belong to the deductee, it shall be deemed that the deductee has not furnished his PAN to the deductor.

Ex: In case of rental payment for plant and machinery, where the payee does not furnish his PAN to the payer, tax would be deductible @ 20% instead of @ 2% prescribed u/s 194-I. However, non-furnishing of PAN by the deductee in case of income by way of winnings from lotteries, card games etc., would result in tax being deducted at the existing rate of 30% u/s 194B. Therefore, wherever tax is deductible at a rate higher than 20%, this provision would not have any impact.

HIGHER RATE OF TDS FOR NON-FILERS OF TAX RETURN [SECTION 206AB]

- ❖ TDS under the provisions of this chapter on any sum or income or amount paid (or payable) or credited by a person (deductee) **to a specified person**, at higher of the following rates –
 - (a) Twice the rate prescribed in the relevant provisions of the Act;
 - (b) Twice the rate or rates in force i.e., the rate mentioned in the Finance Act; or
 - (c) 5%
- ❖ Section 206AB is not applicable to section 192, 192A, 194B, 194BB or 194N, 194IA, 194IB, 194M.
- ❖ **If both section 206AA & 206AB are applicable to specified person, then, tax is required to be deducted at higher of the two rates provided in section 206AA and section 206AB.**
- ❖ **Meaning of Specified person:** A person who has not furnished ROI for AY relevant to the PY immediately preceding the financial year in which tax is required to be collected, for which time limit for furnishing ROI u/s 139(1) has expired, & aggregate of TDS & TCS in his case is Rs. 50,000 or more in the said PY.
- PC Note:** Specified person does not include a NR who does not have a permanent establishment in India or Person who is not required to furnish ROI for the AY & is notified by Central Government in this behalf.

Accordingly, CBDT has notified RBI as a person to not include in the definition of specified person.

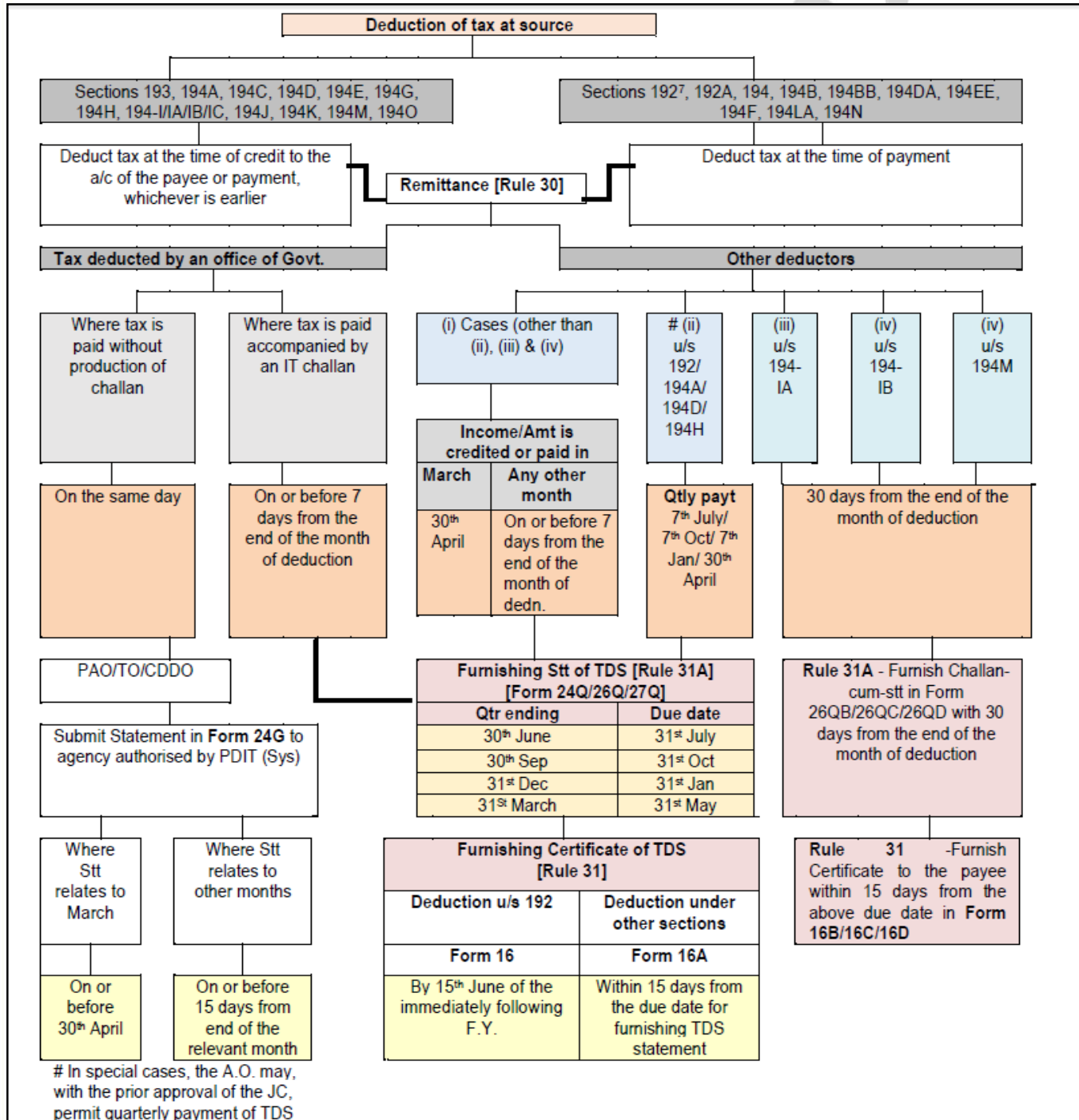
SUMMARY OF SOME OTHER SECTIONS

195A	<u>INCOME PAYABLE NET OF TAX</u> <ul style="list-style-type: none"> ❖ If Tax is to be borne by Payer: Income of Payee = Income Received + Tax Paid by the payer. ❖ However, no grossing up is required in case of tax paid [u/s 192(1A)] by an employer on non-monetary perquisites provided to the employee.
197A(1F)	NO TDS on following payments in case such payment is made by a person to a bank (excluding a foreign bank) or to any payment systems company authorised by RBI: <ul style="list-style-type: none"> ❖ Bank guarantee commission; credit or debit card commission for transaction b/w merchant establishment & acquirer bank, Depository charges on maintenance of DEMAT accounts; ❖ Cash management service charges; underwriting service charges; warehousing services charges ❖ Clearing charges (MICR charges) including interchange fee or other similar charges charged at the time of settlement or for clearing activities under Payment & Settlement Systems Act, 2007.
198	Tax deducted is treated as Income of the payee & tax credit is available to him. However, tax deducted u/s 194N & tax paid by an employer u/s 192 (1A) on Non-monetary perquisites provided to the employees shall not be deemed to be income received by deductor.
199	Credit for TDS → Amount of TDS shall be allowed as Set off in the year in which income is assessed. Any sum referred to in Section 192(1A) & paid to CG, shall be treated as the tax paid on behalf of the person in respect of whose income such payment of tax has been made.
202	DEDUCTION ONLY ONE MODE OF RECOVERY <ul style="list-style-type: none"> ❖ Recovery of tax through deduction at source is one of the methods of recovery of Tax. ❖ AO can use any other prescribed methods of recovery in addition to tax deducted at source.
205	BAR AGAINST DIRECT DEMAND OF TAX FROM ASSESSEE <ul style="list-style-type: none"> ❖ Assessee cannot be asked to pay tax on income on which tax has already been deducted. ❖ If Deductor has not paid tax to government, department cannot recover tax from assessee. ❖ Only the person deducting the tax shall be liable to pay tax to the government.

PC Note: Rule Numbers & Form Numbers are only for the reference. No Need to memorize them.

STATEMENT, I.R.O PAYMENT OF INTEREST TO RESIDENTS WITHOUT TDS [SEC. 206A]

- Every banking company or co-operative society or public company referred to in the proviso to section 194A(3)(i) shall prepare prescribed statements if it is responsible for paying interest u/s 194 to a resident not exceeding Rs. 40,000 & Rs. 5,000 in any other case.
- Such persons should prepare & deliver or cause to be delivered statements within the prescribed time to the prescribed income-tax authority or the person authorized by such authority.



TAX COLLECTED AT SOURCE

BASIC CONCEPTS & RATES OF TCS [SECTION 206C]

Nature of Goods/Services		TCS
1	Sale of Certain Goods [Section 206C(1)]	
	1. Alcoholic liquor for human consumption	1%
	2. Tendu Leaves	5%
	3. Timber obtained under a forest Lease	2.5%
	4. Timber obtained by any other mode than under a forest lease	2.5%
	5. Any other forest produce not being timber or tendu leaves	2.5%
	6. Scrap	1%
	7. Minerals (Being Coal, Lignite or Iron Ore)	1%
2	Leasing/Licensing Services [Parking lot/Toll Plaza or Mining/Quarry] [Section 206(1C)]	2%
	<ul style="list-style-type: none"> Every person who grants a lease or a licence or enters into a contract or otherwise transfers any right/interest in any parking lot/Toll Plaza or Mining/Quarry (other than mineral oil, petroleum, natural gas) to any person other than Public Sector Company. 	
3	Sale of Motor Vehicle of value > Rs. 10 lacs [Only for Retail Sale] [Section 206C(1F)]	1%
	<ul style="list-style-type: none"> Limit of Rs. 10 Lacs is applicable to Single sale & not to Aggregate value of sale made during FY. Mode of Payment is irrelevant to attract TCS in case of Sale of Motor Vehicle. No TCS on sale of Motor Vehicle by manufacturers to dealers/ distributors. This Provision is applicable for ANY Motor Vehicles including Luxury Cars. No TCS on sale made to government, institutions notified under UN (Privileges & Immunities) Act 1947 & Embassies, Consulates, High Commission, Legation, Commission & trade representation of a foreign State. <p>From 01.01.2025: Scope of section 206C(1F) expanded to include every person, being a seller, who receives any amount as consideration for sale of any other notified goods exceeding Rs. 10 lakhs, to, at the time of receipt of such amount, collect tax from the buyer @ 1% of the sale consideration.</p>	
4	TCS on sale of goods of value > Rs. 50 lacs [Section 206C(1H)]	0.1%
	<ul style="list-style-type: none"> As per section 206C(1H), tax is also required to be collected by a seller, who receives any amount as consideration for sale of goods of the value or aggregate of such value exceeding Rs. 50 lacs in a PY [other than exported goods or goods covered under sub-sections (1)/(1F)/(1G)]. TCS = 0.1% of sale consideration exceeding Rs. 50 lacs. Time of TCS → At the time of receipt of consideration. However, tax is not required to be collected if buyer is liable to deduct tax at source under any other provision of the Act on goods purchased by him from the seller & has deducted such tax. Non-furnishing of PAN or Aadhar by buyer to seller → Rate of TCS = Higher of (a) Twice the rate specified in this sub-section; & (b) 1%. 	
5	Remittance under LRS of RBI through authorized dealer or purchase of an overseas tour package	
	<p>Section 206C(1G) provides for collection of tax by every person, being</p> <ul style="list-style-type: none"> ❖ Authorized dealer, who receives amount for overseas remittance from a buyer (remitting such amount) ❖ Seller of overseas tour programme package who receives amount from a buyer purchasing package. ❖ Overseas tour program package → Any tour package which offers visit to a country or territory outside India. It includes expenses for travel/stay/boarding/lodging or any other expenditure of similar nature or in relation thereto. [Clause (ii) of Explanation to sec. 206C(1G)]. 	

TCS RATE BY AUTHORIZED DEALER/SELLER OF OVERSEAS TOUR PROGRAMME PACKAGE

	Amount and purpose of remittance	TCS Rate
1	Purchase of an overseas tour programme package	Amount upto 7 Lacs \Rightarrow TCS @ 5% Amount > 7 Lacs \Rightarrow TCS @ 20%
2	Where the amount is remitted outside India -	No TCS upto Rs. 7 Lacs
(a)	Amount is remitted for education or medical treatment	5% of the amount above 7 Lacs
	If amount remitted is out of a loan obtained from any financial institution as defined in section 80E, for education	0.5% of the amount above 7 Lacs
(b)	Where the amount is remitted for the purpose other than mentioned in (a) above	20% of the amount above 7 Lacs

CBDT Guidelines for section 206C(1G)/(1H)

Question 1: Whether payment through overseas credit card would be counted in LRS?

Answer: No TCS applicable on expenditure through international credit card while being overseas till further order.

Question 2: Whether threshold of Rs. 7 lacs for TCS to become applicable on LRS, applies separately for various purposes like education, health treatment and others? For example, if remittance of Rs. 7 lakh under LRS is made in a financial year for education purpose and other remittances in the same financial year of Rs. 7 lakh is made for medical treatment and Rs. 7 lakh for other purposes, whether the exemption limit of Rs. 7 lakh shall be given to each of the three separately?

Answer: It is clarified that the threshold of Rs. 7 lakh for LRS is combined threshold for applicability of the TCS on LRS irrespective of the purpose of the remittance. Thus, in the given example, upto Rs. 7 lakh remittance under LRS during a financial year shall not be liable for TCS. However, subsequent Rs. 14 lakh remittance under LRS shall be liable for TCS in accordance with the TCS rates applicable for such remittance. TCS rates would be applicable as under:

First Rs. 7 lakh remittance under LRS during FY 2024-25 for education purpose (or for that matter any purpose): No TCS

Remittances beyond Rs. 7 lakh under LRS during FY 2024-25: TCS Rate = 0.5% (if it is for education purpose financed by loan from a financial institution), 5% (if it is for education or medical treatment) and 20% (if it is for other purposes)

Question 3: Whether the threshold of Rs. 7 lakh, for TCS to become applicable on LRS, applies separately for each remittance through different authorised dealers? If not, how will authorised dealer know about the earlier remittances by that remitter through some other authorised dealer?

Answer: It is clarified that the threshold of Rs. 7 lakh for LRS is qua remitter and not qua authorised dealer. Since the facility to provide real time update of remittance under LRS by remitter is still under development by the RBI, it is clarified that the details of earlier remittances under LRS by the remitter during FY may be taken by the authorised dealer through an undertaking at the time of remittance. If the authorised dealer correctly collects the tax at source based on information given in this undertaking, he will not be treated as "assessee in default". However, for any false information in the undertaking, appropriate action may be taken against the remitter under the Act.

It is further clarified that same methodology of taking undertaking from the buyer of overseas tour program package may be followed by the seller of such package.

Question 4: There is a threshold of Rs. 7 lakh for remittance under LRS for TCS to become applicable while there is another threshold of Rs. 7 lakh for purchase of overseas tour program package where reduced rate of 5% of TCS applies. Whether these two thresholds apply independently?

Answer: Yes, these two thresholds apply independently. For LRS, threshold of Rs. 7 lacs applies to make TCS applicable. For purchase of overseas tour package, threshold of Rs. 7 lakh applies to determine the applicable TCS rate as 5% or 20%.

Question 5: A resident individual spends Rs. 3 lakh for purchase of overseas tour program package from a foreign tour operator and remits money which is classified under LRS. There is no other remittance under LRS or purchase of overseas tour program during FY. Whether TCS is applicable?

Answer: In case of purchase of overseas tour program package which is classified under LRS, TCS provision for purchase of overseas tour program package shall apply and not TCS provisions for remittance under LRS. Since for purchase of overseas tour program package, the threshold of Rs. 7 lakh for applicability of TCS does not apply, TCS is applicable & tax is required to be collected by the seller. In this case the tax shall be required to be collected at 5% since total amount spent on purchase of overseas tour program package during FY is less than Rs. 7 lakh. TCS should be made by the seller.

Question 6: There are different rates for remittance under LRS for medical treatment/education purposes and for other purposes. What is the scope of remittance under LRS for medical treatment/education purposes?

Answer: As per the clarification by the RBI, remittance for the purposes of medical treatment shall include,-

- (i) remittance for purchase of tickets of the person to be treated medically overseas (and his attendant) for commuting between India and the overseas destination;
- (ii) his medical expense; and
- (iii) other day to day expenses required for such purpose.

Education Remittance for purpose of education shall include -

- (i) remittance for buying tickets of person undertaking study overseas for commuting b/w India & overseas destination
- (ii) tuition and other fees to be paid to educational institute; and
- (iii) other day to day expenses required for undertaking such study.

Question 7: Whether purchase of international travel ticket or hotel accommodation on standalone basis is purchase of overseas tour program package?

Answer: The term 'overseas tour program package' is defined as to mean 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.

It is clarified that purchase of only international travel ticket or purchase of only hotel accommodation, by in itself is not covered within the definition of 'overseas tour program package'.

To qualify as 'overseas tour program package', the package should include at least two of the followings:

- (i) international travel ticket,
- (ii) hotel accommodation (with or without food)/boarding/lodging,
- (iii) any other expenditure of similar nature or in relation thereto.

CASES WHERE NO TAX IS TO BE COLLECTED

1	No TCS by authorized dealer on an amount i.r.o which the sum has been collected by the seller.
2	No TCS, if buyer is liable to deduct tax under any other provision of the Act & has deducted such tax.
3	No TCS, if buyer is CG/SG/Embassy, a High Commission, a legation, a commission, a consulate, the trade representation of a foreign State, a local authority or NR visiting India.

TIME OF TCS [SECTION 206C(1)/(1C)/(1F)]

❖ Tax should be collected at the time of (a) debit or (b) receipt whichever is earlier.

Note: Sale of Motor Vehicle > Rs. 10 Lacs & Sale of goods > Rs. 50 Lacs → Receipt of consideration.

NON-APPLICABILITY OF TCS PROVISIONS [SECTION 206C(1A)]

No TCS if the resident buyer furnishes a declaration in writing in duplicate to the collector that –

- Goods are to be utilised for **Manufacturing/Processing/Producing** articles or for **generation of power &**
- **not for trading purposes.**

TIME LIMIT FOR PAYING COLLECTED TAX TO THE CG [RULE 37CA]

SN	Person	Circumstances	Time Limit
1	Government	Tax paid without production of Income Tax Challan	Same Day of TCS
		Tax paid accompanied by Income Tax Challan	7 days from end of month
2	Other than Government → Within 1 Week from last day of Month of TCS.		

MEANING OF “BUYER” FOR THE PURPOSE OF TCS PROVISION

1	For “Sale of goods of value > Rs. 50 Lacs [Section 206C(1H)]
	<p>A person who purchases any goods but does not include –</p> <p>(a) CG/SG, an embassy, a High Commission, legation, commission, consulate & trade representation of a foreign State, or</p> <p>(b) Local authority</p> <p>(c) <i>Person importing goods into India</i> or any other person as CG may, by notification in the Official Gazette, specify for this purpose, subject to stipulated conditions.</p>
2	For ‘Sale of Certain Goods & Leasing/Licensing services’ [Section 206C(1) & 206(1C)]
	<p>A person who obtains in any sale (Auction/Tender/Any other mode) goods specified above or right to receive any such goods but does not include:</p> <p>(a) Public sector company, CG, SG & Embassy, High commission, legation, commission, consulate & the trade representation, of a foreign State & a club, or</p> <p>(b) Buyer in the retail sale of such goods purchased by him for personal consumption.</p>
3	For “Sale of motor vehicle > Rs. 10 Lacs [Section 206C(1F)]
	<p>A person who obtains in any sale, goods of the nature specified therein, but does not include:</p> <p>(a) CG, SG, & Embassy, High Commission, legation, commission, consulate & trade representation of a foreign State; or Local authority; or</p> <p>(b) Public sector company which is engaged in the business of carrying passengers.</p>

MEANING OF “SELLER” FOR THE PURPOSE OF TCS PROVISION

1	For “Sale of goods of value > Rs. 50 Lacs [Section 206C(1H)]
	Person whose total sales, gross receipts or turnover from the business carried on by him exceed Rs. 10 crores during Last FY.
2	For “Sale of Certain Goods & Motor Vehicles” [Section 206C(1) & 206C(1F)]
	<ul style="list-style-type: none"> ▪ CG/SG/LA or corporation; ▪ Authority established by or under a Central, State or Provincial Act; ▪ Any Company or a Firm or Co-operative society ▪ Individual/HUF [Tax audit u/s 44AB(a)/(b) is done in last FY]. ▪ Seller also includes <ul style="list-style-type: none"> ☞ Individual/HUF whose total sales, or turnover from business > Rs. 1 Crores during Last FY ☞ Individual/HUF whose gross receipts or turnover from profession > Rs. 50 Lacs during Last FY

MEANING OF SCRAP

Waste & scrap from the manufacture or mechanical working of materials which is definitely not usable **as such** due to breakage, cutting up, wear & other reasons [Explanation to section 206C].

COMMON NUMBER FOR TDS & TCS [SECTION 203A]

- ❖ Persons responsible for deducting tax or collecting tax at source should **apply to AO** for the allotment of a 'Tax-deduction & Collection-account number'.
- ❖ Documents/certificates/returns/challans in which TAN has to be compulsorily quoted:
 - Challans for payment of any sum in accordance with the provisions of section 200/206C(3);
 - Certificates furnished u/s 203/206C(5);
 - Statements prepared & delivered as per the provisions of section 200(3)/206C(3).
 - Returns delivered in accordance with the provisions of section 206/206C(5B); &
 - All other documents pertaining to such transactions prescribed in the interests of revenue.
- ❖ Requirement of obtaining & quoting of TAN shall not apply to such person notified by CG.

DIFFERENCE BETWEEN TDS & TCS

TDS	TCS
<ul style="list-style-type: none"> ▪ TDS is Tax Deduction at Source ▪ Payer is required to deduct tax at source ▪ Tax is required to be deducted at the time of credit or payment, whichever is earlier. ▪ However, in certain cases, tax is required to be deducted at the time of payment. 	<ul style="list-style-type: none"> ▪ TCS is Tax Collection at Source. ▪ Seller of certain goods/services is responsible for TCS ▪ Tax is required to be collected at source at the time of debit or receipt whichever is earlier. ▪ In case of sale of Motor-Vehicle, tax shall be collected at the time of receipt of amount.

HIGHER RATE OF TCS FOR NON-FURNISHERS OF PAN [SECTION 206CC]

- If person paying any sum on which tax is collectible at source fails to furnish his PAN, TCS at higher of **(a) Twice the rate specified in the relevant provision of the Act** **(b) 5% [1% for section 206C(1H)]**
- However, maximum the rate of TCS under this section shall not exceed 20%.
- Higher rate of TCS would be attracted even if person furnishes a declaration u/s 206C(1A) but does not provide his PAN.

PC Note: NR not having a permanent establishment in India → Section 206CC does not apply.

HIGHER RATE OF TCS FOR NON-FILERS OF RETURN [SECTION 206CCA]

- Section 206CCA requires TCS at higher rates from a specified person: **(a) Twice the rate specified in the relevant provision of the Act; (b) 5%**
- However, the maximum the rate of TCS under this section shall not exceed 20%.
- If both provisions of section 206CC & 206CCA are applicable to a specified person, then, tax is required to be collected at higher of the two rates provided in section 206CC & 206CCA.
- **Meaning of Specified person:** A person who has not furnished ROI for AY relevant to the PY immediately preceding the financial year in which tax is required to be collected, for which time limit for furnishing ROI u/s 139(1) has expired, & aggregate of TDS & TCS in his case is Rs. 50,000 or more in the said PY.

PC Note: NR not having a permanent establishment in India → Not a specified person.

- It may be noted that whereas section 206CC is applicable to persons paying any sum or amount (on which tax is collectible at source) who have not furnished PAN, section 206CCA is applicable to specified persons who have failed to file ROI [See definition of specified person in (iii) below].



ADVANCE TAX & INTEREST U/S 234



INTRODUCTION

- We know that income earned during PY 24-25 shall be taxed in AY 25-26.
- But assessee is required to pay tax, in advance, on taxable income of PY 24-25 during PY 24-25 itself.
Such tax paid is known as Advance Tax.
- Advance tax is payable on estimated current income in installments during the previous year.
- Such advance tax is in addition to TDS/TCS.
- **Credit for Advance Tax [Section 219]:** Advance tax paid by the assessee is treated as payment of tax for PY & Credit of Advance Tax paid is given to him while calculating tax payable u/s 140A.

WHO IS LIABLE TO PAY ADVANCE TAX [SECTION 207 – SECTION 219]

- ❖ Any person whose **Advance Tax liability \geq Rs 10,000** in FY on estimated current income is liable to pay Advance Tax.
- ❖ **Exception:** Senior Resident Individual (Age \geq 60 yrs during PY) & does not have any Income u/h PGBP → Not required to pay Advance Tax even if his Advance Tax liability \geq Rs. 10,000.
- ❖ **Advance Tax is payable on Estimated Current Income**
 - Estimated Current Income = Expected Income during current PY under 5 heads of Income.
 - Thereafter, brought forward losses shall be set off.
 - From Estimated GTI, deductions likely to be claimed u/s 80C to 80U will be deducted.
- ❖ **How to calculate ADVANCE TAX LIABILITY?**

Tax on Estimated Total Income

Less: Rebate u/s 87A or Relief u/s 89

Add: Surcharge + Health & Edu. Cess

Less: TDS/TCS

If this amount comes out to be \geq Rs. 10,000; then such person is liable to pay advance tax.

PC Note:

1. Assessee is not required to submit any estimate or statement of estimated income to AO unless he has been asked (served with notice) by AO to submit the estimates.
2. **Proviso to Section 209(1)(d):** Tax deductible but not so deducted cannot be reduced for computing Advance Tax liability of the payee.
3. Estimated Net Agricultural Income of the PY has to be considered for computing advance tax.

INSTALLMENTS OF ADVANCE TAX & DUE DATES

A ASSESSEE COMPUTING PROFITS ON PRESUMPTIVE BASIS U/S 44AD or 44ADA

- Pay whole amount of Advance Tax on/before 15th March of the PY in one installment.
- This option is not available for section 44AE.

Space for PC Note:



B ASSESSEES OTHER THAN MENTIONED ABOVE IN (A)	
Schedule of Payment of Advance Tax (Minimum Installments)	
Payment date	All Assessee (other than eligible person u/s 44AD)
15 June	15% of Advance Tax Liability
15 September	45% of Advance Tax Liability - Amount paid in 1 st Installment
15 December	75% of Advance Tax Liability - Amount paid in 1 st & 2 nd Installments
15 March	100% of Advance Tax Liability - Amount paid in 1 st , 2 nd & 3 rd Installments

PC Note:

- ✓ **Revision of Estimated Income:** Each installment shall be calculated on estimated income on cumulative basis after revision of estimated income @ every date of payment (15th of June/Sep/Dec/March).
- ✓ Any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during each financial year on or before 15th March.
- ✓ **Assessed in Default:** Where the assessee does not pay any installment by the due date, he shall be deemed to be an assessee in default in respect of such installment.
- ✓ If Banks are closed on Last day for Payment of any instalment of Advance Tax → Assessee can pay such installment on next working day; No Interest u/s 234B/234C will be charged.

SOME OTHER IMPORTANT POINTS**Q1. Can AO issue order to an assessee to pay Advance Tax?****Answer:**

- If the person was required to pay advance tax & such person has not paid it. **OR**
- If any person has been already assessed by way of regular assessment for any earlier PY, AO can serve an order u/s 210(3) to such person to pay advance tax specifying the amount of Advance Tax & Installments in which such advance tax is to be paid. Such order may be served at any time but latest by last day of February.

What shall be the basis for computation of Advance Tax payable?

For this purpose, basis for computation of advance tax payable shall be higher of (i) or (ii):

- Total income of latest PY in which assessee has been assessed by way of regular assessment.
- Total income declared by assessee in any ROI for any subsequent PY of regular assessment.

Q2. Can AO revise demand notice sent to the assessee?

Answer: If after making demand notice (order) by AO, but before 1st March of the FY,

- ROI is furnished by assessee u/s 139(1)/142(1);
- Regular assessment is completed for any later PY for higher amount of income,

AO may revise such demand order u/s 210(4) on the basis of the computation of the returned income or assessed income. Such revision shall be made by AO before 1st March of the PY.

Q3. Whether Assessee has the option to pay less advance tax than specified by AO in notice?

Answer: Such person to whom the order has been passed by AO has the option to show lesser liability of advance tax than specified by AO in demand order by filing declaration in form no. 28A to AO & showing the calculation of his estimate on or before the due date of last installment.

Q4. Whether assessee has option to show higher liability than specified by AO in notice?

Answer: Option to show higher liability always exists & tax shall be paid on such higher income.

SHORTFALL IN ADVANCE TAX DUE TO CAPITAL GAINS/CASUAL INCOMES

- It is not possible for an assessee to estimate certain incomes which are generally unexpected.
- Such incomes include:
 - ✓ Capital gains & Winnings from lotteries, crossword puzzles etc;
 - ✓ Income u/h 'PGBP' in cases where income accrues or arises for the first time.
 - ✓ **Dividend income**
- If any such income arises after DD of any installment, then entire amount of advance tax payable (after TDS) on such income, shall be paid in remaining installments of advance tax or by 31st March of the relevant PY (if no installment is remaining).
- If entire amount of tax payable is paid, then No Interest u/s 234B or 234C shall be payable.

CQ2. Following are the particulars of estimated income of Mr. Pranav Chandak for PY 24-25:

(a)	Salary Income (after standard deduction of Rs. 50,000)	Rs. 5,00,000
(b)	Income u/h House Property @ Rs. 10,000 p.m.	Rs. 1,20,000
(c)	Income from Interest on Government securities	Rs. 50,000
(d)	Winnings from lotteries (Gross)	Rs. 40,000
(e)	Share of profit from the Income of HUF	Rs. 1,50,000

Calculate the amount of Advance Tax payable by him in various instalments. Tax of Rs. 12,000 has been deducted at source out of the lottery. He has deposited Rs. 10,000 in PPF assuming he intends to opt out of default tax regime.

Solution: **Computation of Total Income of Mr. Pranav Chandak for AY 25-26**

Particulars	Rs.
Salary	Rs. 5,00,000
House Property (Rs. 1,20,000 - 30% Standard Deduction u/s 24(a))	Rs. 84,000
Interest on Govt. Securities	Rs. 50,000
Winning of Lottery	Rs. 40,000
Gross Total Income	Rs. 6,74,000
Less: Deduction u/s 80C	(Rs. 10,000)
Taxable Income	Rs. 6,64,000
Computation of Advance Tax Liability	
Tax on Lottery Income of Rs. 40,000 @ 30%	Rs. 12,000
Tax on other income of Rs. 6,24,000 [Rs. 12,500 + Rs. 24,800]	Rs. 37,300
Total Tax payable + Health & Education cess @ 4% of Tax	Rs. 51,272
Less: TDS	(Rs. 12,000)
Advance Tax Payable (rounded off)	Rs. 39,270
Computation of Minimum Installments of Advance Tax	
1 st Installment [on/before 15.6.2024] (15% of Rs. 39,270)	Rs. 5891
2 nd Installment [on/before 15.9.2024] (45% of Rs. 39,270) - Rs. 5891	Rs. 11780
3 rd Installment [on/before 15.12.2024] (75% of Rs. 39,270) - Rs. 5891 - Rs. 11780	Rs. 11781
4 th Installment [on/before 15.03.2025] (100% of Rs. 39,270) - Rs. 5891 - 11780 - 11781	Rs. 9818

INTEREST U/S 234A, 234B, 234C

INTEREST FOR DEFAULT IN FURNISHING RETURN OF INCOME [SECTION 234A]

Circumstances	► If No ROI is filed; OR ► ROI is filed after Due Date u/s 139(1)		
Consequences	Simple Interest @ 1% p.m (or part of the month) is payable on: Tax on Assessed Income - TDS/TCS - Advance Tax – Relief u/s 89		
Time for Levy of Interest	From	Next day following the Due Date for filing ROI.	
	Upto	(i) If ROI is filed after DD	Date of filing ROI
		(ii) If NO ROI is filed	Date of Completion of BJA u/s 144

PC Note:

- No Interest u/s 234A shall be charged on SAT u/s 140A paid by assessee on/before DD of filing ROI (even if ROI is submitted after DD of filing ROI).
If SAT u/s 140A is paid after DD of filing ROI, Interest u/s 234A is applicable.
- Interest payable u/s 234A shall be reduced by Interest paid on SAT u/s 140A towards interest u/s 234A.

CQ4. Determine the interest payable u/s 234A in the following cases:

Particulars	X	Y	Z
DD of filing ROI	31.07.2025	31.07.2025	31.10.2025
Date of filing ROI	15.08.2025	06.11.2025	15.12.2025
Tax on Assessed Income by AO	Rs. 1,09,000	Rs. 60,000	Rs. 65,000
Advance Tax + TDS	Rs. 74,000	Rs. 35,000	Rs. 35,000
SAT paid u/s 140A	Rs. 35,000	Rs. 20,000	Rs. 20,000
Date of Payment of SAT u/s 140A	25.07.2025	25.07.2025	11.11.2025

Solution:

Particulars	X	Y	Z
Tax on Assessed Income – (Advance Tax + TDS)	Rs. 35,000	Rs. 25,000	Rs. 30,000
Less: SAT u/s 140A paid before DD of filing ROI	(Rs. 35,000)	(Rs. 20,000)	(Rs. 20,000)
Balance Tax payable	Nil	Rs. 5,000	Rs. 10,000

Calculation of Interest u/s 234A

- In case of Mr. X:** Entire outstanding amount is paid by way of SAT on 25.07.2025 (i.e before DD of filing ROI). However, ROI is submitted after DD. Since whole amount of tax has been paid before DD of filing ROI by way of SAT, Interest u/s 234A is not applicable.
- In case of Y:** SAT is paid partly (Rs. 20,000) before DD of filing ROI & ROI is filed belatedly. Thus, Interest u/s 234A is payable on Rs. 5,000 for 4 months @ 1% p.m.
- In case of Z:** SAT is paid partly (Rs. 20,000) after DD of filing ROI & ROI is filed also belatedly. Interest u/s 234A is payable on Rs. 30,000 @ 1% for 1 month (part thereof) [till date of payment of SAT] & on remaining tax of Rs. 10,000 for 2 Months @ 1% p.m till ROI is filled. Interest u/s 234A = Rs. 300 = Rs. 200 = Rs. 500.

CQ3. Compute Interest payable u/s 234A by Mr. Thermal Gattu for AY 25-26.

- (a) DD of ROI: 31.10.2025; (b) Actual Date of filing ROI: 20.03.2026; (c) TDS = Rs. 5000;
 (d) Advance Tax paid = Rs. 15000; (e) Tax paid on Self-assessment before DD of filing ROI = Rs. 2,000;
 (f) Tax determined on Regular Assessment on the basis of Returned Income = Rs. 25,000.

Solution:

- Due Date of filing ROI: 31.10.2025; Date of Filing ROI: 20.3.2026.
- Delay in filing ROI: 4 months & 20 days = 5 months (part of the month is treated as full)
- Interest u/s 234A** = [Tax determined on Assessment – TDS – Advance Tax] × 1% p.m * No. of Months.
 = 25,000 – 5,000 – 15,000 – 2,000 (SAT paid before DD) = 3,000 × 1% p.m × 5 Months = Rs. 150.

PC Note: For computing interest u/s 234A, SAT u/s 140A shall be deducted if paid before DD of filing ROI.

Fee for belated filing of ROI [Sec. 234F]

1	Total income does not exceed Rs. 5 lacs	Rs. 1,000
2	Total income exceeds Rs. 5 lacs	Rs. 5,000

INTEREST FOR NON-PAYMENT/SHORT-PAYMENT OF ADVANCE TAX [SECTION 234B]

Circumstances	► No Advance Tax is paid OR ► Advance Tax paid is < 90% of Assessed Tax	
Consequences	SI @ 1% p.m (or part) is payable on Assessed Tax – Advance Tax paid Note: Assessed Tax = Tax on Total Income - TDS/TCS – Advance Tax – Relief u/s 89 – Tax credit allowed to be set off in accordance with section 115JD.	
Time for Levy of Interest	From	1 st April of the relevant AY
	Upto	Date of determination of total income u/s 143(1).

PC Note: Where self-assessment tax is paid by assessee u/s 140A or otherwise, interest shall be calculated upto the date of payment of such tax & reduced by the interest (if any) paid u/s 140A towards the interest chargeable under this section. Thereafter, interest shall be calculated at 1% on the amount by which the tax so paid together with the advance tax paid falls short of the assessed tax.

INTEREST FOR DEFERMENT OF ADVANCE TAX [SECTION 234C]

1	Assessee's opting for Presumptive Scheme u/s 44AD OR 44ADA		
	❖ Interest u/s 234C = [Advance Tax Payable – Advance Tax paid] × 1%.		
2	Assessee's [other than (1)]	Shortfall = [Advance Tax Payable – Advance Tax paid]	
	DD	Adv Tax	INTEREST PAYABLE u/s 234C
	15 June	15%	S.I @ 1% p.m for 3 months on shortfall from 15%. (No Interest if Advance Tax paid ≥ 12%)
	15 Sep	45%	S.I @ 1% p.m for 3 months on shortfall from 45%. (No Interest if Advance Tax paid ≥ 36%)
	15 Dec	75%	S.I @ 1% p.m for 3 months on shortfall from 75%.
	15 Mar	100%	S.I @ 1% p.m for 1 month on shortfall from 100%.



RETURN OF INCOME & ASSESSMENT



PROVISIONS REGARDING FILING OF RETURN OF INCOME [SECTION 139(1)]

1	Companies & Firms	<ul style="list-style-type: none"> Companies & Firms are compulsorily required to file ROI for every PY on/before the due date in the prescribed form. PC Note: Even in case of Loss, they are compulsorily required to file ROL.
2	Others (than 1)	<ul style="list-style-type: none"> Person other than a company/firm are required to file ROI only if his Total Income or total income of 'any other person' i.r.o which he is assessable during PY exceeds BEL before claiming Chapter VI-A deductions or Section 54/54B/54D/54EC/54F.

PC Note:

- Total Income** for determining whether a person is required to file ROI or not = **Income before claiming deductions under Chapter VI-A & Section 10A, 10AA.**
- 'Any other person' includes 'Representative assesses' & 'Legal Representatives'.

CQ1. Mr. X, a non-resident (age 82 years) having total income of Rs. 2,60,000 after deduction of Rs. 1,20,000 u/c VI-A. His total income comprises of property & interest income. Whether he is required to file ROI ?

Answer: As per section 139(1), every person, whose total income without giving effect to the provisions of Chapter VI-A exceeds BEL is required to furnish ROI for the relevant AY on/before the due date. GTI of Mr. X (before deduction under Chapter VI-A) is Rs. 3,80,000 which exceeds BEL of Rs. 2,50,000. Therefore, Mr. X has to furnish his ROI for AY 25-26.

Any Person (other than a company/firm) who is not required to furnish a return u/s 139(1), shall be required to file Return of Income if (during PY), such person:

1	Deposit in bank A/c > Rs. 1 Crore: has deposited an amount or aggregate of the amounts > Rs. 1 Cr in one or more current A/c with a banking company or a co-operative bank.
2	Foreign Travel > Rs. 2 Lacs: has incurred expenditure of an amount or aggregate of the amounts > Rs. 2 lacs for himself or any other person for travel to a foreign country;
3	Electricity Bill > Rs. 1 Lac: has incurred expenditure of an amount or aggregate of the amounts > Rs. 1 lac towards consumption of electricity; or
4	Turnover from business > 60 Lacs during PY
5	Gross Receipt > 10 Lacs during PY
6	Aggregate TDS + TCS ≥ Rs. 25,000 during PY [Rs. 50,000 for Senior Resident Individual]
7	Aggregate Deposit in Saving Bank A/cs ≥ Rs. 50 Lacs during PY

ROR holding Foreign Assets [4th Proviso to Section 139(1)]

- ROR who is not required to furnish ROI u/s 139(1) in normal circumstances would be required to file ROI or ROL for the PY,
- if such person, at any time during the previous year:
 - holds (as a beneficial owner or otherwise) any **asset located outside India** or has a **signing authority** in any **A/c located outside India.**
 - is a **beneficiary** of any **asset located outside India.**

PC Note: Asset includes any financial interest in any entity o/s India.

Note: This proviso is not applicable to RNOR.

5th Proviso to sec 139(1): Individual who is a beneficiary of any asset located outside India is **not required** to file ROI under 4th proviso to section 139(1), if such income is **includible in income of Beneficial owner.**

CQ2. Paras age 55 years is a resident of India. During PY, interest of Rs. 2,88,000 was credited to his Non-resident (External) Account with SBI. Rs. 30,000, being interest on fixed deposit with SBI, was credited to his saving bank A/c during this period. He also earned Rs. 3,000 as interest on this saving account. Is Paras required to file ROI?

(b) What will be your answer, if he owns one shop in Kerala having area of 150 sq. ft.?

(c) What if he has incurred Rs. 3 lacs as travel expenditure of self & spouse to US to stay with his married daughter?

Answer:

An individual is required to furnish ROI u/s 139(1) if his total income, before giving effect to deductions under Chapter VI-A or exemption u/s 54/54B/54D/54EC/54F exceeds basic exemption limit i.e. Rs. 3,00,000 under default tax regime u/s 115BAC(1A) & Rs. 2,50,000 if exercises option of shifting out of default tax regime.

Computation of total income of Mr. Paras under Default Tax Regime

Particulars	Rs.
Interest earned from NR (External) A/c Rs. 2,88,000 [Exempt u/s 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
Less: Deduction under Chapter VI-A (not available under default tax regime u/s 115BAC)	-
Total Income	33,000

Note: If Mr. Paras exercises option of shifting out of the default tax regime, he would be eligible for deduction of Rs. 3,000 u/s 80TTA. Accordingly, his total income would be Rs. 30,000.

In both regimes, TI of Rs. 33,000, before giving effect to deductions under Chapter VI-A, would be considered.

Since the total income of Mr. Paras for AY 25-26, before giving effect to deductions under Chapter VI-A, < BEL in both regimes, he is not required to file return of income for AY 25-26.

Note: In the above solution, interest of Rs. 2,88,000 earned from NR (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account.

If, he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to, inter alia, the deductions under Chapter VI-A, would be Rs. 3,21,000 (Rs. 30,000 + Rs. 2,88,000 + Rs. 3,000), which is more than BEL. Thus, he would be required to file return of income for AY 25-26.

(a) If ROR is holding a foreign asset, he has to compulsorily file ROI. But this does not apply to asset in India. Thus, merely owning a shop in Kerala (India) does not make an assessee liable to file ROI.

(b) If he has incurred expenditure of Rs. 3 lacs on foreign travel of self & spouse, he has to mandatorily file his return of income on or before the due date u/s 139(1), even if his income is less than basic exemption limit.

DUE DATE FOR FILING ROI [SECTION 139(1)]

Assessee	Due date
1 Assessee (including partners) who is required to furnish TPR u/s 92E relating to international transaction or specified domestic transaction.	30 November of relevant AY
2 <ul style="list-style-type: none"> ▪ Any Company (other than company required to furnish TPR u/s 92E); ▪ Any other person whose books of A/cs are required to be audited under this Act or under any other law for the time being in force; or ▪ Partner of Firm whose Accounts are required to be Audited under this Act or under any other law for the time being in force. 	31st October of relevant AY
3 Any other Assessee.	31 July of relevant AY.

PC Note:

1. **Firm whose A/cs are not required to be audited** → **Last date for filing ROI** by firm as well as partners (whether working or non-working) shall be **31st July of the AY**.
2. If last date of filing of ROI/ROL is **public holiday** → Assessee can file ROI/ROL on **next working day**.

RETURN OF LOSS [SECTION 139(3)]

- ❖ ROL is required to be furnished if a **person wants to carry forward** his losses.
- ❖ **ROL** shall be **furnished in same manner as of ROI** within the **time allowed u/s 139(1)**.
- ❖ If any person has sustained any loss in PY & he wants to carry forward following losses:
 - Business loss u/s 72(1); Speculation business loss u/s 73(2); Specified business Loss u/s 73A(2);
 - Loss u/h "Capital Gains" u/s 74(1);
 - Loss from the activity of owning & maintaining race horses u/s 74A(3);
 he shall mandatorily furnish a ROL within the time prescribed u/s 139(1) to carry forward loss.
- ❖ Section 139(3) r/w sec. 80 require the assessee to file ROL in same manner as that of ROI within the time allowed u/s 139(1) & all the provisions of this Act shall apply to ROL as if it is a ROI u/s 139(1).

PC Note: It is not mandatory to file ROL (Except in case of Company/Firm) as there is no income.

Requirement of Section 80: In order to carry forward the above losses, assessee shall file ROL u/s 139(3) on/before DD specified u/s 139(1).

Losses which can be carried forward even if ROL is filed after DD u/s 139(1)

- (i) Loss u/h "Income from house property" u/s 71B & (ii) Unabsorbed depreciation u/s 32.

PC Note:

1. Section 139(3) r/w section 80 does not prohibit the set off of losses of the current year even if ROI is filed after the due date u/s 139(1). It only prohibits the carry forward of such losses. **Thus, Loss can be set off (Inter - Source Set off u/s 70 & Inter - Head Set off u/s 71) even if the ROL is filed after the DD u/s 139(1).**
2. Loss of Current Year cannot be Carried Forward unless ROL is submitted before the Due Date.
But Brought Forward Losses can be carried forward (Loss of earlier years for which ROL was filed within DD in that year) even if No ROL is filed in Current Year.
3. Belated ROL filed u/s 139(4) cannot be said to be filed in accordance with section 139(3) & **thus loss cannot be carried forward**. However, the assessee may seek remedy by making an application to CBDT for relaxation of time to carry forward the loss. [Circular 8/2001]

CQ3. Whether loss can be carried forward if ROI is furnished after DD specified in section 139(1)?

Answer: Section 80 r/w section 139(3) provides that the loss u/s **72(1)/73(2)/73A(2)/74(1)/74A(3)** cannot be carried forward if ROL is filed after DD u/s 139(1). However, HP loss & unabsorbed depreciation can be carried forward even if ROI is furnished after DD of filing ROI.

CQ4. Can loss be set off if ROI is furnished after the due date specified in Section 139(1)?

Answer: Section 80 r/w section 139(3) prohibits "carry forward of losses" if ROI is filed after DD u/s 139(1). It does not prohibit the set off of losses. Therefore, losses can be set-off even if ROI is furnished after DD.

CQ5. DD of filing ROI is 31.10.2025 of Mr. A. ROI is filed on 15.11.2025 as follows: Loss from Business: (Rs. 8 Lacs); IFOS: Rs. 6 Lacs; Total Income: (Rs. 2 lacs). Is set off of loss u/h "PGBP" correct as per Section 80 r/w Sec 139(3)?

Answer: Yes. Loss can be set off (Inter-source Set off u/s 70 & Inter-Head set off u/s 71) even if the ROL is filed after the DD u/s 139(1). However, loss of Rs. 2 Lacs cannot be carried forward.

CQ6. Due Date of filing ROI is 31.10.2025 in case of Mr. C. ROI is filed on 15.11.2025 as follows: Current Year Business Loss: (Rs. 1 Lacs); B/F losses for AY 23-24 (ROL is filed within DD): (Rs. 3,00,000). Whether losses can be carried forward?

Answer: Brought forward Losses of AY 23-24 of Rs. 3,00,000 can be carried forward to next AY as ROI for that AY was filed before the due date u/s 139(1) for that AY. However, Current year business loss shall not be carried forward to next AY as ROI is not filed before due date.

BELATED RETURN [SECTION 139(4)]

- ❖ If any person has **not furnished a ROI within time allowed u/s 139(1)**, he may still furnish the ROI for any PY at any time
 - (a) **Before 3 months prior to the end of the relevant AY** or
 - (b) Before the completion of Assessment u/s 144, **whichever is earlier.**
- Ex:** Last date for filing ROI for PY 24-25 (AY 24-25) is 31.10.2024; but a belated return may be filed at any time on/before 31.12.2024 (before 3 month prior to the end of AY 24-25).
- ❖ **Belated return cannot be filed after 31st December of the relevant AY.**

CQ7. For PY 24-25, upto what date can the assessee file ROI if no ROI has been filed & no assessment order has been made u/s 144 till date.

Answer: Belated ROI can be filed before 3 months prior to the end of AY 25-26. i.e before 31.12.2025.

CQ8. For PY 24-25, no ROI has been filed. AO makes a BJA u/s 144 on 25.12.2025. Upto what date can assessee file Belated ROI u/s 139(4).

Answer: Belated ROI can be filed before 3 months prior to the end of AY 25-26. (i.e before 31.12.2025) OR before assessment (i.e before 25.12.2025) whichever is earlier. Thus, belated ROI can be filed before 25.12.2025.

REVISED RETURN [SECTION 139(5)]**When a ROI can be revised**

If an assessee after filing ROI

(a) u/s 139(1) → [Original ROI];

(b) u/s 139(4) → [Belated ROI]

discovers any **omission or wrong statement** in filed ROI, he may file a revised return.

Time Limit of filing revised ROI

Such revised return can be filed at any time: **(whichever is earlier)**

(a) **Before 3 months prior to the end of the relevant AY** or

(b) Before the completion of assessment u/s 143(3) or u/s 144

Revised return cannot be filed after 31st December of the relevant AY.

Ex: If ROI is filed by the assessee for AY 25-26 on 31.10.2025 & he afterwards discovers some mistake, he can file a revised return at any time upto 31.12.2025 or before the completion of the assessment, whichever is earlier.

PC Note:

1. ROL u/s 139(3) is deemed as ROI u/s 139(1). Thus, ROL can be revised u/s 139(5).
2. If original ROL is revised as per section 139(5), then Revised ROL shall substitute the original ROL from the date original ROI is filled & such revised ROL shall be deemed to be filed within time limit of section 139(1) & **loss claimed in revised ROL can be carried forward.**
3. Revised return substitutes the original return.
4. There is no provision in Income Tax Act to enable assessee to revise his income by filing a revised statement of income to AO. The only option available to the assessee is to file revised return.
5. **Belated Return u/s 139(5) can be revised.**
6. Even a Revised Return can be revised again within the time limit of section 139(5).

CQ9. Mr. X filed a ROI for PY 24-25 on 31.07.2025. He later files a revised return on 15.12.2025 declaring a loss of Rs. 1,00,000. Can the loss be allowed to be carried forward?

Answer: Revised return substitutes the original return. Since original ROI was filed within DD u/s 139(1), revised ROL shall be deemed to have been filed within DD & thus loss of Rs. 1,00,000 shall be allowed to be carried forward.

CQ10. Original return for PY 24-25 was submitted by X on 15.06.2025. Return was processed u/s 143(1) on 05.08.2025. X wishes to file revised return. (a) Upto what time can he do?

(b) What if regular assessment is completed on 31.08.2025.

Answer:

(a) He can file a revised return, processing of return u/s 143(1) is not treated as assessment for this purpose. Revised return can be filed at any time before 3 months prior to the end of AY 25-26 i.e upto 31.12.2025.

(b) In this case revised return can be filed before completion of Assessment i.e. upto 30.08.2025.

CQ11. How many times can a return be revised?

Answer: Any Number of times but within the time limit of Sec. 139(5).

CQ12. Can a return filed within time extended by CBDT u/s 119 be revised?

Answer: Yes, as return filed within the extended time limit is deemed to be filed within time limit of 139(1).

CQ13. Explain with brief reasons whether ROI can be revised u/s 139(5) in the following cases:

(a) Belated return filed u/s 139(4) (b) Return already revised once u/s 139(5). (c) ROL filed u/s 139(3).

Answer:

(a) A belated return filed u/s 139(4) can be revised.

(b) Return revised earlier can be revised again as the first revised return replaces original return. Therefore, if the assessee discovers any omission or wrong statement in such revised return, he can furnish 2nd revised return before 3 months prior to the end of relevant AY or before completion of assessment, whichever is earlier.

(c) ROL filed u/s 139(3) is deemed to be return filed u/s 139(1) & thus can be revised u/s 139(5).

UPDATED RETURN [SECTION 139(8A)]

Optional	It is optional to file updated ROI.
Time Limit	Within 24 months from the end of relevant AY. Ex: Updated return for AY 25-26 can be filed till 31.3.2028.
Note	A person who has not furnished ROI u/s 139(1) or belated return u/s 139(4) or revised return u/s for that AY can also file updated Return.
Not Applicable	Provisions of updated return would not apply if updated return for that AY is (1) is a loss return; (2) has the effect of decreasing total tax liability determined on the basis of return furnished u/s 139(1) or 139(4) or 139(5); or (3) results in refund or increases refund due on the basis of return furnished u/s 139(1) or 139(4) or 139(5).
Only Once	Updated Return can be filed only once for the relevant AY.
Prohibited	Updated return cannot be filed if any proceeding for the assessment or reassessment or re-computation or revision of income is pending or has been completed for the relevant AY.

PC Note:

❖ **Updated return can be filed if original return is a loss return & updated return is a return of income.**

Ex: If Mr. X has furnished his ROL for AY 25-26 on 31.05.2025 consisting of Rs. 5 Lacs as business loss, he can furnish an updated return for AY 25-26 upto 31.03.2028 if such updated return is a return of income.

❖ **Updated return to be furnished for subsequent PY also:**

If loss is carried forward or unabsorbed depreciation carried forward u/s 32(2) or tax credit carried forward u/s 115JD is to be reduced for any subsequent PY as a result of furnishing of updated return of income for a previous year, an updated return is required to be furnished for each such subsequent PY/PYs.

TAX ON UPDATED RETURN [SECTION 140B]**1 Payment of tax, additional tax, interest & fee before furnishing updated ROI****(1) If no return is furnished earlier [Section 140B(1)]**

- **Tax payable** = Tax + Interest + fee for any delay in furnishing ROI or payment of advance tax or any late fees + Additional tax computed u/s 140B(3), before furnishing the return.
- Tax payable is to be computed after taking into account the following –
 - Tax, if any, already paid, as advance tax
 - Tax deducted or collected at source
 - Relief of tax claimed u/s 89; and
 - Tax credit claimed to set-off in accordance with the provisions of section 115JD
- **Interest u/s 234A if no earlier return has been furnished:** If no earlier return has been furnished, interest payable u/s 234A has to be computed on tax on TI as declared in the updated return u/s 139(8A), in accordance with the provisions of sub-section (1A) of section 140A.

(2) If return is furnished earlier [Section 140B(2)]

- If ROI u/s 139(1) or 139(4) or 139(5) has been furnished by an assessee and tax is payable, on the basis of updated return to be furnished by such assessee u/s 139(8A), assessee would be liable to pay such tax together with interest payable under any provision of this Act for any default or delay in payment of advance tax, along with the payment of additional tax computed u/s 140B(3) (as reduced by the amount of interest paid under the provisions of this Act in the earlier return) before furnishing the return.
- Tax payable is to be computed after taking into account the following –
 - Amount of relief or tax referred in section 140A(1), credit for which has been taken in earlier return.
 - TDS or TCS on any income which is subject to such deduction or collection and which is taken into account in computing TI & **which has not been included in the earlier return.**
 - Tax credit claimed to set-off as per section 115JD, which has not been claimed in earlier return.
 - Such tax would be increased by the amount of refund, if any, issued i.r.o. such earlier return.
- **Interest u/s 234B where earlier return has been furnished [Section 140B(4)]**
 - If earlier return has been furnished, interest payable u/s 234B has to be computed on the assessed tax or, as the case may be, on the amount by which the advance tax paid falls short of the assessed tax.
 - “Assessed tax” means the tax on TI as declared in updated return to be furnished u/s 139(8A), after considering:
 - Amount of relief or tax referred in section 140A(1), credit for which has been taken in the earlier return.
 - Tax deducted or collected at source on any income which is subject to such deduction or collection and which is taken into account in computing TI & which has not been included in the earlier return.
 - Tax credit claimed to set-off as per section 115JD, which has not been claimed in earlier return.
 - Aforesaid tax would be increased by the amount of refund if any issued i.r.o. such earlier return.
- **Interest u/s 234C if earlier return has been furnished:** Interest payable u/s 234C, where an earlier return has been furnished, has to be computed after taking into account the total income furnished in the updated return u/s 139(8A) as the returned income.

2 Additional income-tax payable at the time of updated return [Section 140B(3)]

- If such return is furnished after expiry of time limit u/s 139(4) or 139(5) & before completion of 12 months from the end of relevant AY: **25% of tax & interest payable, as determined above**
- If such return is furnished after 12 months from the end of relevant AY but before completion of 24 months from the end of relevant AY: **50% of tax & interest payable, as determined above.**

3 Computation of Additional income-tax

- Tax would include surcharge & cess on such tax.
- Interest payable = Any interest payable under any provision of the Act on the income as per updated return furnished u/s 139(8A) - as reduced by interest paid in earlier return, if any.
- However, interest paid in earlier return = Nil (if no earlier return has been furnished).

DEFECTIVE RETURN [SECTION 139(9)]

Power of AO	AO has the power to call upon the assessee to rectify a defective return .
Intimation of defect	If AO considers that ROI filed by assessee is defective, he may intimate the defect to assessee & give him an opportunity to rectify defect within 15 days from the date of such intimation.
Extension of Time by AO	AO has the discretion to extend the time beyond 15 days on application by assessee .
Consequences of non-rectification	If the defect is not rectified within 15 days or such further extended period as allowed by AO, then the return would be treated as an invalid return and it would be deemed that the assessee had failed to furnish the return .
Condonation of delay	If assessee rectifies defect after 15 days or extended period, but before assessment is made , AO <u>may</u> can condone the delay & treat the return as a valid return .

ROI SHALL BE REGARDED AS DEFECTIVE IN THE FOLLOWING CONDITIONS

1. **Annexures, Statements & columns in ROI** relating to computation of income chargeable under each head of income, computations of GTI & total income have **NOT** been **duly filled** in.
2. **ROI is NOT Accompanied** by the following:
 - (a) **Statement showing the computation of tax payable** on the basis of the return.
 - (b) **Audit Report u/s 44AB**. (If such report has been furnished prior to furnishing ROI, a copy of such report & the proof of furnishing the report should be attached).
 - (c) **Proof regarding the tax claimed** to have been **deducted or collected at source** & **Advance tax & SAT** claimed to have been paid.
(However, the return will not be regarded as defective if (a) TDS/TCS certificate was not furnished u/s 203/206C to the person furnishing his ROI, (b) such certificate is produced within 2 years).
 - (d) **Proof** of the amount of **compulsory deposit claimed** to have been **paid** under the Compulsory Deposit Scheme (Income-tax Payers) Act, 1974;
 - (e) **Proof of payment as required u/s 140B if updated return is filed u/s 139(8A)**.
3. **If Regular books of A/c are maintained by Assessee → ROI is NOT Accompanied by:**
 - (i) Copies of Manufacturing A/c;
 - (ii) Trading A/c;
 - (iii) P&L A/c;
 - (iv) Balance sheet;
 - (v) Personal accounts as detailed below:
 - Personal Accounts of the Proprietor
 - Personal Accounts of Partners (Members in case of AOP)
4. **Regular books of A/c are not maintained by assessee → ROI is NOT Accompanied by**
 - (i) Statement indicating Amount of turnover or gross receipts, gross profit, expenses; & net profit.
 - (ii) Basis on which such amounts mentioned in (i) above have been computed,
 - (iii) Amount of total sundry debtors, sundry creditors, SIT & cash balance as at the end of PY.
5. Copies of Audited P&L A/c, Balance sheet & Auditor's report.
Cost Audit Report (If Cost A/c of an assessee have been audited u/s 148 of CA, 2013).

SELF-ASSESSMENT TAX [SECTION 140A]**1 Payment of Tax, Interest & Fee before filing ROI**

- If any tax is payable on the basis of total income in ROI filed u/s 139(1), such tax shall be paid by the assessee himself after taking credit of
 - (i) Any Tax already paid
 - (ii) TDS/TCS
 - (iii) Advance tax paid
 - (iv) Relief u/s 89.
- Any interest u/s 234A, 234B, 234C or fees payable for any delay in filing ROI or any default shall also be paid with the tax payable before filing ROI.
- **ROI shall be accompanied by Proof of Payment.**

2 Order of Adjustment of Amount paid by the Assessee

- If **SAT paid u/s 140A(1) < Tax + Interest + Fees**, then amount so paid shall first be adjusted towards
 - (1) **fees** payable &
 - (2) thereafter towards **Interest** &
 - (3) **Balance** amount shall be adjusted towards **Tax payable**.

Order of Adjustment**3 Consequence of Failure to Pay Tax or Interest or Fees**

- Assessee shall be deemed to be **Assessee in Default** i.r.o. such unpaid Tax or Interest or fees.

BEST JUDGMENT ASSESSMENT [SECTION 144] – Theory Question [2M]

AO shall **make assessment of Total Income or Loss** to the **best of his judgment** & determine tax payable by the assessee, if:

- (a) Assessee does **not file ROI** u/s 139.
- (b) Does **not comply with notice issued u/s 142** to file ROI/books/furnish required information.
- (c) Does **not get his Accounts Audited** as **directed** by AO.
- (d) **Does not comply** with all the **terms of a notice** issued u/s 143(2).

APPLICATION FOR PERMANENT ACCOUNT NUMBER [SECTION 139A]**1 LEGAL REQUIREMENT**

Every person who has not been allotted a PAN shall apply to AO for allotment of PAN in following cases:

SN	Persons required to apply for PAN	Time limit for application
1	Every person whose his total income or total income of any other person i.r.o. which he is assessable > BEL	On/before 31 st May of AY for which such income is assessable
2	Every person carrying on any business/profession whose total sales, turnover or gross receipts are or is likely to exceed Rs. 5 Lacs in any previous year	Before the end of that PY
3	Every person being a resident, other than an individual, which enters into a financial transaction of an amount aggregating to Rs. 2,50,000 or more in a financial year	On/before 31 st May of the immediately following FY
4	Every person who is a MD, director, partner, trustee, author, founder, karta, CEO, principal officer or office bearer of any person referred in (iii) above or any person competent to act on behalf of such person referred in (iii)	On/before 31 st May of immediately following FY in which the person referred in (iii) enters into specified financial transaction.

2 POWER OF CG

- CG is empowered to specify any class/classes of persons by whom tax is payable by notification in OG for allotment of PAN. Such persons are required to apply within prescribed time in notification for the allotment of a PAN [Sub-section (1A)].
- For collecting any useful/relevant information, CG may notify any class or classes of persons & such persons shall apply to AO for allotment of a PAN [Sub-section (1B)].

3 POWER OF AO

- AO may allot PAN to any other person having regard to nature of transactions (whether any tax is payable by him or not) in the prescribed manner.

4 SUO MOTO APPLICATION BY THE ASSESSEE

- Any person (other than mentioned above) may apply to AO for allotment of PAN.

Further, every person who has not been allotted a PAN & intends to enter into such transaction as prescribed by CBDT is also required to apply for PAN to AO. Accordingly, **Rule 114BA** has been inserted to prescribe the following transactions:

	Person required to apply for PAN [Rule 114BA]	Time limit for making application [Rule 114]
(i)	Every person, who intends to deposit cash in his one or more accounts with a banking company, co-operative bank or post office, if cash deposit or aggregate amount of cash deposit in such accounts during a FY is Rs. 20 lakh or more	At least 7 days before the date on which he intends to deposit cash over the specified limit, i.e., Rs. 20 lakh or more.
(ii)	Every person, who intends to withdraw cash from his one or more accounts with a banking company, co-operative bank or post office, if cash withdrawal or the aggregate amount of cash withdrawal from such accounts during a FY is Rs. 20 lakh or more	At least 7 days before the date on which he intends to withdraw cash over the specified limit, i.e., Rs. 20 lakh or more.
(iii)	Any person, who intends to open a current account or cash credit account with a banking company or a co-operative bank, or a post Office	At least 7 days before the date on which he intends to open such account.

However, a person is not required to apply for PAN or quote PAN, in a case –

- where the person making the deposit/withdrawal of an amount otherwise than by way of cash as per (i) or (ii) above, or opening a current A/c not being a cash credit account as per (iii) above is a **NR/Foreign company**
- Transaction is entered into with an **IFSC banking unit &**
- Such NR/FC does not have any income chargeable to tax in India.

Rule 114BB has been inserted to prescribe that every person has to, at the time of entering into a transaction specified in column (2) of Table below, quote his PAN or Aadhaar number, as the case may be, in documents pertaining to such transaction, and every person specified in column (3) of the said Table, who receives such document, has to ensure that the said number has been duly quoted and authenticated:

(1)	(2)	(3)
SN	Nature of transaction	Person
1.	Cash deposit or deposits aggregating to Rs. 20 lakhs or more in a financial year, in one or more account of a person with a bank or a co-operative bank or Post Office.	A bank or co-operative bank or Post Master General of a Post Office.
2.	Cash withdrawal or withdrawals aggregating to Rs. 20 lakhs or more in a financial year, in one or more account of a person with a bank or a co-operative bank or Post Office	A bank or co-operative bank or Post Master General of a Post Office.
3.	Opening of a current account or cash credit account by a person with a bank or a co-operative bank or Post Office	A bank or co-operative bank or Post Master General of a Post Office.

QUOTING OF PAN

- (a) All Returns to any authority/all challans for the payment of any sum due under the Act;
 (b) All documents pertaining to the following transactions entered into by any person.

TRANSACTIONS WHERE QUOTING OF PAN IS COMPULSORY [Rule 114B]

A PURCHASE OR SALE OF SECURITIES & ASSETS

Nature of transaction	Value of transaction
Sale or Purchase of securities	Transaction Value > Rs. 1 lac
Sale/purchase of Unlisted shares from open market	Transaction Value > Rs. 1 lac
Payment for Purchase of units of MF	Transaction Value > Rs. 50,000.
Payment for acquiring Debenture/Bonds	Transaction Value > Rs. 50,000
Payment to RBI for acquiring Bonds issued by it	Transaction Value > Rs. 50,000
OTHER ASSETS	
Sale/Purchase of Immovable property	If SC/SDV referred in 50C > Rs. 10 lacs.
Sale/Purchase of Goods or Services	Transaction Value > Rs. 2 lacs
Sale/Purchase of Vehicle which requires registration	All Transactions (other than two-wheeler)

B TRANSACTION WITH BANKING COMPANY/CO-OPERATIVE BANK/POST OFFICE

Nature of transaction	Value of transaction
Opening a Bank account (other than Time Deposit)	All Transactions
Making Application for Issue of Credit/Debit Card	All Transactions.
Opening Demat Account	All Transactions.
Cash Deposit with Bank	Total Cash Deposit > Rs. 50,000 in a day
Note: Cash Deposits > Rs. 2,50,000 during 9 th Nov 2016 - 30 th Dec 2016 → PAN required.	
Purchase of Bank Draft/Pay orders/Cheque	Payment in cash > Rs. 50,000 in one day.
Time deposit with (i) Banking company/Co-operative bank/Post office (ii) Nidhi Company [Ref. in Sec 406 of CA, 2013] (iii) Registered NBFC.	Deposit > Rs. 50,000 at a time OR Total Deposit > Rs. 5 Lacs during a FY.
Payment for Prepaid Payment Instruments to Banking company/Co-operative bank.	Total Payment in cash/bank draft/pay order > 50,000 during the FY.

C OTHER TRANSACTIONS

Nature of Transactions	Value of Transaction
Hotels/Restaurants bills at any one time	Cash Payment > Rs. 50,000
Payment for Travel to Foreign Country or Payment for Purchase of Foreign Currency at any one time	Cash Payment > Rs. 50,000
Payment of Life Insurance Premium to Insurer	Total amount >Rs 50,000 in a FY

PC Note: In case of **Change** in Address/Name & Nature of Business → **Intimate** such change to **AO**.

MINOR → shall quote **PAN** of his **Parent** or **Guardian** while entering into above transactions.

PERSON NOT HAVING PAN → **Declaration** in **Form No. 60** giving details of such transaction.

NON-APPLICABILITY: Provisions of this rule shall not apply to: (i) **CG/SG**; (ii) Consular Offices.

PENALTY FOR FAILURE TO COMPLY WITH SECTION 139A [SECTION 272B]

Section	Default	Penalty
272B(1)	Failure to comply with the provisions of section 139A	Rs. 10,000
272B(2)	Failure to quote PAN/Aadhaar in any document referred in section 139A(5)(c)	Rs. 10,000 for each such default
	Failure to intimate PAN/Aadhaar as required by section 139A(5A)/(5C)	
	Knowingly quoting or intimating a number which is false	
272B(2A)	Failure to quote PAN/Aadhaar in documents referred to in section 139A(6A) or authenticate such number in accordance with the provisions.	Rs. 10,000 for each such default
272B(2B)	(i) Failure to ensure that PAN/Aadhaar is duly quoted in the documents relating to transactions referred to in section 139A(5)(c) or section 139A(6A)	Rs. 10,000 for each such default
	(ii) Failure to ensure that PAN/Aadhaar has been duly authenticated in respect of transactions referred to under section 139A(6A)	

Note: Opportunity to be heard shall be given to the person on whom the penalty is proposed to be imposed.

INTER-CHANGEABILITY OF PAN WITH AADHAAR NUMBER

❖ Every person who is required to furnish or intimate or quote his PAN **may furnish or intimate or quote his Aadhar Number in lieu of the PAN** if:

- he has not been allotted a PAN but possesses the Aadhar No.;
- he has been allotted a PAN & has intimated his Aadhar No. to prescribed authority in accordance with the requirement contained in section 139AA(2);
& PAN would be allotted in prescribed manner to a person who has not been allotted a PAN but possesses Aadhar number.

❖ **Manner for Allotment of PAN to a person who has not been allotted a PAN but possesses Aadhaar**

- Rule 114(4) requires submission of application for allotment of PAN by the applicant in prescribed form accompanied by prescribed documents as proof of identity, address & DOB of such applicant.
- **Sub-rule (1A) to Rule 114:**
Any person who has not been allotted PAN but possesses Aadhaar no. & has furnished/intimated or quoted his Aadhaar no. in lieu of PAN in accordance with section 139A(5E), shall be deemed to have applied for allotment of PAN & shall not be required to apply or submit any documents u/r 114.
- **Sub-rule (1B) to Rule 114:**
Any person who has not been allotted PAN but possess Aadhaar no. may apply for allotment of PAN u/s 139A(1)/(1A)/(3) by intimating his Aadhaar no. & he shall not be required to apply or submit any documents u/r 114.

COMPUTERIZED PAN

- CBDT had introduced a new scheme of allotment of computerized 10-digit PAN.
- Such PAN comprises of **10 Alphanumeric characters** & is issued in the form of laminated card.
- All person who were allotted PAN earlier (Old PAN) & all person who were required to apply for PAN & did not apply, shall apply to AO for new series PAN within specified time.
- Once the new series PAN is allotted to any person, the old PAN shall cease to have effect.
- No person who has obtained the new series PAN shall apply, obtain or process another PAN.

QUOTING OF AADHAR NUMBER [SECTION 139AA]

Mandatory Quoting of Aadhar No.	Every person eligible to obtain Aadhar Number must mandatorily quote Aadhar Number in: (a) Application form for Allotment of PAN; (b) in ROI.
NO Aadhar = Quote Enrolment Id	If a person does not have Aadhar No., he is required to quote Enrolment ID of Aadhar.
<p>From 1st October 2024: Option of quoting Enrolment ID of Aadhaar application for allotment of PAN or in ROI is discontinued.</p> <p>Further, a person who has been allotted PAN on the basis of Enrolment ID of Aadhaar application form filed before 1st October, 2024 has to intimate his Aadhaar Number, on/before a notified date [Section 139AA(2A)].</p>	
Update Aadhar No. to Authorities	Every person who has been allotted PAN & who is eligible to obtain Aadhar Number, shall intimate his Aadhar No. to the prescribed authority before date notified by CG. i.e 31.03.2022.
Fees u/s 234H	<p>Where a person fails to intimate his Aadhaar u/s 139AA(2) on/before 31.03.2022, he would be liable to pay a fee at the time of making intimation u/s 139AA(2) after the said date.</p> <p>Amount of Fee</p> <p>(a) Rs. 500 if intimation is made within 3 months of specified date (i.e 30.06.2022)</p> <p>(b) Rs. 1,000 in all other cases.</p>

Exceptions: Provisions of Sec 139AA would not apply to Individual who does not possess Aadhar number or Enrolment ID & is:

- | | |
|---|-----------------------------|
| (a) Residing in States of Assam, Jammu & Kashmir and Meghalaya; | (b) Non-Resident; |
| (b) Super Senior Citizen [Age ≥ 80 years at any time during PY; | (d) Not a Citizen of India. |

Accordingly, Rule 114AAA specifies the manner of making permanent account number inoperative.

	Provision
(1)	If a person, who has been allotted PAN as on 1st July, 2017 and is required to intimate his Aadhaar number under section 139AA(2), has failed to intimate the same on or before 31st March, 2022, the PAN of such person would become inoperative and he would be liable for payment of fee in accordance with section 234H read with Rule 114(5A) i.e., Rs. 1,000.
(2)	Where such person who has not intimated his Aadhaar number on or before 31st March, 2022, has intimated his Aadhaar number under section 139AA(2) after 31st March, 2022, after payment of fee specified in section 234H read with Rule 114(5A), his PAN would become operative within 30 days from the date of intimation of Aadhaar number.
(3)	<p>A person, whose PAN has become inoperative, would be liable for following further consequences for the period commencing from the date as specified under (4) below till the date it becomes operative –</p> <p>(i) no refund of any amount of tax or part thereof, due under the provisions of the Act;</p> <p>(ii) interest would not be payable on such refund for the period, beginning with the date specified under (4) below and ending with the date on which it becomes operative;</p> <p>(iii) where tax is deductible at source in case of such person, such tax shall be deducted at higher rate, in accordance with provisions of section 206AA;</p> <p>(iv) where tax is collectible at source in case of such person, such tax shall be collected at higher rate, in accordance with provisions of section 206CC;</p>
(4)	The consequences in (3) above would be effective from the date specified by the Board i.e., 1.7.2023 [Circular No. 3/2023 dated 28th March, 2023]

Clarification on consequences of PAN becoming inoperative

- These consequences would be with effect from 1.7.2023 and continue till the PAN becomes operative.
- A fee of Rs. 1,000 has to be paid to make the PAN operative by intimating the Aadhaar number.
- Consequences of PAN becoming inoperative would not be applicable to those persons who have been provided exemption from intimating Aadhaar number.

SUBMISSION OF ROI THROUGH TAX RETURN PREPARERS [SECTION 139B]

1 OBJECTIVE OF FRAMING THE SCHEME

- To enable **any specified class or classes of persons** to prepare & furnish their ROI through TRP authorized to act as TRP under the Scheme.
- **TRP shall** assist the persons furnishing ROI in a manner that will be specified in the Scheme & shall also **affix his signature on such ROI**.

2 NOTIFIED SCHEME

- CBDT has framed the Tax Return Preparer Scheme, 2006, which came into force from 1.12.2006.
- **TRP → Any Individual who has been issued a TRP Certificate & Unique Identification Number** to carry on the profession of preparing ROI as per the provisions of this Scheme.

Scheme may provide for the following:

- Manner & Time Period for which TRPs shall be authorized;
- Educational & other qualifications, & training etc. to act as a TRP;
- Code of conduct for TRP & Duties & Obligations of TRP;
- Circumstances under which authorization given to TRP may be withdrawn; &
- Any other relevant matter as may be specified by the Scheme.

3 EDUCATIONAL QUALIFICATION FOR TAX RETURN PREPARERS

- Individual, who holds a bachelor's degree from recognised Indian University/institution, or
- Individual who has passed Intermediate level exam conducted by ICAI, ICSI, ICAI(CMA).

4 WHO CAN ACT AS TAX RETURN PREPARER? [V. Imp]

- Tax Return Preparer can be any Individual, **OTHER THAN**
 - (a) Officer of Scheduled bank in which assessee maintain current A/c or has regular dealings.
 - (b) Legal practitioner who is entitled to practice in any civil court in India.
 - (c) Chartered Accountant.
 - (d) Employee of "Specified class of Person".**

"SPECIFIED CLASS OF PERSONS" → ANY PERSON OTHER THAN

- (a) Company;
- (b) Person whose accounts are required to be audited u/s 44AB & is required to furnish ROI.

PC Note: We have studied that Employees of "specified class of persons" cannot act as TRP & we know that "Specified class of persons" **excludes Company & Person whose accounts are required to be audited u/s 44AB & who is required to furnish ROI**. Thus, Employees of companies & persons whose accounts are required to be audited u/s 44AB can act as TRP.

5 FOLLOWING PERSONS CANNOT FURNISH ROI THROUGH TRPs

- (a) Any Person other than Individual & HUF. **[Only Individual & HUF are eligible person]**
- (b) **Individual/HUF** carrying out **Business or Profession** during PY & their Accounts are required to be **audited u/s 44AB** or under any other law for the time being in force; or
- (c) **Individual/HUF** who is a **Non-Resident in India** during the previous year.

PC Note: Eligible person cannot furnish a **Revised ROI** for any AY through a TRP unless he has furnished original ROI for that AY through such or any other Tax Return Preparer.

CQ14. Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for PY 24-25 audited u/s 44AB. Her total income for AY 25-26 is Rs. 6,35,000. She wants to furnish her ROI for AY 25-26 through a tax return preparer. Can she do so?

Answer: Section 139B provides a scheme for submission of ROI for any AY through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited u/s 44AB. Therefore, Mrs. Hetal cannot furnish her ROI for AY 25-26 through a Tax Return Preparer.

PERSONS AUTHORISED TO VERIFY RETURN OF INCOME [SECTION 140]

	Assessee	ROI Verified by:
1	Individual	Himself
	Individual is Absent from India	Person duly authorized by him in this behalf holding a valid power of attorney from such individual. (Such power of attorney should be attached to ROI).
	Individual is Mentally Incapacitated from attending to his affairs	His guardian; or Any other person competent to act on his behalf
	Individual cannot to verify ROI for any other reason	Any person duly authorized by him in this behalf holding a valid power of attorney from the individual (Such power of attorney should be attached to ROI).
2	Hindu Undivided Family	Karta
	Karta is Absent from India or Mentally Incapacitated from Attending to his affairs	Any other adult member of the HUF.
3	Company	Managing Director
	There is No MD or MD cannot verify ROI for any unavoidable reason	By any Director or Person, appointed by the Adjudicating Authority (i.e., NCLT constituted u/s 408 of the Companies Act, 2013)
	Company is non-Resident	Any person who holds Valid Power of Attorney. Such Power of attorney should be attached to ROI.
	Company in Liquidation/Winding up	The Liquidator
	Company's Management is taken over by CG/SG.	The Principal Officer.
	Where an application for corporate Insolvency Resolution Process has been admitted by Adjudicating Authority under the Insolvency & Bankruptcy Code, 2016.	Insolvency Professional appointed by such Adjudicating Authority.
4	Firm/LLP	Managing Partner/ Designated partner
	There is No MP/DP or MP/DP cannot verify ROI for unavoidable reason	Firm: Partner of the firm not being a minor. LLP: Any Partner or Person, appointed by the Adjudicating Authority (i.e., NCLT constituted u/s 408 of the Companies Act, 2013)
5	Local authority	Principal officer thereof
6	Political party	CEO of such party (whether known as Secretary or by any other designation).
7	Any other association	Any Member of Association or Principal Officer.
8	Any other person	Such Person or his Agent.

OTHER RESIDUAL SECTIONS

OPTION TO FURNISH ROI TO THE EMPLOYER [SECTION 139(1A)]

- Salaried employee of **eligible employer** has the option to file ROI for any PY to his employer, in accordance with the scheme notified by CBDT & subject to specified conditions.
- Such employer shall furnish all the ROIs received by him on/before DD in such form (including on a floppy, diskette, magnetic cartridge tape, CD-ROM) & manner specified in that scheme.
- Any employee who has filed ROI to his employer is deemed to have filed ROI u/s 139(1).

Specified Terms & Conditions are:

- This option is not available to employee having PGBP income.
- 'Eligible Employer' means an employer having minimum 50 employees with income exceeding BEL & who has been **allotted Tax Deduction Account number (TAN)**.

TAX RETURN THROUGH COMPUTER READABLE MEDIA [SECTION 139(1B)]

- It enables taxpayer to file ROI in computer readable media, without interface with the department.
- Such person may furnish ROI in accordance with scheme notified by CBDT, in such form (including on a floppy, diskette, magnetic cartridge tape, CD-ROM) & manner as may be prescribed.
- Such return shall be deemed to be a return furnished u/s 139(1).

PARTICULARS TO BE FURNISHED WITH THE RETURN [SECTION 139(6)]

The prescribed form of the return shall require the assessee to furnish the particulars of:

- Incomes exempt from tax;
- Assets of the prescribed nature & value, held by him as a beneficial owner or otherwise or in which he is a beneficiary;
- His bank account & credit card held by him;
- Expenditure exceeding the prescribed limits incurred by him under prescribed heads; &
- Such other outgoings as may be prescribed.

PARTICULARS TO BE FURNISHED WITH ROI BY ASSESSEE ENGAGED IN BUSINESS [SEC 139(6A)]

- Audit Report referred to in section 44AB.
- Particulars of the location & style of the principal place where he carries on the business or profession & all the branches thereof.
- Names & addresses of his partners in such business or profession.
- If he is a member of AOP/BOI: Names of the other members of AOP/BOI &
- Extent of the share of the assessee & the shares of all such partners or members in the profits of the business or profession.



AMT & TOTAL COMPUTATION



ALTERNATE MINIMUM TAX

1 APPLICABILITY OF AMT [CHAPTER XII-BA] [SECTION 115JEE(1)]

- **Any Person** (other than a company as they are covered by MAT)
- who has claimed any 'income-based deduction' under any section included in Chapter VI-A heading 'C: Deductions i.r.o certain incomes' i.e **Sec 80IA – 80 RRB (other than Sec. 80P) or Section 10AA or 35AD**; is subject to AMT.

2 EXCEPTIONS [PROVISIONS OF AMT → NA]

- **Individual/HUF/AOP/BOI/AJP paying tax u/s 115BAC → AMT not applicable.**
- **Individual/HUF/AOP/BOIs** (whether incorporated or not)/**AJP if Adjusted TI ≤ Rs. 20 lacs.**
- **This exception is not applicable to Firm/LLP.**
- It means, AMT is applicable on Firm/LLP even though its Adjusted TI ≤ 20 Lacs.

3 WHAT IS AMT [SECTION 115JC]

- If regular tax payable by individual for PY computed as per the normal provisions of the Act < AMT payable for such PY, then **Adjusted TI shall be deemed to be the TI of the person &**
- Such person shall be liable to **pay tax on Adjusted TI @ 18.5% + 4% HEC.**

PC Note: AMT is levied @ 9% in case of non-corporate assessee being a unit located in **IFSC** & deriving its income solely in convertible foreign exchange. Surcharge & cess as applicable will also be levied.

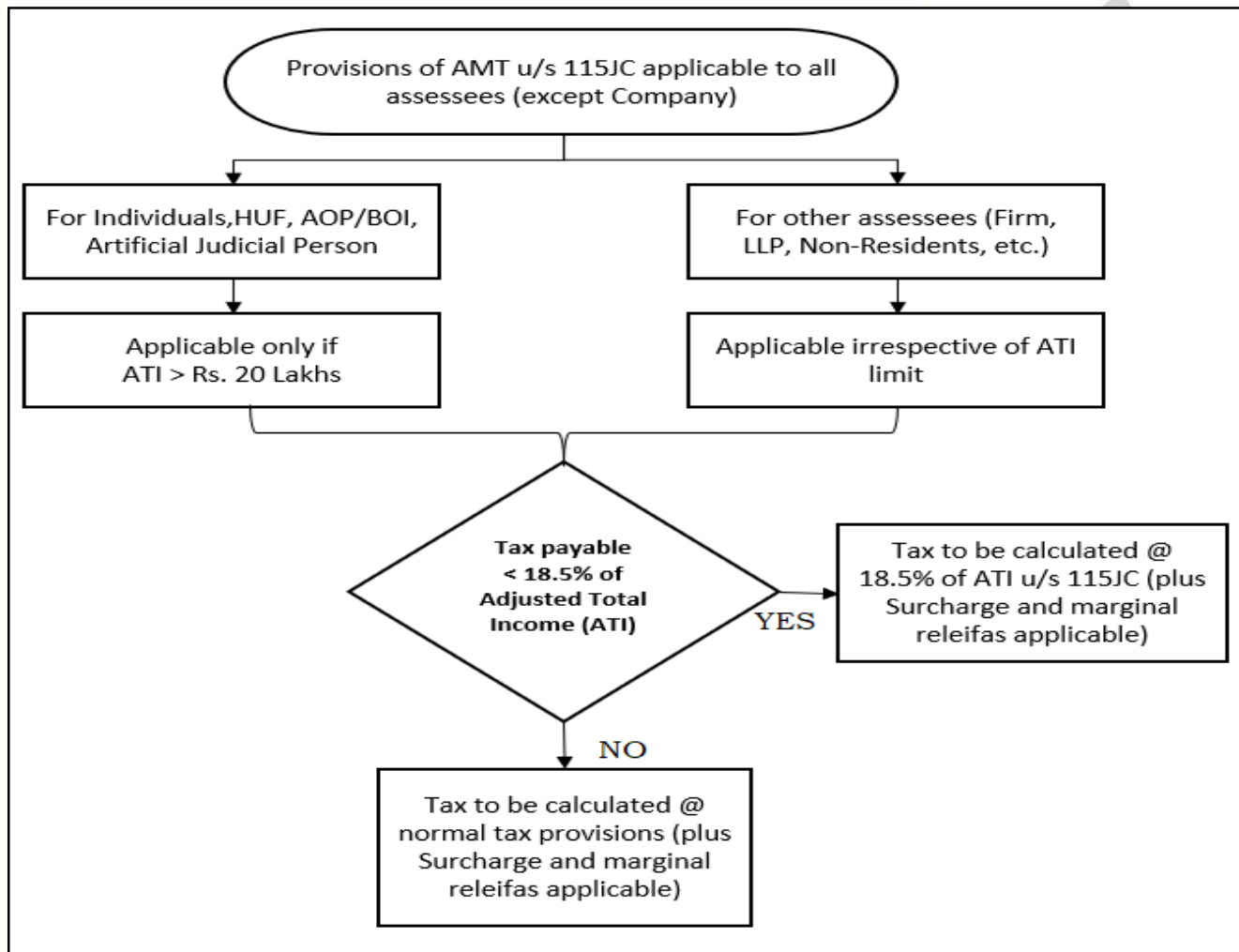
4 MEANING OF “ADJUSTED TOTAL INCOME”

Total Income of the Assessee (as per normal provisions)	XXX
Add:	
(a) Income-based Deductions claimed u/ 80IA-Sec 80 RRB	Xx
(b) Deductions claimed u/s 10AA	Xx
(c) Deduction claimed u/s 35AD - Depreciation allowable u/s 32 (as if no deduction u/s 35AD was allowed i.r.o the asset for which such deduction is claimed)	Xx
Adjusted Total Income	XXX

PC Analysis:

- ✍ **If (a), (b), (c) is 'Nil', provisions of AMT is not applicable to such assessee.**
- ✍ **If Adjusted TI ≤ 20 lacs, provisions of AMT is not applicable to Individual/HUF/AOP/BOIs/AJP. This exception is not applicable to Firm/LLP.** It means, AMT is applicable on Firm/LLP even though its Adjusted TI ≤ 20 Lacs.

Space for PC Diagram



CQ1. Compute the tax of the following assessee:

[CMA SM]

Particulars	Mr. Akshay	Mr. Bharat	Mr. Shree	M/s SS (Firm)	AC LLP
Gross Total Income (Business Income)	15,00,000	25,00,000	27,00,000	32,00,000	8,00,000
Deduction u/s 80C	1,00,000	1,00,000	1,00,000	Nil	Nil
Deduction u/s 80G	25,000	1,00,000	Nil	1,00,000	1,00,000
Deduction u/s 80IE	7,75,000	Nil	8,00,000	Nil	2,00,000
Total Income	6,00,000	23,00,000	18,00,000	31,00,000	5,00,000
Regular Tax	32,500	5,02,500	3,52,500	9,30,000	1,50,000
Adjusted Total Income	13,75,000	23,00,000	26,00,000	31,00,000	7,00,000
Whether 115JC is applicable or not	No	No	Yes	No	Yes
AMT u/s 115JC [18.5% of Adjusted TI]	NA	NA	4,81,000	NA	1,29,500
Tax (Higher of Regular Tax or AMT)	32,500	5,02,500	4,81,000	9,30,000	1,50,000
Add: HEC @ 4%	1,300	20,100	19,240	37,200	6,000
Tax Liability (Rounded off)	33,800	5,22,600	5,00,240	9,67,200	1,56,000

TAX CREDIT FOR AMT [SECTION 115JD]

- **Tax credit** = Excess of AMT paid over regular tax payable under the provisions of the Act for PY.
- **Tax Credit = Tax paid u/s 115JC – Normal Tax Payable.**
- Such tax credit shall be **carried forward & set-off** against tax payable in later AY to the extent of **excess of regular tax payable** over AMT payable in that AY.
- Balance Tax credit shall be c/f to next AY for set-off in a similar manner.
- **No Interest shall be payable on the tax credit allowed.**

Maximum Period for carry forward of AMT: AMT credit can be c/f for set-off upto a maximum of **15 AYs** succeeding the AY in which the credit becomes allowable.

AMT credit not allowable to the assessee paying tax under the default tax regime.

PC Note: Tax Credit allowable even if Adjusted TI ≤ Rs. 20 lacs in the year of set-off [Sec 115JEE(3)]

In case where the assessee has not claimed any deduction u/s 10AA or section 35AD or deduction u/s 80JJAA, 80QQB & 80RRB in any PY and the adjusted TI of that year does not exceed Rs. 20 lacs, it would still be entitled to set-off his brought forward AMT credit in that year.

SOME OTHER POINTS:

- ☞ All other provisions of the Act, like advance tax, interest u/s 234A/B/C shall apply to assessee liable to pay AMT.
- ☞ Report in Form 29C from a CA is required to be obtained on/before due date of filing return of income u/s 139(1).
- ☞ **If AMT is payable, rate of surcharge shall be determined on the basis of Adjusted TI.**

CQ2. Compute tax liability of the firm X & Co. for AY 25-26 considering the provisions of section 115JC. Business income is Rs. 21,00,500 before deduction u/s 35AD of Rs. 11 Lacs because of which depreciation of Rs. 40, 000 cannot be claimed. Deduction u/s 80IB Rs. 1 Lac. Donation paid to political party is Rs. 85,000. **[CS Module Q3]**

Solution:

Business Income before deduction u/s 35AD	Rs. 21,00,500
Less: Deduction u/s 35AD	(Rs. 11,00,000)
Income u/h 'PGBP' or Gross Total Income	Rs. 10,00,500
Less: Chapter VI-A Deductions	
Donation to Political Party – u/s 80GGC	(Rs. 85,000)
Deduction u/s 80IB	(Rs. 1,00,000)
Total Income	8,15,500
Normal Tax on Rs. 8,15,500 @ 30% + HEC @ 4% of Tax	2,54,436
Computation of Adjusted total income	
Total Income	8,15,500
Add: Deduction u/s 80IB	1,00,000
Add: Deduction u/s 35AD – Depreciation u/s 32 = 11,00,000 – 40,000	10,60,00
Adjusted Total Income	19,75,500
AMT on Rs. 19,75,500 @ 18.5% + HEC @ 4%	3,80,085
Tax payable is Rs. 3,80,090 being higher of tax liability Rs. 2,54,436 and AMT Rs. 3,80,090.	
Tax Credit = Rs. 3,80,090 - Rs. 2,54,436 = Rs. 1,25,654.	

CQ3. Mr. X, carrying on the business of operating a warehousing facility for storage of sugar, has a total income of Rs. 80 lacs. In computing TI, he had claimed deduction u/s 35AD of Rs. 70 lacs on investment in building (on 1.4.2024) for operating warehousing facility for storage of sugar. Compute his tax liability for AY 25-26. **[CS SM Q5]**

Solution:**Computation of Tax payable by Mr. X for AY 25-26**

Computation of Normal Tax	
Particulars	Amount (Rs. in lacs)
Tax liability under the normal provisions of the Income-tax Act, 1961	22.125
Add: Surcharge @ 10% of Total income > 50 lacs	2.2125
Add: Health and Education Cess @ 4% of Rs. 24.3375 Lacs	0.9735
Total Tax Liability	25.311
Computation of Alternate Minimum Tax	
Particulars	Amount (Rs. in lacs)
Adjusted Total Income	80.00
Add: Deduction u/s 35AD – Depreciation u/s 32 [70 – 7]	63.00
Adjusted Total Income	143.00
AMT @18.5%	26.46
Surcharge @ 15% (since Adjusted TI > Rs. 100 lacs)	3.97
Tax	30.43
Add: Health and Education Cess @ 4%	1.217
Total tax Liability	31.647

Since regular income tax payable < AMT payable, Adjusted TI of Rs. 143 lacs shall be deemed to be total income of Mr. X & tax is payable @18.5% + SC @ 15% & HEC @4%. Therefore, tax liability is 31.647 lacs. However, Mr. X would be eligible for credit in 15 subsequent years to the extent of difference b/w AMT & Normal Tax i.e. Rs. 6.336 lacs.

CQ4. Mr. Rajesh has income of Rs. 45 lacs u/h 'PGBP'. One of his businesses is eligible for deduction @ 100% of profits u/s 80-IB for AY 25-26. The profit from such business included in the business income is Rs. 20 lacs. Compute tax payable by Mr. Rajesh, assuming that he has no other income during PY 24-25. [CA Final SM]

Solution:

Computation of Regular Income-tax payable under the provisions of the Act	
Particulars	Rs.
Profits and gains of business or profession	45,00,000
Less: Deduction u/s 80-IB	20,00,000
Total Income	25,00,000
Tax on Rs. 25 Lacs	5,62,500
Computation of Alternate Minimum Tax (AMT)	
Particulars	Rs.
Total Income as per the Income-tax Act, 1961	25,00,000
Add: Deduction u/s 80-IB	20,00,000
Adjusted Total Income	45,00,000
AMT = 18.5% × 45,00,000	8,32,500

Since regular tax payable < AMT, Adjusted total income of Rs. 45 lacs would be deemed to be the total income of Mr. Rajesh and he would be liable to pay tax @ 18.5% thereof.

Tax payable by Mr. Rajesh for AY 25-26 = Rs. 8,32,500 + 4% HEC = Rs. 8,65,800.

Tax Credit: Mr. Rajesh would be eligible for credit to the extent of Rs. 2,80,800 [Rs. 8,65,800 – Rs. 5,85,000 (i.e., Rs. 5,62,500 + 4% cess)] to be set-off in the year in which tax on total income computed under the regular provisions of the Act exceeds the AMT. Such credit can be carried forward for succeeding 15 assessment years.

COMPUTATION OF TOTAL INCOME

STEPS INVOLVED IN COMPUTATION OF TOTAL INCOME OF INDIVIDUAL

- 1 Determine the residential status of the person as per section 6 of the Act.
- 2 Calculate the income as per the provisions of respective heads of income. Section 14 classifies the income under five heads.
 - Income from salaries
 - Income from House Property
 - Profits and gains of business or Profession
 - Capital Gains
 - Income from other sources

Exclude the incomes exempt u/s 10 of the Act.
- 3 Consider all the deductions & allowances given under the respective heads before arriving at net income under each head.
- 4 **Gross Total Income** = Aggregate of incomes computed under 5 heads of income after applying clubbing provisions & making adjustments of set off & carry forward of losses.
- 5 Deduct the deductions admissible u/s 80C to 80U. The balance is called Total income.
- 6 Total Income = Gross Total Income – Chapter VI-A Deductions
- 7 Total income is rounded off to the nearest multiple of Rupees ten. (Section 288A)
- 8 **Add Agriculture income** in the total income calculated above.
Calculate tax on Agricultural Income + Non-agricultural Income as if such aggregate income is TI.
- 9 Calculate Tax on Net Agricultural Income + BEL as if such increased net agricultural income.
- 10 Tax determined under (9) above will be deducted from the amount of tax determined under (8).
Tax Payable = Tax calculated in 8 - Tax calculated in 9.
- 11 Calculate tax on capital gains u/s 112, 112A, 111A & on other income at specified rates.
- 12 Total Income Tax Payable = Tax Payable under 10 + tax Payable under 11.
- 13 Deduct the following from the amount of tax calculated under (12) above.
 - Rebate under section 87A (if applicable).
 - Tax deducted and collected at source.
 - Advance tax paid.
 - Double taxation relief (Section 90 or 91).
- 14 Balance of amount left after deduction of items given in (13) above, shall be the net tax payable or net tax refundable for the assessee.
- 15 Net tax payable/refundable shall be rounded off to the nearest multiple of Ten rupees (Section 288B).
- 16 Along with the amount of net tax payable, the assessee shall have to pay penalties or fines, if any, imposed on him under the Income-tax Act.

TABLE - COMPUTATION OF TOTAL INCOME OF INDIVIDUAL

Computation of Tax Liability	Sections	Amount
1. INCOME FROM SALARY	15 to 17	
Less: Deductions u/s 16		
16(ia): Standard Deduction of Rs. 50,000 (Old regime)/Rs. 75,000 (New regime)		
16(ii): Entertainment Allowance		XXX
16(iii): Professional Tax Paid		
2. INCOME FROM HOUSE PROPERTY	22 to 27	
Less: Deduction u/s 24		
24(a): Standard Deduction		XXX
24(b): Interest on House Property Loan		
3. PROFITS & GAINS FROM BUSINESS & PROFESSION	28 to 44	XXX
4. INCOME FROM CAPITAL GAINS	45 to 55A	
Less: Deduction u/s 54		XXX
5. INCOME FROM OTHER SOURCES	56 to 59	XXX
Add/Less: Apply Provisions of Clubbing & Set Off & Carry Forward		
Gross Total Income [GTI]		XXX
Less: Deductions under Chapter VIA (Depends on the tax regime opted)	80C - 80U	(XXX)
TOTAL INCOME (Rounded off to nearest Rs.10 U/s 288A)		XXX
Tax on Total Income		XXX
Add: Surcharge on Total Tax (if applicable)		XXX
Less: Rebate U/s 87A		(XXX)
Add: 4% Health & Education Cess on [Total tax + Surcharge – Rebate]		XXX
Net Tax Liability		XXX
Less: (i) TDS (ii) Advance Tax (iii) Relief u/s 89		(XXX)
Balance tax payable on Self-Assessment u/s 140A		XXX
Less: Self-Assessment tax paid		XXX
Balance Tax		NIL

INCOME TO BE CONSIDERED WHILE COMPUTING TOTAL INCOME OF INDIVIDUALS

SN	Capacity in which income is earned	Treatment of income earned in each capacity
1	In his personal capacity	Income from salaries, Income from HP, PGBP, Capital gains & IFOS.
2	As a partner of a firm	(i) Salary, bonus etc. received by a partner from firm is taxable as his business income. (ii) Interest on capital & loans to the firm is taxable as business income of the partner. (iii) Share of profit in the firm is exempt in the hands of the partner. PC Note: Income mentioned in (i) & (ii) above are taxable to the extent they are allowed as deduction to the firm.
3	As a member of HUF	(i) Share of Income of HUF → Exempt in the hands of the member (ii) Income from Impartible estate of HUF → Taxable in the hands of the holder of the estate who is the eldest member of the HUF. (iii) Income from self-acquired property converted into HUF property.
4	Income of other persons included in the income of the individual	❖ Transferee's income, where there is a transfer of income without transfer of assets ❖ Income arising to transferee from a revocable transfer of an asset. ❖ Income of spouse as mentioned in section 64(1). ❖ Income from assets transferred otherwise than for adequate consideration to son's wife or to any person for benefit of son's wife. ❖ Income of minor child as mentioned in section 64(1A)

Space for PC Class Note:

DEFAULT (NEW) TAX REGIME [SECTION 115BAC]

1 Concessional Slab Rates for incomes other than special incomes

- **Individual/HUF/AOP/BOI/AJP** have to pay tax i.r.o. their total income at the concessional rate
- other than income taxable at special rates u/s 111A, 112, 112A, 115BB etc.
- subject to certain conditions specified u/s 115BAC(2).

Income	TI ≤ 3L	3L – 7L	7L – 10L	10L – 12L	12L – 15L	Above 15 Lacs
Rate	Nil	5%	10%	15%	20%	30%

2 Conditions to be satisfied

(a) Certain deductions/exemptions not allowable under default tax regime

Section	Exemption/Deduction
10(5)	Leave travel concession
10(13A)	House rent allowance
10(14)	Exemption i.r.o. special allowances or benefit to meet expenses relating to duties or personal expenses (other than those as may be prescribed for this purpose)
10(17)	Daily allowance or constituency allowance of MPs and MLAs
10(32)	Exemption i.r.o. income of minor child included in the income of parent
10AA	Tax holiday for units established in SEZ
16	<ul style="list-style-type: none"> ▪ Entertainment allowance ▪ Professional tax Standard deduction u/s 16(ia) allowed in default tax regime = Rs. 75,000
24(b)	Interest on loan in respect of self-occupied property
32(1)(iia)	Additional depreciation
35	Deduction in respect of contribution to - <ul style="list-style-type: none"> ▪ Notified approved research association/ university/college/other institutions for scientific research [Section 35(1)(ii)] ▪ approved Indian company for scientific research [Section 35(1)(iia)] ▪ notified approved research association/ university/college/other institutions for research in social science or statistical research [Section 35(1)(iii)] ▪ An approved National laboratory/university/ IIT/ specified person for scientific research undertaken under an approved programme [Section 35(2AA)]
35AD	Investment linked tax incentives for specified businesses
80C to 80U	Deductions under Chapter VI-A. However, following deductions will be available <ul style="list-style-type: none"> ▪ Employer's contribution towards NPS u/s 80CCD(2) & ▪ CG's contribution towards Agnipath scheme u/s 80CCH(2) & ▪ Deduction i.r.o. employment of new employees u/s 80JJAA

(b) Certain losses not allowed to be set-off

While computing total income, set-off of following losses would not be allowed.

- Loss carried forward or depreciation from any earlier AY, if such loss or depreciation is attributable to any of the deductions referred to in (a) above; [Such loss & depreciation would be deemed to have been already given effect to & no further deduction for such loss or depreciation shall be allowed for any subsequent year]
- u/h house property with any other head of income.



(c) Highest Rate for Depreciation = 40% & No Additional depreciation

Depreciation i.r.o. any block of assets entitled to more than 40% ROD, would be restricted to **40%** on WDV of such block of assets. **Additional depreciation u/s 32(1)(ia) cannot be claimed.**

(d) Exemption or deduction for allowance or perquisites by whatever name called

Where there is a depreciation allowance i.r.o. a block of asset from any earlier AY attributable to additional depreciation u/s 32(1)(ia), which has not been given full effect prior to AY 25-26 & which is not allowed to be set-off in AY 25-26 due to section 115BAC, corresponding adjustment shall be made to WDV of such block of assets as on 1.4.2024 in the prescribed manner i.e., WDV as on 1.4.2024 will be increased by unabsorbed additional depreciation not allowed to be set-off.

Ex: Mr. X, who carries on business of manufacturing of steel. He has unabsorbed depreciation as on 1.4.2024 which includes amount attributable to additional depreciation of Rs. 1,80,000 u/s 32(1)(ia) of PY 23-24 or any earlier PY i.r.o. block of P&M. If he pays tax u/s 115BAC for AY 25-26, amount so attributable to additional depreciation of earlier years remaining unabsorbed (i.e Rs. 1,80,000) as on 1.4.2024 would not be eligible for set-off against current year income. Accordingly, WDV of the block as on 1.4.2024 has to be increased by the said amount (i.e Rs. 1,80,000) not allowed to be set-off.

3 Time limit for exercise of option to shift out of default tax regime u/s 115BAC**(a) In case of individual/HUF/AOP/BOI/AJP having NO income from business or profession:**

Option to opt out has to be exercised along with ROI to be furnished u/s 139(1) for PY relevant to the AY.

PC Note: Such individual/HUF/AOP/BOI/AJP can choose whether or not to opt out of default tax regime in **each PY**. He may choose to exercise the option in one year & not to exercise the option in another year.

(b) In case of individual/HUF/AOP/BOI/AJP having income from business or profession:

Option to opt out has to be exercised on/before DD u/s 139(1) for filing ROI for such PY & **once such option is exercised, it would apply to subsequent AYs.**

Such person who has exercised the above option of opting out of default tax regime for any PY shall be able to withdraw such option only once & pay concessional tax u/s 115BAC.

Thereafter, such person shall never be eligible to exercise option u/s 115BAC, except where such person ceases to have any business income in which case, option under (i) above would be available.

PC Note: Individual/HUF/AOP/BOI/AJP paying tax u/s 115BAC are not liable to AMT u/s 115JC.

PC Note:

In case of **individual/HUF/AOP/BOI/AJP** not having income from business or profession, total income & tax liability (including provisions relating to AMT, if applicable under normal provisions) may be computed every year both in accordance with normal provisions of the Income-tax Act, 1961 & in accordance with the provisions of section 115BAC, in order to determine which is more beneficial & accordingly decide whether or not to opt for section 115BAC for that year.

CQ1. Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of Rs. 50,000 p.m. He has received transport allowance of Rs. 15,000 p.m. & house rent allowance of Rs. 20,000 p.m. from the company for PY 24-25. He has paid rent of Rs. 25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of Rs. 2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March 2025 & his parents live in that house.

Other Information

- Contribution to PPF - Rs. 1,50,000
- Contribution to pension scheme referred to in section 80CCD - Rs. 50,000
- Payment of medical insurance premium for father, who is of the age of 65 - Rs. 55,000
- Payment of medical insurance premium for self & spouse - Rs. 32,000

Compute the total income & tax liability of Mr. A for AY 24-25 in the most beneficial manner. **[SM Q1]**

Answer: Computation of tax liability of Mr. A for AY 25-26 under default tax regime u/s 115BAC

	Particulars		Rs.
1	Salaries		
	Basic Salary [Rs. 50,000 x 12]	6,00,000	
	Transport allowance [Rs. 15,000 x 12]	1,80,000	
	HRA received [Rs. 20,000 x 12]	2,40,000	
	Gross salary	10,20,000	
	Less: Standard deduction u/s 16(ia)	(75,000)	9,45,000
2	Income from house property		
	Interest on housing loan	Nil	Nil
3	Gross Total Income		9,45,000
	Less: Deductions under Chapter VI- A		(Nil)
	Section 80C: Contribution in PPF	NA	
	Section 80CCD: Contribution to pension scheme	NA	
	Section 80D: Mediclaim insurance premium for self and parents	NA	
4	Total Income		9,45,000
	Tax liability		
	Tax @ 5% on Rs. 4,00,000 [Rs. 7,00,000 - Rs. 3,00,000] = 20,000 + Tax @10% on Rs. 2,45,000 [Rs. 9,45,000 - Rs. 7,00,000] = 24,500		44,500
	Add: Health & Education cess @ 4%		1,780
5	Total Tax Liability		46,280

Computation of total income and tax liability of Mr. A for AY 25-26 under normal provisions of the Act

Particulars		Rs.
1	Salaries	
	Basic Salary [Rs. 50,000 x 12]	6,00,000
	Transport allowance [Rs. 15,000 x 12]	1,80,000
	HRA received [Rs. 20,000 x 12]	2,40,000
	Less: Least of the following exempt u/s 10(13A)	(2,40,000)
	HRA Received = Rs. 2,40,000	
	Actual rent paid – 10% of salary [Rs. 3,00,000 – Rs. 60,000] = Rs. 2,40,000	
	50% of salary = 3,00,000	
	Gross salary	7,80,000
	Less: Standard deduction u/s 16(ia)	(50,000)
		7,30,000
2	Income from house property	
	Interest on housing loan [Annual Value is Nil. Deduction u/s 24(b) for interest on housing loan would be restricted to Rs. 2,00,000, in case of self-occupied property, which would represent loss from house property]	(2,00,000) (2,00,000)
3	Gross Total Income	5,30,000
	Less: Deductions under Chapter VI-A	
	Section 80C: Contribution in PPF	1,50,000 (1,50,000)
	Section 80CCD: Contribution to pension scheme	50,000 (50,000)
	Section 80D: Mediciclaim insurance premium for self and parents	
	For self and spouse, restricted to	25,000
	For father, who is a senior citizen, restricted to	50,000 (75,000)
4	Total Income	2,55,000
	Tax liability	
	Tax @ 5% on Rs. 5,000 [Rs. 2,55,000 - Rs. 2,50,000]	250
	Less: Rebate u/s 87A	(250)
5	Total Tax Liability	Nil

Since tax liability as per the normal provisions of the Act is lower than the tax liability under the default tax regime u/s 115BAC, it would be beneficial for Mr. A to shift out of the default tax regime u/s 115BAC for AY 25-26.

Note: In this case, Mr. A is entitled to exemption u/s 10(13A), benefit of interest on housing loan in respect of self-occupied property and Chapter VI-A deductions, owing to which his total income is reduced by Rs. 6,90,000. His total income under the regular provisions of the Act is less than Rs. 5,00,000, owing to which he becomes entitled to rebate u/s 87A. Hence, in this case, it is beneficial for Mr. A to shift out of the default tax regime u/s 115BAC for AY 25-26.

CQ2. Mr. Kadam is entitled to a salary of Rs. 40,000 per month. He is given an option by his employer either to take HRA or RFA which is owned by the company. The HRA amount payable was Rs. 7,000 per month. The rent for the hired accommodation was Rs. 6,000 per month at New Delhi. Advise Mr. Kadam whether it would be beneficial for him to avail HRA or Rent-free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kadam exercises the option to shift out of default tax regime u/s 115BAC. **[SM Q2]**

Answer:

Particulars		Option I – HRA	Option II – RFA
Basic Salary (Rs. 41,000 x 12 Months)		4,92,000	4,92,000
Perquisite value of rent-free accommodation (10% of Rs. 4,92,000)		N.A.	49,200
House rent Allowance (Rs. 7,000 x 12 Months)	Rs. 84,000		
Less: Exempt u/s 10(13A) – least of the following			
- 50% of Basic Salary = Rs. 2,46,000			
- Actual HRA received = Rs. 84,000			
- Rent paid less 10% of salary = Rs. 22,800		(Rs. 22,800)	61,200
Gross Salary		5,53,200	5,41,200
Less: Standard deduction u/s 16(ia)		50,000	50,000
Net Salary		5,03,200	4,91,200
Less: Deduction under Chapter VI-A		-	-
Total Income		5,03,200	4,91,200
Tax on total income		13,140	12,060
Less: Rebate u/s 87A - Lower of Rs. 12,500 or tax of Rs. 12,060, since total income does not exceed Rs. 5,00,000		Nil	12,060
Add: Health and Education cess @ 4%		526	Nil
Tax liability		13,666	Nil
Tax liability (Rounded off)		13,670	Nil

Cash Flow Statement

Particulars	Option I – HRA	Option II – RFA
Inflow: Salary	5,76,000	4,92,000
Less: Outflow: Rent paid	(72,000)	-
Tax on total income	(13,670)	Nil
Net Inflow	4,90,330	4,92,000

Conclusion: Since the net cash inflow under option II (RFA) is higher than in Option I (HRA), it is beneficial for Mr. Kadam to avail Option II, i.e., Rent Free Accommodation.

CQ3. Mr. Ram, who is 58 years old, resident in India, furnishes the following information:

[CS SM Q3]

Basic salary	Rs. 15,000 p.m
Dearness Allowance (20% forming part for retirement benefits)	40% of basic salary
City Compensatory Allowance	Rs. 300 p.m
Children education allowance for 2 children	Rs. 200 p.m per child
Transport allowance	Rs. 2000 p.m
House Rent Allowance	Rs. 6000 p.m
Actual rent paid for a house in Delhi	Rs. 7000 p.m
He travels via Delhi metro from his residence to office & back in which he spends	Rs. 1500 p.m.
Medical allowance	Rs. 1000 p.m
Lunch allowance	Rs. 200 p.m

He owns a house property in Mumbai whose construction is completed in 2006 and which is let out for Rs. 40,000 pm. The standard rent as per Rent Control Act is Rs. 3, 10,000. He pays Rs. 32,000 for municipal taxes and interest on capital borrowed for construction of house Rs. 75,000. Further, he incurs Rs. 10,000 on repairs of the house.

- Long-term capital gains: Rs. 2,25,000
- Short term capital gains for the year: Rs. 1,01,000 (STT not applicable).
- Dividend received from Indian Company X Ltd: Rs. 12,000.
- Interest received @10% on listed debentures of face value: Rs. 13,00,000.
- Diwali Gift of gold coins received from a friend. Market value: Rs. 60,000
- Share of profit from a Firm: Rs. 40,000; Share of profit from HUF: Rs. 34,000.
- Income from Lotteries (gross): 50,000
- Mr. Ram invested in PPF Rs. 1,50,000 and also paid a life insurance premium of Rs. 21,000.
- Donation to National Defence Fund: Rs. 10,000. Compute Tax liability of Mr. Ram under old tax regime.

Solution:

Computation of Total Income

Particulars	Rs.	Rs.
1. Income from Salary		
Basic salary (15000 x 12)	1,80,000	
Dearness Allowance (180,000 x 40%)	72,000	
CCA (fully taxable) (300 x 12)	3,600	
Children Education Allowance [Rs. 4800 – Rs. 2400]	2,400	
Transport allowance	24,000	
House Rent Allowance (Note)	7,440	
Lunch Allowance	2,400	
Medical Allowance	12,000	
Less: Standard Deduction u/s 16(ia)	(50,000)	2,53,840
2. Income from house property		
Gross annual Value (Rent Received: 40,000 x 12)	4,80,000	
Less: Municipal Taxes	(32,000)	
Net annual Value	4,48,000	
Less: Standard Deduction [30% of Rs. 4,48, 000]	(1,34,400)	

Less: Interest on capital borrowed	(75,000)	2,38,600
3. Profits & Gains from Business & Profession		
Share of Profit from Firm – Exempt u/s 10(2A)	Nil	
Share of Profit from HUF - Exempt u/s 10(2)	Nil	Nil
4. Income under the head Capital Gains		
Long-term capital gains u/s 112	2,25,000	
Short term Capital Gain u/s 111A	1,01,000	3,26,000
5. Income from other sources		
Dividend received from Indian Company X Ltd.	12,000	
Interest received on listed debentures	1,30,000	
Winning from Lotteries	50,000	
Gift in kind	60,000	2,52,000
Gross Total Income		10,70,440
Less: Deduction u/s 80C to 80U		
(i) u/s 80C	(1,50,000)	
(ii) u/s 80G	(10,000)	(1,60,000)
Total Income		9,10,440

Computation of Tax on Total Income

Tax on winning from lotteries (30% of Rs. 50,000)	Rs. 15,000
Tax on long-term capital gains (20% of Rs. 2,25,000) – Assumed to be sold before 23.07.2024	Rs. 45,000
Balance of Total Income Rs. 6,35,440 on slab rate	Rs. 39,588
Total tax	Rs. 99,588
Add: Health and Education cess at 4%	Rs. 3,983
Total liability	Rs. 1,03,571
Total liability (round off)	Rs. 1,03,570

Notes:

1. House Rent Allowance: Least of the following is exempt:

(a) HRA received = Rs. 72,000

(b) 50% of the salary (house is in Delhi) = $1,94,400 \times 50\%$ = Rs. 97,200.

(c) Rent paid – 10% of the salary = $(7000 \times 12) - 0.10 \times 194400 = 84000 - 19440 =$ Rs. 64,560

Exempted HRA = Rs. 64,560; Taxable HRA = Rs. 72,000 - Rs. 64,560 = Rs. 7,440.

Salary for HRA = Basic salary + Dearness allowance (retirement benefits)

= Rs. 1,80,000 + Rs. 1,80,000 \times 40% \times 20% = Rs. 1,94,400

2. Tax liability is subject to set-off of TDS for winning from lotteries and interest from listed debentures.

Practice Question from CA Study Material

Q1. Compute the tax liability of Mr. Gupta (aged 61) under default tax regime, having total income of Rs. 1,02,00,000 for AY 25-26. Assume that his total income comprises of salary income, income from house property & interest on fixed deposit.

Answer: **Computation of tax liability of Mr. Gupta for AY 25-26 under default tax regime**

Income-tax computed on total income of Rs. 1,02,00,000:

A	Rs. 3,00,000 – Rs. 7,00,000 @5%	Rs. 20,000
	Rs. 7,00,001 – Rs. 10,00,000 @10%	Rs. 30,000
	Rs. 10,00,001 – Rs. 12,00,000 @15%	Rs. 30,000
	Rs. 12,00,001 – Rs. 15,00,000 @20%	Rs. 60,000
	Rs. 15,00,001 – Rs. 1,02,00,000 @30%	Rs. 26,10,000
	Total	Rs. 27,50,000
	Add: Surcharge @15% Rs. 4,12,500	Rs. 31,62,500
B	Income-tax computed on total income of Rs. 1 crore (Rs. 1,40,000 + Rs. 25,50,000)	Rs. 26,90,000
	Add: Surcharge @10%	Rs. 2,69,000
		Rs. 29,59,000
C	Extra Income: Total Income - Rs. 1 crore	Rs. 2,00,000
D	Excess tax payable (A)-(B)	Rs. 2,03,500
E	Marginal Relief (D – C)	Rs. 3,500
	Tax liability (A)-(E)	Rs. 31,59,000
	Add: HEC @4%	Rs. 1,26,360
	Tax liability (including cess)	Rs. 32,85,360

Q2. Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 02.03.2024 & came to India for the first time on 16.03.2024. She left for USA on 19.9.2024. She returned to India again on 27.03.2025. While in India, she had purchased a show room in Mumbai on 30.04.2024, which was leased out to a company on a rent of Rs. 25,000 p.m. from 01.05.2024. She had taken loan from a bank for purchase of this show room on which bank had charged interest of Rs. 97,500 upto 31.03.2025. She had received the following cash gifts from her relatives & friends during 1.4.2024 to 31.3.2025:

From parents of husband	Rs. 51,000
From married sister of husband	Rs. 11,000
From two very close friends of her husband	(Rs. 1,51,000 & Rs. 21,000)

- (a) Determine her residential status & compute the total income chargeable to tax along with the amount of tax liability on such income for AY 25-26 if she opts out of the default tax regime u/s 115BAC.
- (b) Would her residential status undergo any change, assuming that she is a person of Indian origin & her total income from Indian sources is Rs. 18,00,000 & she is not liable to tax in USA?

Answer:

(a) U/s 6(1), an individual is said to be resident in India in any PY, if he/she satisfies any of the following:

- (1) He/she has been in India during PY for a total period of 182 days or more, or
- (2) He/she has been in India during the 4 years immediately preceding PY 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 AY 25-26 has to be determined on the basis of her stay in India during the PY 24-25 and in the preceding four previous years.

Her stay in India during the PY 24-25 and in the preceding four years are as under:

PY 24-25:

01.04.2024 to 19.09.2024	172 days
27.03.2025 to 31.03.2025	5 days
Total	177 days
Four preceding previous years	
PY 23-24 [1.4.2023 to 31.3.2024]	16 days
PY 22-23 [1.4.2022 to 31.3.2023]	Nil
PY 21-22 [1.4.2021 to 31.3.2022]	Nil
PY 20-21 [1.4.2020 to 31.3.2021]	Nil
Total	16 days

Total stay of assessee during PY in India was < 182 days & during the four years preceding this year was for 16 days. Due to non-fulfillment of any of two conditions for a resident, she would be treated as NR for AY 25-26.

Computation of total income of Miss Charlie for the AY 25-26

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

Computation of tax liability by Miss Charlie for the AY 25-26 under normal provisions of the Act

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

Notes:

1. Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
2. If the aggregate value of taxable gifts received from non-relatives exceed Rs. 50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of Rs. 1,72,000 is taxable u/s 56(2)(x).
3. Since Miss Charlie is a non-resident for the AY 25-26, rebate u/s 87A would not be available to her, even though her total income does not exceed Rs. 5 lakhs.

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

If she is a person of Indian origin and her total income from Indian sources exceeds Rs. 15,00,000 (Rs. 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during PY and 365 days during the four immediately preceding PY would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the PY 24-25 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds Rs. 15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for PY 24-25.

Q3. Dr. Niranjana, a resident individual, age 60 years is running a clinic in Surat. Her Income & Expenditure Account for the RPY is as under:

Expenditure	Rs.	Income	Rs.
To Medicine consumed	35,38,400	By Consultation & medical charges	58,85,850
To Staff salary	13,80,000	By Income-tax refund (principal Rs. 5,000, interest Rs. 450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500
To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of Rs. 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 35	1,50,000		
To Net profit	4,40,400		
	59,63,800		59,63,800

(1) Rent paid includes Rs. 30,000 paid by cheque towards rent for her residential house in Surat.

(2) Clinic equipments are:

Opening W.D.V.	Rs. 5,00,000
Acquired (cost) by cheque (used for less than 180 days)	Rs. 2,00,000

(3) Rent received relates to residential house property situated at Surat. Gross Annual Value is Rs. 27,000. The municipal tax of Rs. 2,000 paid during the PY has been included in "administrative expenses".

(4) She received salary of Rs. 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation & medical charges".

(5) Dr. Niranjana availed a loan of Rs. 5,50,000 from a bank for higher education of her daughter. She repaid principal of Rs. 1,00,000, & interest thereon Rs. 55,000 during the RPY.

(6) She paid Rs. 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.

(7) An amount of Rs. 28,000 has also been paid by cheque for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the RAY under the default tax regime & optional tax regime as per the normal provisions of the Act.

Answer: **Computation of total income of Dr. Niranjana for the RAY under default tax regime**

	Particulars	Rs.	Rs.	Rs.
I	Income from Salary			
	Basic Salary (Rs. 7,500 x 12)		90,000	
	Less: Standard deduction u/s 16(ia)		(75,000)	15,000
II	Income from house property			
	Gross Annual Value (GAV)		27,000	
	Less: Municipal taxes paid		(2,000)	
	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 24 [30% of NAV] = 30% of Rs. 25,000		(7,500)	17,500
III	Income from profession			
	Net profit as per Income & Expenditure account		4,40,400	
	Less: Incomes not taxable u/h PGBP or exempt Incomes			
	1. Rent received (taxable u/h "Income from HP")	27,000		
	2. Dividend from units of UTI (taxable u/h "IFOS")	10,500		
	3. Winning from game show on TV – taxable u/h IFOS	35,000		
	4. Income tax refund – Not taxable as income since no deduction is allowed for income tax paid.	5,450	(77,950)	
	Less: Allowable expenditure			
	Depreciation on clinic equipments			
	on Rs. 5,00,000 @ 15%	75,000		
	on Rs. 2,00,000 @ 7.5% (since used for < 180 days)	15,000	(90,000)	
	Add: Expenditures not allowable u/h PGBP			
	(1) Amount paid to scientific research association u/s 35 (not allowed under default tax regime)	1,50,000		

(2) Rent for her residential accommodation included in Income & Expenditure A/c	30,000		
(3) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	1,82,000	4,54,450
Income from other sources			
(a) Interest on income-tax refund		450	
(b) Dividend from UTI (taxable in the hands of unit holders)		10,500	
(c) Winnings from TV game show (Rs. 35,000 + Rs. 15,000)		50,000	60,950
Gross Total Income			5,47,900
Less: Deductions under Chapter VI- A:			
(a) Section 80C [Not allowed under default tax regime]			
(b) Section 80D [Not allowed under default tax regime]			
(c) Section 80E [Not allowed under default tax regime]			Nil
Total income			5,47,900

Computation of total income of Dr. Niranjana for the RAY under normal provisions of the Act (Old Scheme)

Particulars	Rs.	Rs.
Gross Total Income as per default tax regime		5,47,900
Add: Standard deduction of Rs. 25,000, being excess amount allowed u/s 115BAC		25,000
Less: Expenditures allowed while computing business income under old scheme		
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 to university for full time education of her daughter	1,00,000	
(b) Section 80D: Medical insurance premium (fully allowed as she is 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:

- (1) 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".
- (2) Winnings from game show on TV should be grossed up for the chargeability under the head "Income from other sources" (Rs. 35,000 + Rs. 15,000). Thereafter, while computing tax liability, TDS of Rs. 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @ 30% as per section 115BB.
- (3) 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.

Q4. Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income & Expenditure account for the RPY reads as follows:

Expenditure	(Rs.)	Income	(Rs.)	(Rs.)
Salary to staff	15,50,000	Fees earned		
Stipend to articles Assistants	1,37,000	Audit		27,88,000
Incentive to articles Assistants	13,000	Taxation services		15,40,300
Office rent	12,24,000	Consultancy		12,70,000
Printing & stationery	12,22,000	Gross Dividend on shares of X Ltd. (Indian com.)		10,524
Meeting, seminar & 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 & petrol of car	4,000			
Travelling expenses	5,25,000	Rent received from residential flat let out		85,600
Municipal tax paid i.r.o. HP	3,000			
Net Profit	9,28,224			

Other Information:

- (1) Allowable rate of depreciation on motor car is 15%.
- (2) Value of benefits received from clients during the course of profession is Rs. 10,500.
- (3) Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.
- (4) Repairs & maintenance of car include Rs. 2,000 paid for 12 months (6 months of this PY & 6 months of next PY)
- (5) Salary includes Rs. 30,000 to computer specialist in cash for assisting Ms. Purvi in one professional assignment
- (6) Travelling expenses include expenditure incurred on foreign tour of Rs. 32,000 which was within the RBI norms
- (7) Medical Insurance Premium on the health of dependent brother & major son dependent on her amounts to Rs. 5,000 & Rs. 10,000, respectively, paid in cash.
- (8) She invested an amount of Rs. 10,000 in National Saving Certificate.
- (9) She has paid Rs. 70,000 towards advance tax during the RPY.

Compute the total income & tax payable by Ms. Purvi for the RAY in a most beneficial manner.

Answer: Computation of TI & tax payable by Ms. Purvi for the RAY under default tax regime u/s 115BAC

Particulars	Rs.	Rs.
Income from house property (See Working Note 1)		57,820
Profit & gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VI-A [not allowable under default tax regime]		-
Total Income		10,11,944
Total Income (rounded off)		10,11,940
Tax on total income		
Upto Rs. 3,00,000	Nil	
Rs. 3,00,001 - Rs. 7,00,000 @5%	20,000	

Rs. 7,00,001 - Rs. 10,00,000 @10%	30,000	
Rs. 10,00,001 - Rs. 10,11,940 @ 15%	1,791	51,791
Add: Health and Education cess @ 4%		2,072
Total tax liability		53,863
Less: Advance tax paid		70,000
Less: TDS on dividend income from an Indian company u/s 194	1,052	
Less: Tax deducted at source on income from UTI u/s 194K	760	1,812
Tax Payable/ (Refundable)		(17,949)
Tax Payable/ (Refundable) (rounded off)		(17,950)

Computation of total income and tax payable under normal provisions of the Act

Particulars	Rs.	Rs.
Gross Total Income		10,11,944
[Income u/h "Income from HP" "PGBP" & "IFOS" would remain same even if Ms. Purvi opts out of the default tax regime u/s 115BAC]		
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000
Total Income		10,01,944
Total Income (rounded off)		10,01,940
Tax on total income		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 @5%	12,500	
Rs. 5,00,000 - Rs. 10,00,000 @20%	1,00,000	
Rs. 10,00,000 – Rs. 10,01,940 @ 30%	582	1,13,082
Add: Health and Education cess @ 4%		4,523
Total tax liability		1,17,605
Less: Advance tax paid		70,000
Less: TDS u/s 194 on dividend	1,052	
TDS u/s 194K on income from UTI	760	1,812
Tax Payable		45,793
Tax Payable (rounded off)		45,790

Since there is tax refundable under default tax regime 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	Rs.	Rs.
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 u/h "Profits & Gains of Business or Profession"

Particulars	Rs.	Rs.
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment exceeds Rs. 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable u/s 37(1) since it is a capital expenditure	80,000	
(ii) Municipal taxes paid i.r.o residential flat let out	3,000	1,13,000
Add: Value of benefit received from clients during course of profession [taxable as business income u/s 28(iv)]		10,41,224
		10,500
Less: Income credited but not taxable under this head:		10,51,724
(i) Dividend on shares of X Ltd., an Indian company (taxable u/h "IFOS")	10,524	
(ii) Income from UTI (taxable u/h "IFOS")	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
Less: Depreciation on motor car @15% (See Note (i) below)		9,32,200
		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).
- 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 6 months of next PY amounting to Rs. 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- Rs. 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no

further adjustment is required.

(3) Income from other sources

Particulars	Rs.
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	33,924

(4) Deduction under Chapter VI-A :

Particulars	Rs.
Deduction u/s 80C (Investment in NSC)	10,000
Deduction u/s 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	10,000

Notes:

- 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.
- 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.

Q5. Mr. Y carries on his own business. An analysis of his trading & P&L A/c for the RPY revealed the following:

- The net profit was Rs. 11,20,000.
- The following incomes were credited in the profit & loss account:
 - Income from UTI Rs. 22,000 (Gross)
 - Interest on debentures Rs. 17,500 (Gross)
- Winnings from horse races Rs. 15,000 (Gross)
- It was found that some stocks were omitted to be included in both the opening & closing stocks, the value of which were: Opening stock Rs. 8,000 & Closing stock Rs. 12,000.
- Rs. 1,00,000 was debited in the P&L A/c, being contribution to a University approved & notified u/s 35(1)(ii).
- Salary includes Rs. 20,000 paid to his brother which is unreasonable to the extent of Rs. 2,500.
- Advertisement expenses include 15 gift packets of dry fruits costing Rs. 1,000 per packet presented to important customers.
- Total expenses on car was Rs. 78,000. Car was used both for business (3/4) & personal purposes (1/4).
- Miscellaneous expenses included Rs. 30,000 paid to A & Co., a goods transport operator in cash for distribution of the company's product to the warehouses.
- Depreciation debited in the books was Rs. 55,000. Depreciation allowed as per Income-tax Rules, 1962 was Rs. 50,000.
- Drawings of Rs. 10,000 debited in the books.
- Investment in NSC Rs. 15,000 debited in the books.

Compute the total income of Mr. Y for the RAY under optional tax regime as per normal provisions of the Act.

Answer: Computation of total income of Mr. Y for the RAY

Particulars	Rs.
Profits and gains of business or profession (See Working Note 1 below)	11,21,500
Income from other sources (See Working Note 2 below)	54,500
Gross Total Income	11,76,000
Less: Deduction 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	Rs.	Rs.
Net profit as per profit and loss account		11,20,000
Add: Expenses debited to P&L A/c but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
Motor car expenses attributable to personal use not allowable (Rs. 78,000 × ¼)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) [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.		-
Less: Incomes credited to P&L A/c but not taxable as business income		12,26,000
Income from UTI [taxable under the head "Income from other sources"]	22,000	
Interest on debentures (taxable u/h "Income from other sources")	17,500	
Winnings from horse races (taxable u/h "Income from other sources")	15,000	54,500
Less: Depreciation allowable under the Income-tax Rules, 1962		11,71,500
		50,000
		11,21,500

Notes:

- (a) 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.
- (b) Disallowance u/s 40A(3) is not attracted in respect of cash payment exceeding Rs. 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of Rs. 35,000 is applicable [i.e. payment of upto Rs. 35,000 can be made in cash without attracting disallowance u/s 40A(3)].

- (c) 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.
- (d) In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is Rs. 50,000. It has been assumed that, in the said figure of Rs. 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

(2) Computation of "Income from Other Sources"

Particulars	Rs.
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	54,500

Q6. Balamurugan furnishes the following information for the year ended 31-03-2025:

Particulars	Rs.
Income from textile business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary (Computed)	2,70,000
LTCG u/s 112 taxable @20%	70,000

Compute his total income, tax liability & advance tax obligations under default tax regime u/s 115BAC.

Answer: **Computation of total income of Balamurugan for the year ended 31.03.2025**

Particulars	Rs.	Rs.
Salaries	2,70,000	
Less: Loss from HP (Cannot be set off against income under any other head)	-	2,70,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss of Rs. 1,35,000 set-off to the extent of Rs. 1,00,000	(1,00,000)	
	Nil	
Balance current year business loss of Rs. 35,000 to be set-off against LTCG		
Capital Gains		
LTCG	70,000	
Less: Balance current year business loss set-off	(35,000)	
LTCG 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 AY 25-26	Rs.
On total income of Rs. 2,70,000 (excluding lottery winning and LTCG)	Nil
On LTCG of Rs. 5,000 @20% (balance unexhausted BEL of Rs. 30,000 can be adjusted against LTCG taxable u/s 112)	1,000
On lottery winnings of Rs. 5,00,000 @ 30%	1,50,000
	1,51,000
Add: Health and Education cess @ 4%	6,040
Total tax liability	1,57,040

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, i.r.o. lottery income, tax would have been deducted at source @ 30% u/s 194B. Since remaining tax liability of Rs. 6,040 (Rs. 1,57,040 – Rs. 1,50,000) < Rs. 10,000, advance tax liability is not attracted.

Note: The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2025. The first proviso to section 234C(1) would be attracted only in case of non- deduction or short-deduction of tax at source 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 Rs. 1,040 (Rs. 1,57,040 – Rs. 1,50,000) is less than Rs. 10,000, advance tax liability is not attracted.

Q7. Mr. Rajiv aged 50 years, a resident individual & practicing Chartered Accountant, furnishes you receipts & payments account for the PY 24-25.

Receipts & Payments Account

Receipts	Rs.	Payments	Rs.
Opening balance (1.4.2024)		Staff salary, bonus & stipend to articles	21,50,000
Cash on hand & at Bank	12,000	Other administrative expenses	11,48,000
		Office rent	30,000
Fee from professional services (Gross)	59,38,000	Housing loan repaid to SBI (includes interest of Rs. 88,000)	1,88,000
		Life insurance premium (10% of sum assured)	24,000
Rent	50,000	Motor car (acquired in Jan. 2025 by A/c payee cheque)	4,25,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Medical insurance premium (for self & 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 & 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 & let out the balance for residential use at a monthly rent of Rs. 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 & personal purpose. One- fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2024 are given below:

Furniture & Fittings	Rs. 60,000
Plant & Machinery (Air-conditioners, Photocopiers, etc.)	Rs. 80,000
Computers	Rs. 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute Ti of Mr. Rajiv for AY 25-26 assuming that he has shifted out of the default tax regime u/s 115BAC.

Answer: **Computation of total income of Mr. Rajiv for the AY 25-26**

Particulars	Rs.	Rs.	Rs.
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction u/s 24(b)			
Interest on housing loan (50% of Rs. 88,000 = 44,000 but limited to	30,000		
Loss from self-occupied property		(30,000)	
Let out property Annual value (Rent receivable has been taken as annual value in the absence of other information)	60,000		
Less: Deductions u/s 24			
30% of Net Annual Value	18,000		
Interest on housing loan (50% of Rs. 88,000)	44,000	62,000	(2,000)
Loss from house property			
Profits & 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		(32,000)
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 & assessee follows cash system of accounting)	Nil	33,36,000	
Less: Depreciation		26,02,000	
Motor car Rs. 4,25,000 x 7.5% x 4/5	25,500		
Books being annual publications@40%	8,000		
Furniture and fittings@10% of Rs. 60,000	6,000		
Plant and machinery@15% of Rs. 80,000	12,000		

Computer@40% of Rs. 50,000	20,000		
Computer (New) Rs. 30,000 @ 40% x 50%	6,000	77,500	25,24,500
Gross Total income			24,92,500
Less: Deductions under Chapter VI-A			
Deduction u/s 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of Rs. 1,44,000 is allowed as deduction since it is within limit of Rs. 1,50,000		1,44,000	
Deduction u/s 80D			
Medical insurance premium paid		18,000	1,62,000
Total income			23,30,500

Q11. Rosy & Mary are sisters, born & brought up at Mumbai. Rosy got married in 1982 & settled at Canada since 1982. Mary got married & settled in Mumbai. Both are < 60 years. following are details of their income for PY 24-25:

SN	Particulars	Rosy	Mary
1	Pension received from State Government	-	60,000
2	Pension received from Canadian Government	20,000	-
3	LTCG on sale of land on 15.5.2024 at Mumbai taxable	1,00,000	1,00,000
4	STCG on sale of shares on 23.4.2024 of Indian listed companies i.r.o. which STT was paid	20,000	2,50,000
5	LIC premium paid	-	10,000
6	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	-
7	Mediclaim policy premium paid by A/c Payee Cheque	-	25,000
8	Deposit in PPF	-	20,000
9	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the total income & tax liability of Mrs. Rosy & Mrs. Mary for the AY 25-26 & tax thereon assuming both exercised the option to shift out of the default tax regime.

Answer: **Computation of total income of Mrs. Rosy and Mrs. Mary for the AY 25-26**

SN	Particulars	Mrs. Rosy (NR)	Mrs. Mary (ROR)
(I)	Salaries		
	Pension recd from State Govt.		Rs. 60,000
	Less: Standard deduction u/s 16(ia)		Rs. 50,000
		-	10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	-
		-	10,000
(II)	Income from house property		

	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent & standard rent)	60,000	30,000
	Less: Deduction u/s 24(a)@30%	18,000	9,000
		42,000	21,000
(III)	Capital gains		
	LTCG on sale of land at Mumbai	1,00,000	1,00,000
	STCG on sale of shares of Indian listed companies i.r.o 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		
	LIC Premium paid	-	10,000
	Premium paid to Canadian Life Insurance Corporation	40,000	-
	Deposit in PPF	-	20,000
		40,000	30,000
2.	Deduction u/s 80D – Mediclaim premium paid	-	25,000
		40,000	55,000
(B)	Total deduction under Chapter VI-A is restricted to income other than capital gains taxable u/ss 111A & 112	40,000	31,000
(C)	Total income (A-B)	1,22,000	3,50,000
	Tax liability of Mrs. Rosy for AY 25-26		
	Tax on LTCG @20% of Rs. 1,00,000	20,000	
	Tax on STCG @15% of Rs. 20,000	3,000	
	Tax on balance income of Rs. 2,000	Nil	
	Tax liability of Mrs. Mary for AY 25-26	23,000	
	Tax on STCG @15% of Rs. 1,00,000 [i.e., Rs. 2,50,000 - Rs. 1,50,000, being unexhausted basic exemption limit as per proviso to section 111A] [See Notes 3 & 4 below]		15,000
	Less: Rebate u/s 87A would be lower of Rs. 12,500 or tax liability, since total income does not exceed Rs. 5,00,000		12,500
			2,500
	Add: Health and Education cess@4%		100
		920	
	Total tax liability	23,920	2,600

Notes:

- (1) LTCG on sale of land on 15.5.2024, is chargeable to tax@20% as per section 112.
- (2) STCG on transfer of equity shares on 23.4.2024 in respect of which securities transaction tax is paid is subject to tax@15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then, the LTCG u/s 112/STCG 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 LTCG taxable u/s 112 and STCG taxable u/s 111A, Mrs. Rosy cannot do so.
- (4) Since LTCG is taxable at the rate of 20% and STCG is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of Rs. 2,50,000 against LTCG of Rs. 100,000 and the balance limit of Rs. 1,50,000 (i.e., Rs. 2,50,000 – Rs. 1,00,000) against STCG.
- (5) Rebate u/s 87A would not be available to Mrs. Rosy even though her total income does not exceed Rs. 5,00,000, since she is non-resident for the AY 25-26.

Q12. Mr. X, an individual set up a unit in SEZ in PY 19-20 for production of washing machines. The unit fulfills all conditions of section 10AA of the Income-tax Act, 1961. During PY 23-24, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to Rs. 75 lakhs (including cost of land Rs. 10 lakhs). The warehouse became operational with effect from 1st April, 2024 & the expenditure of Rs. 75 lakhs was capitalized in the books on that date. Relevant details for PY 24-25 are as follows:

Particulars	Rs.
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2025	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction u/s 35AD)	1,05,00,000

Compute income-tax (including AMT u/s 115JC) liability of Mr. X for AY 25-26 both as per section 115BAC & as per regular provisions of Income-tax Act, 1961 for AY 25-26. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

Answer: Computation of total income & tax liability of Mr. X for AY 25-26 (under default tax regime u/s 115BAC)

Particulars	Rs.	Rs.
Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation u/s 32		
On building @10% of Rs. 65 lakhs (normal depreciation u/s 32 is allowable)	6,50,000	98,50,000
Total Income		1,38,50,000
Computation of tax liability as per section 115BAC		
Tax on Rs. 1,38,50,000		38,45,000
Add: Surcharge@15%		5,76,750
		44,21,750
Add: Health and Education cess@4%		1,76,870
Total tax liability		45,98,620

Notes:

- (1) Deductions u/s 10AA and 35AD are **not** allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) Mr. X is not liable to alternate minimum tax u/s 115JC under default tax regime u/s 115BAC.

Computation of Ti & tax liability of Mr. X for AY 25-26 (under regular provisions of Income-tax Act, 1961)

Particulars	Rs.	Rs.
Profits & gains of business or profession		
Profit from unit in SEZ	40,00,000	
Less: Deduction u/s 10AA [See Note (1) below]	16,00,000	
Business income of SEZ unit chargeable to tax		24,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD [See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		
Total Income		
Computation of tax liability (under the normal/ regular provisions)		
Tax on Rs. 64,00,000		
Add: Surcharge @ 10% (since total income > Rs. 50 lakhs but does not exceed Rs. 1 cr)		
Add: Health and Education cess@4%		
Total tax liability		

Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

Particulars	Rs.	Rs.
Total Income (computed above as per regular provisions of income tax)		64,00,000
Add: Deduction u/s 10AA		16,00,000
Add: Deduction u/s 35AD		80,00,000
	65,00,000	
Less: Depreciation u/s 32		
On building @10% of Rs.65 lakhs ⁵	6,50,000	58,50,000
Adjusted Total Income		1,38,50,000
Alternate Minimum Tax @18.5%		25,62,250
Add: Surcharge@15% (since adjusted total income > Rs. 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess@4%		1,17,863
		30,64,451
Tax liability u/s 115JC (rounded off)		30,64,450

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof *plus* surcharge@15% and cess@4%. Therefore, tax liability as per section 115JC is Rs. 30,64,450.

Since the tax liability of Mr. X u/s 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him **to opt out of the default tax regime u/s 115BAC for AY 25-26**. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward u/s 115JEE

Particulars	Rs.
Tax liability u/s 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	19,81,980
	10,82,470

Notes:

- (1) Deduction u/s 10AA i.r.o Unit in SEZ = Profit of the unit in SEZ $\times \frac{\text{Export turnover of the Unit in SEZ}}{\text{Total turnover of the Unit in SEZ}} \times 50\%$

$$= 40,000 \times \frac{80,00,000}{1,00,00,000} \times 50\% = \text{Rs. 16,00,000}$$
- (2) Deduction@100% of the capital expenditure is available u/s 35AD for AY 25-26 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.
- (3) Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations. Deduction u/s 35AD would, however, not be available on expenditure incurred on acquisition of land.
- (4) In this case, since the capital expenditure of Rs. 65 lakhs (i.e., Rs. 75 lakhs – Rs. 10 lakhs, being expenditure on acquisition of land) has been incurred in the FY.2023-24 and capitalized in the books of account on 1.4.2024, being the date when the warehouse became operational, Rs. 65,00,000, being 100% of Rs. 65 lakhs would qualify for deduction u/s 35AD.

Q8. From the following details, compute the total income & tax liability of Siddhant, aged 31 years, of Delhi both as per section 115BAC & as per the regular provisions of the Income-tax Act, 1961 for AY 25-26. Advise Mr. Siddhant whether he should opt for section 115BAC:

Particulars	Rs.
Salary including dearness allowance	4,35,000
Bonus	15,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity & water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for Rs. 4,75,000 in April, 2016, which was financed by a loan from Life Insurance Corporation of India of Rs. 1,60,000@15% interest, his own savings of Rs. 65,000 & a deposit from a nationalized bank for Rs. 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was Rs. 3,500 per month. The following particulars are relevant:

- (1) Municipal taxes paid by Mr. Siddhant = Rs. 4,300 (per annum)
- (2) House Insurance = Rs. 860
- (3) He earned Rs. 2,700 in share speculation business & lost Rs. 4,200 in cotton speculation business.
- (4) In the year 2021-22, he had gifted Rs. 30,000 to his wife & Rs. 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest@19% per annum.

- (5) Siddhant received a gift of Rs. 30,000 each from four friends.
 (6) He contributed Rs. 50,000 to Public Provident Fund.

Q9. Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides following information for year ended 31.03.2025:

Basic Salary	Rs. 15,000 p.m.
DA (50% of it is meant for retirement benefits)	Rs. 12,000 p.m.
Commission as a percentage of turnover of the Company	0.5 %
Turnover of the Company	Rs. 50 lakhs
Bonus	Rs. 50,000
Gratuity	Rs. 30,000
Own Contribution to R.P.F.	Rs. 30,000
Employer's contribution to R.P.F.	20% of basic salary
Interest credited in the R.P.F. account @ 15% p.a.	Rs. 15,000
Gold Ring given by employer on his 25th wedding anniversary	Rs. 10,000

- Music System purchased on 01.04.2024 by the company for Rs. 85,000 & was given to him for personal use.
- Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of Rs. 6,500 p.m. Books of account are not maintained.
- Received interest of Rs. 5,860 on bank FDRs on 24.4.2024 & interest of Rs. 6,786 (Net) from the debentures of Indian Companies on 5.5.2024.
- Made payment by cheques of Rs. 15,370 towards premium on Life Insurance policies & Rs. 22,500 for Mediclaim Insurance policy for self & spouse.
- Invested in NSC Rs. 30,000 & in FDR of SBI for 5 years Rs. 50,000.
- Donations of Rs. 11,000 to an institution approved u/s 80G & of Rs. 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute his total income & tax payable thereon for the AY 25-26. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime u/s 115BAC.

Q10. From the following particulars furnished by Mr. X for the year ended 31.3.2025, you are requested to compute his total income & tax payable for AY 25-26, assuming that he opts out of the default tax regime u/s 115BAC.

- (1) Mr. X retired on 31.12.2024 at the age of 58, after putting in 26 years & 1 month of service, from a private company at Mumbai.
- (2) He was paid a salary of Rs. 25,000 p.m. & house rent allowance of Rs. 6,000 p.m. He paid rent of Rs. 6,500 p.m. during his tenure of service.
- (3) On retirement, he was paid a gratuity of Rs. 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
- (4) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of Rs. 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as Rs. 24,500. Employer allowed 30 days leave per annum.
- (5) After retirement, he ventured into textile business & incurred a loss of Rs. 80,000 for the period upto 31.3.2025.
- (6) Mr. X has deposited Rs. 1,00,000 in public provident fund.



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