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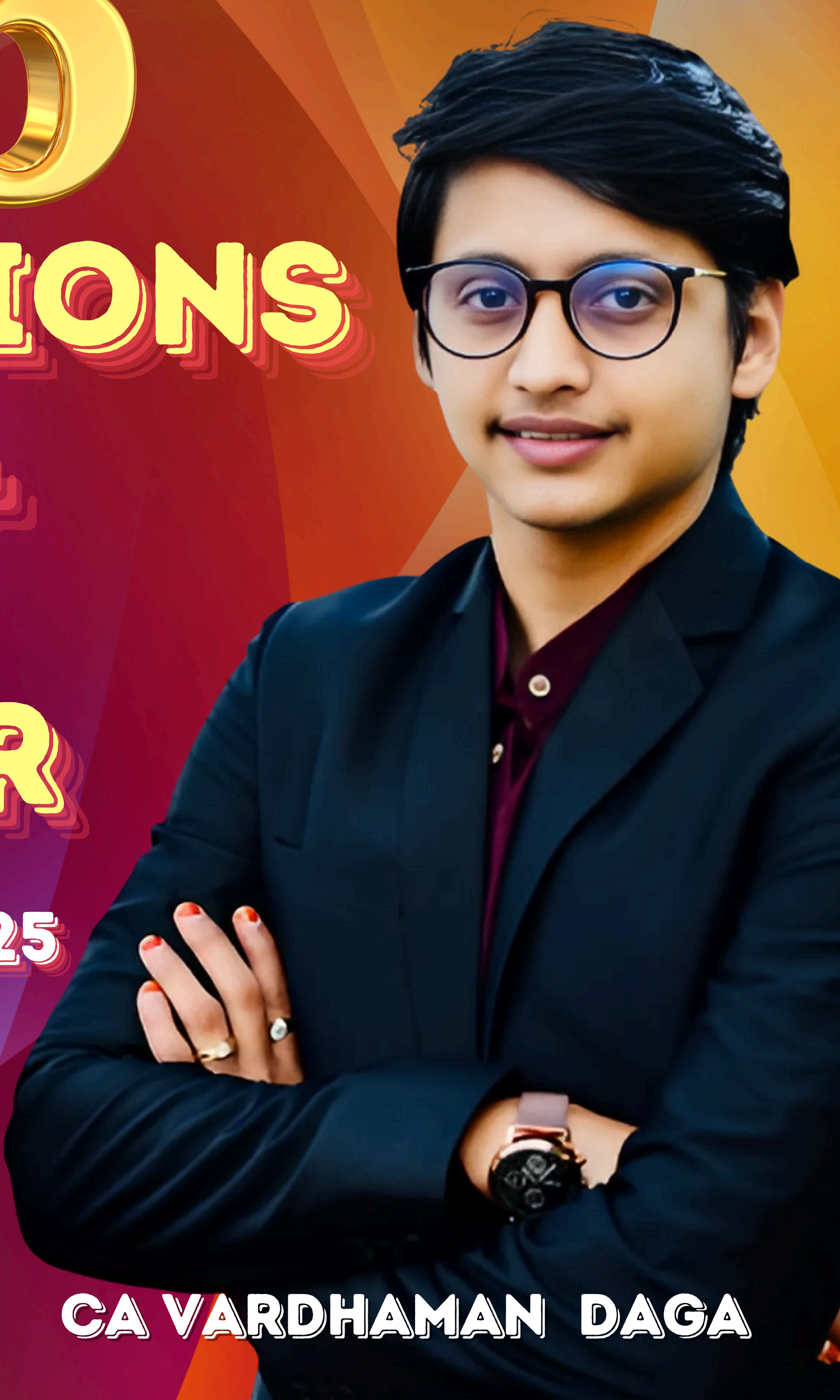
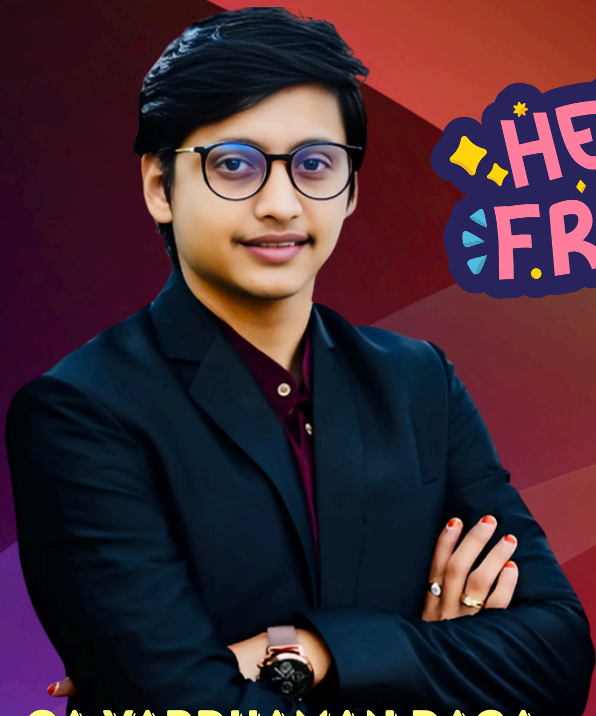


CA VARDHAMAN DAGA



CA VARDHAMAN DAGA

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CHAPTER – 2
RESIDENCE AND SCOPE OF TOTAL INCOME

ILLUSTRATION 8

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident resident but not ordinarily resident, and non-resident for the A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)–

Interest on UK Development Bonds, 50% of interest received in India	*10,000*
Income from a business in Chennai (50% is received in India)	*20,000*
Short term capital gains on sale of shares of an Indian company, received in London	*20,000*
Dividend from British company received in London	*5,000*
Long term capital gains on sale of plant at Germany, 50% of gains are received in India	*40,000*
Income earned from business in Germany which is controlled in Delhi (₹ 40,000 is received in India)	*70,000*
Profits from a business in Delhi but managed entirely from London	*15,000*
Income from house property in London deposited in a Bank at London, brought to India (Computed)	*50,000*
Interest on debentures in an Indian company, received in London	*12,000*
Fees for technical services rendered in India but received in London Profits from a	*8,000*
business in Mumbai, managed from London	*26,000*
Income from property situated in Nepal received there (Computed)	*16,000*
Past foreign untaxed income brought to India during the previous year	*5,000*
Income from agricultural land in Nepal, received there and then brought to India	*18,000*
Income from profession in Kenya which was set up in India, received there but spent in India	*5,000*
Gift received on the occasion of his wedding	*20,000*
Interest on savings bank deposit in State Bank of India	*12,000*
Income from a business in Russia, controlled in Russia	*20,000*
Dividend from Reliance Petroleum Limited, an Indian Company	*5,000*
Agricultural income from a land in Rajasthan	*15,000*

SOLUTION

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

Particulars	Resident and	Resident but not	Non resident

	ordinarily resident	ordinarily resident	
Gross Total Income	3,52,000	2,18,000	1,83,000
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of ₹ 10,000]	10,000	10,000	10,000
Total Income	**3,42,000**	**2,08,000**	**1,73,000**

ILLUSTRATION 15

Scope of total Income: *Explain with reasons whether the following transactions attract income-tax in India in the hands of recipients?*

i) *Salary (Computed) paid to Mr. David, a citizen of India 15,00,000 by the Central Government for the services rendered in Canada.*

ii) *Legal charges of ₹ 7,50,000 paid to Mr. Johnson, a lawyer of London, who visited India to represent a case at the Supreme Court.*

iii) *Royalty paid to Rajeev, a non-resident by Mr. Kukesh, a resident for a business carried on in Sri Lanka.*

iv) *Interest received of ₹ 1,00,000, on money borrowed from France, by Ms. Dyana, a non-resident for the business at Bangalore.* ***(4 Marks, May 2015)***

SOLUTION:

	Taxable/ Not Taxable	Amount ₹ liable to tax	Reason
i)	Taxable	15,00,000	As per Section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. David for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India.
ii)	Taxable	7,50,000	Legal charges paid to Mr. Johnson, a lawyer of London, who visited India to represent a case at the Supreme Court, since it accrues or arises in India.
iii)	Not taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed

			accrual mentioned in Section 9(1)(vi)(b).
iv)	Taxable	1,00,000	As per Section 9(1)(v) (c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.

ILLUSTRATION 23

Scope of total income: *Mr. Thomas, a non-resident and citizen of Japan entered into following transactions during the previous year ended 31-03-2025. Examine the tax implications in the hands of Mr. Thomas for the Assessment Year 2025-26 as per Income-tax Act, 1961. (Give brief reasoning)*

- ***i)*** *Interest received from Mr. Marshal, a non-resident outside India (The borrowed fund is used by Mr. Marshal for investing in Indian company's debt fund for earning interest).*
- ***ii)*** *Received 10 lakhs in Japan from a business enterprise in India for granting license for computer software (not hardware specific).*
- ***iii)*** *He is also engaged in the business of running news agency and earned income of 10 lakhs from collection of news and views in India for transmission outside India.*
- ***iv)*** *He entered into an agreement with SKK & Co., a partnership firm for transfer of technical documents and design and for providing services relating thereto, to set up a Denim Jeans manufacturing plant, in Surat (India). He charged 10 lakhs for these services from SKK & Co.* ***(5 Marks, Nov. 2020)***

SOLUTION

- **i)** Not taxable, since interest payable by a non-resident to another non-resident would be deemed to accrue or arise in India only if the borrowed fund is used for the purposes of business or profession carried on by him in India. In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is not taxable in India.
- **ii)** Royalty includes, inter alia, consideration for grant of license for computer software. Hence, the amount of 10 lakhs payable by a resident (business enterprise in India) for grant of license for computer software would be royalty which is deemed to accrue or arise in India in the hands of Mr. Thomas, a non-resident, since it is for the purpose of business in India. Hence, the royalty is taxable in India.
- **iii)** No income shall be deemed to accrue or arise to Mr. Thomas through or from activities which are confined to the collection of news and views in India for transmission outside India. Hence, ₹ 10 lakhs is not taxable in India in the hands of Mr. Thomas.
- **iv)** 10 lakhs is deemed to accrue or arise in India to Mr. Thomas, a non-resident, since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Denim Jeans manufacturing plant in Surat. Hence, the same would be taxable in India in the hands of Mr. Thomas.

ILLUSTRATION 24

Scope of total income*: Examine the tax implications of the following transactions for the A.Y. 2025-26: (Give brief reason)*

- ***i)*** *Government of India has appointed Mr. Rahul as an ambassador in Japan. He received salary of ₹ 7,50,000 and allowances of 2,40,000 during the previous year 2024-25 for* *rendering his services in Japan. He is an Indian citizen having status of non-resident in India for the previous year 2024-25.*

ii) *Ms. Juhi, a non-resident in India is engaged in operations which are confined to purchase of goods in India for the purpose of export. She has earned 2,50,000 during the previous year 2024-25.*

iii) *Mr. Naveen, a non-resident in India, has earned 3,00,000 as royalty for a patent right made available to Mr. Rakesh who is also a non-resident. Mr. Rakesh has utilized patent rights for development of a product in India and 50% royalty is received in India and 50% outside India.*

iv) *Mr. James, a NRI, borrowed 10,00,000 on 01-04-2024 from Mr. Akash who is also a non-resident and invested such money in the shares of an Indian Company. Mr. Akash has received interest @12% per annum.* ***(7 Marks, Dec. 2021)***

SOLUTION

i) As per section 9(1)(iii), salaries (including, inter alia, allowances) payable by the Government to a citizen of India for services rendered outside India shall be deemed to accrue or arise in India.
Thus, salary received from Government by Mr. Rahul, being a non-resident of ₹ 7,50,000 for rendering services in Japan would be taxable in his hands, after allowing standard deduction of 50,000.
However, any allowance or perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India will be fully exempt u/s 10(7). Hence, 2,40,000, being the allowance would be exempt.

ii) In the case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export.
Thus, income of 2,50,000 arising in the hands of Ms. Juhi would not be taxable in her hands in India, since her operations are confined to purchase of goods in India for the purpose of export.

iii) Royalty payable by a non-resident would be deemed to accrue or arise in India in the hands of the recipient only when such royalty is payable in respect of any right, property or information used for the purposes of a business or profession carried on by such non-resident in India or earning any income from any source in India.
In the present case, since Mr. Rakesh, a non-resident, paid the royalty of ₹ 3,00,000 for a patent right used for development of a product in India, the same would be taxable in India in the hands of the recipient, Mr. Naveen, a non-resident, irrespective of the fact that only 50% of the royalty is received in India.

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

CHAPTER – 3
INCOME FROM SALARY

ILLUSTRATION 10

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

SOLUTION

For A.Y 2024-25 – 1532, For A.Y 2025-26 - 4069

ILLUSTRATION 20

Mr. X retired from the services of M/s Y Ltd. on 31.01.2025, after completing service of 30 years and one month. He had joined the company on 1.1.1994 at the age of 30 years and received the following on his retirement:

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

Following are the other particulars:

- **i)** *He has drawn a basic salary of ₹20,000 and 50% dearness allowance per month for the period from 01.04.2024 to 31.01.2025.*
- **ii)** *Received pension of ₹5,000 per month for the period 01.02.2025 to 31.03.2025 after commutation of pension.*

Compute his gross total income from the above for Assessment Year 2025-26 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Taxable salary – 6,82,769

ILLUSTRATION 29

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

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

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

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

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

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

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

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

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

(vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2024 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2024 to 31.03.2025, were fully met by the employer. The motor car was self-driven by the employee.

(viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the A.Y. 2025-26 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

taxable salary – 9,67,500

ILLUSTRATION 30

From the following details, find out the salary chargeable to tax for the A.Y.2025-26 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)-

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2024 in the scale of ₹20,000 -₹ 1,000-₹30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. DA forms part of pay for retirement benefits

He is provided free housing facility which has been taken on rent by the company at ₹ 10,000 per month. He is also provided with following facilities:

(i) Facility of laptop costing ₹ 50,000.

(ii) Company reimbursed the medical treatment bill of his brother of ₹ 25,000, who is dependent on him.

(iii) The monthly salary of ₹ 1,000 of a house keeper is reimbursed by the company.

(iv) A gift voucher of ₹ 10,000 on the occasion of his marriage anniversary.

(v) Conveyance allowance of ₹ 1,000 per month is given by the company towards actual reimbursement of conveyance spent on official duty.

(vi) He is provided personal accident policy for which premium of ₹ 5,000 is paid by the company.

(vii) He is getting telephone allowance @₹500 per month.

SOLUTION

Salary income chargeable to tax – 3,28,749

CHAPTER – 4
INCOME FROM HOUSE PROPERTY

ILLUSTRATION 8

Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the P.Y.2024-25 are as under:

Particulars	House I	House II	House III
Municipal valuation p.a.	₹ 3,00,000	₹ 3,60,000	₹ 3,30,000
Fair rent p.a.	₹ 3,75,000	₹ 2,75,000	₹ 3,80,000
Standard rent p.a.	₹ 3,50,000	₹ 3,70,000	₹ 3,75,000
Date of completion/purchase	31.3.2000	31.3.2002	01.4.2016
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	₹ 55,000	-
Interest for current year on money borrowed in April, 2017 for purchase of			₹ 1,75,000

Compute Ganesh's income from house property for A.Y.2025-26 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

SOLUTION

(a) under 115BAC – H1 & H2 SOP, H3 LOP, income from house property – 73,640 (b) under normal provision – H1 & H3 SOP, H2 LOP, income from house propert – 1,840

ILLUSTRATION 22

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

- *Municipal taxes of 4,00,000 for the financial year 2024-25 (10% rebate is obtained for payment before due date). Arrears of municipal tax of financial year 2023-24 paid during the year of 1,40,000 which includes interest on arrears of 25,000.*
- *Lift maintenance expenses of ₹ 2,40,000 which includes a payment of ₹ 30,000 which is made in cash.*
- *Salary of ₹ 88,000 paid to staff for collecting house rent and other charges.*

Compute the total income of Mr. Ravi for the assessment year 2025-26 assuming that Mr. Ravi has not opted for the provisions under section 115BAC. ***(6 Marks, Dec. 2021)***

SOLUTION

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

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

CHAPTER – 5
PROFIT AND GAINS OF BUSINESS OR PROFESSION

ILLUSTRATION 12

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 7,00,000 before deduction of the following items:

(1) *Salary of ₹ 40,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).*

(2) *Depreciation on plant and machinery under section 32 (computed) ₹ 1,50,000.*

(3) *Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is ₹ 5,00,000.*

Compute: (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
(ii) Allowable working partner salary for the A.Y. 2025-26 as per section 40(b).

SOLUTION

Computation of Book Profit of the firm under section 40(b)

Particulars	₹	₹
Book Profit		**14,90,000**

Therefore, the maximum allowable working partners' salary for the A.Y. 2025-26 in this case would be:

Particulars	₹
Maximum allowable partners' salary	**10,74,000**

Hence, allowable working partners' salary for the A.Y.2024-25 as per the provisions of section 40(b)(v) is ₹ 9,60,000.

ILLUSTRATION 25

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

Trading and Profit and Loss Account for the year ended 31.03.2025

Particulars	₹	*Particulars*	₹
To Opening stock	*90,000*	*By Sales*	*1,12,11,500*
To Purchases	*1,10,04,000*	*By Closing stock*	*1,86,100*
To Gross Profit	*3,03,600*		
	1,13,97,600		***1,13,97,600***
To Salary	*60,000*	*By Gross profit b/d*	*3,03,600*
To Rent and rates	*36,000*	*By Income from UTI*	*2,400*
To Interest on loan	*15,000*		
To Depreciation	*1,05,000*		
To Printing & stationery	*23,200*		

To Postage & telegram	1,640		
To Loss on sale of shares (Short-term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		**3,06,000**

Additional Information:

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

Opening stock ₹ 9,000

Closing stock ₹ 18,000

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

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

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

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

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

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

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

SOLUTION

Computation of business income of Mr. Sivam for the A.Y. 2024-25

Particulars	₹	₹
Business Income		**1,30,900**

Computation of business income as per section 44AD:

As per section 44AD, where the amount of turnover is received, inter alia, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes,

presumptive business income would be 6% of turnover, i.e., ₹ 1,12,11,500 x 6 /100 = ₹ 6,72,690

ILLUSTRATION 27

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

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

Particulars	*₹*	*Particulars*	*₹*

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

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

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

(ii) The assessee paid ₹ 33,000 in cash to a transport carrier on 29.12.2024. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)

(iii) A sum of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.

(iv) Bank term loan interest actually paid upto 31.03.2025 was ₹ 20,000 and the balance was paid in November 2025.

(v) Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in P.Y. 2023-24 for self-occupation. Interest on housing loan was ₹ 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.

(vi) Depreciation allowable under the Act is to be computed on the basis of following information:

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

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

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

SOLUTION

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

Particulars	₹	₹
Total Income		3,03,500

ILLUSTRATION 51

Presumptive basis u/s 44ADA: *Ms. Kriti is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended 31 March, 2025 reads as follows:*

Expenditure	₹	*Income*	₹	₹
Salary to staff	*5,50,000*	*Fees earned:*		
Stipend to articled assistants	*37,000*	*Audit*	*17,88,000*	
		Taxation services	*5,40,300*	
Incentive to articled assistants	*3,000*	*Consultancy*	*2,70,000*	*25,98,300*
Office rent	*24,000*	*Dividend on shares of Indian companies (Gross)*		*10,524*
Printing and stationery	*22,000*	*Income from units of mutual fund (Gross)*		*7,600*
Meeting, seminar and conference	*31,600*	*Honorarium received from various institutions for valuation of answer papers*		*15,800*
Purchase of car	*80,000*	*Rent received from residential flat let out*		*85,600*
Repair, maintenance	*4,000*			
Travelling expenses Municipal tax paid in respect of house	*35,000*			
Property	*3,000*			
Net Profit	*19,28,224*			
	27,17,824			***27,17,824***

Other Information:

- **(i)** *Allowable rate of depreciation on motor car is 15%.*
- **(ii)** *Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt*
- **(iii)** *Salary include 15,000 to a computer specialist in cash on 15-07-2024 for assisting Ms. Kriti in one professional assignment.*

On the basis of above information, determine whether Ms. Kriti should opt for presumptive basis taxation for computation of her Gross Total Income for assessment year 2025-26.

SOLUTION

Computation of the Gross Total Income for the assessment year 2025-26

- *CASE I*: When Ms. Kriti opt for the provisions of Section 44ADA: Computation of gross total income (amounts in ₹)

Particulars	₹	₹
Income from house property:		
Actual Rent Received [Being Gross Annual Value u/s 23(1)]	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	**82,600**	
Less: Standard deduction u/s 24 @ 30% of NAV	24,780	57,820
Income under the head Profits & Gains of Business and Profession 50% of the Gross receipts i.e. 50% of 25,98,300 is deemed profits from profession under Section 44ADA		12,99,150
Income from other sources:		
Dividends from Indian companies [Taxable in hands of shareholder]	10,524	
Income from Unit Trust of India. [Taxable in hands of unit holder]	7,600	
Honorarium for valuation of answer papers	15,800	33,924
Gross Total Income		**13,90,894**

***CASE II*: When income is computed as per normal provisions of the Act.**
Computation of gross total income (amounts in ₹):

Particulars	₹	₹
Income from house property:		
Actual Rent Received [Being Gross Annual Value u/s 23(1)]	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	**82,600**	
Less: Standard deduction u/s 24 @30% of NAV	24,780	57,820
Income under the head Profits & Gains of Business and Profession		
Net profit as per Income and Expenditure Account	19,28,224	
Add: Expenses debited but not allowable -		
Municipal Taxes of house property in respect of residential flat let out	3,000	
Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment is in excess of 10,000	15,000	
Amount paid for purchase of car is not allowable u/s 37(1) since it is a capital expenditure	80,000	
Less: Income credited but not taxable under this head Dividend on shares of Indian Companies [The same taxable under the head Income From Other Sources]	10,524	
Income from Unit Trust of India [The same taxable under the head Income From Other Sources]	7,600	

Honorarium for valuation of answer papers [The same is taxable under the head 'Income from other sources']	15,800	
Rent received from residential flat let out [The same is taxable under the 'Income from house property']	85,600	
Depreciation on Motor Car @ 15% [WN]	12,000	18,94,700
Income from other sources:		
Dividends from Indian companies [Taxable in hands of shareholder]	10,524	
Income from Unit Trust of India. [Taxable in hands of shareholder]	7,600	
Honorarium for valuation of answer papers	15,800	33,924
Gross Total Income		**19,86,444**

Working Note: It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Conclusion: The assessee should opt for the provisions of Section 44ADA since her income from profession as per the said section is ₹12,99,150 which is less than actual income of 18,94,700.

CHAPTER – 6
CAPITAL GAINS

ILLUSTRATION 13

Calculate the income-tax liability for the assessment year 2025-26 in the following cases:

	Mr. A (age 45)	***Mrs. B (age 62)***	***Mr. C (age 81)***	***Mr. D (age 82)***
Status	***Non-Resident***	***Non-resident***	***Resident***	***Non-resident***
Total income other than long term capital gain	*2,40,000*	*3,10,000*	*5,90,000*	*4,80,000*
Long-term capital gain [assume transfer took place before 23.07.2024]	*85,000 from sale of vacant site*	*10,000 from sale of listed equity shares (STT paid on sale and purchase of shares)*	*60,000 from sale of agricultural land in rural area*	*Nil*

(i) *If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.*

(ii) *If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.*

SOLUTION

(i) If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.

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

Particulars	**Mr. A (age 45)**	**Mrs. B (age 62)**	**Mr. C (age 81)**	**Mr. D (age 82)**
Residential Status	Non-Resident	Non-resident	Resident	Non-resident
Total tax liability	**17, 680**	**₹ 520**	**Nil**	**₹ 9,360**

Note: Since Mr. A and Mr. C are residents whose total income does not exceed ₹ 7 lakhs, they are eligible for rebate of ₹ 25,000 or the actual tax payable, whichever is lower, under section 87A.

(ii) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act

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

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non-Resident	Non-resident	Resident	Non-resident
Total tax liability	**17,680**	**₹ 3,120**	**18,720**	**₹ 11,960**

Notes:

1. Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of ₹ 3,00,000 and ₹ 5,00,000 for persons over the age of 60 years and 80 years, respectively. Also, they are not eligible for rebate under section 87A even though their total income does not exceed ₹ 5 lakh.
2. Since Mr. A is a resident whose total income does not exceed ₹ 5 lakh, he is eligible for rebate of ₹ 12,500 or the actual tax payable, whichever is lower, under section 87A.

ILLUSTRATION 14

Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax.
Company allotted bonus shares in the ratio of 1:1 on 01.12.2023. He has also received dividend of ₹ 10 per share on 01.05.2024.
He has sold all the shares on 01.10.2024 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%.
Compute his total income and tax liability for A.Y. 2025-26 if Mr. Mithun pays tax under default tax regime, assuming that he is having other income of 8,00,000. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

SOLUTION

Computation of total income & tax liability of Mr. Mithun for A.Y. 2025-26

Particulars	₹
Long term capital gains on sale of original shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 x ₹ 2,000) **(Refer Note 1)**	2,00,000
Long term capital gains	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares	NIL
Short term capital gains	**3,96,000**
Income from other sources	
Dividend received from M/s Good money Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share]	2,000

Other income	8,00,000
Total Income	**13,94,000**
Tax Liability	
Tax on dividend (since it is lower than the basic exemption limit)	Nil
Tax on STCG u/s 11A	
20% of ₹ 3,96,000	79,200
Tax on LTCG u/s 112A	
12.5% of (₹ 1,96,000 - ₹ 1,25,000) since, it is transferred on or after 23.07.2024	8,875
Tax on total income of 8,20,000	**1,18,275**
Add: Health and education cess @4%	4,731
Tax liability	**1,23,006**
Tax liability (rounded off)	**1,23,010**

Notes:

(1) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of
- Cost of acquisition i.e., ₹ 1,000 per share and
- lower of

Fair market value of such asset i.e., ₹ 2,000 per share and
Full value of consideration i.e., ₹ 4,000 per share.
Therefore, the cost of acquisition of original share is ₹ 2,000 per share.

(2) Securities transaction tax is not allowable as deduction.

ILLUSTRATION 19

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.08.2024 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-7-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

(i) Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2025 and 15.5.2025

(ii) Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2025.

(iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 30-11-2024 and for ₹ 40 lakhs on 9-1-2025.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2025-26. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007-08 – 129; F.Y. 2024-25 - 363.

SOLUTION

Computation of income chargeable under the head "Capital Gains" of Mrs. Yuvika for A.Y.2025-26

Particulars	₹ (in lakhs)	₹ (in lakhs)
Long term capital gains chargeable to tax		67.47

ILLUSTRATION 25

***Computation of Capital gains and tax liability**: Mr. C inherited from his father 8 plots of land in 1980. His father had purchased the plots in 1960 for 5 lakhs. The fair market value of the plots as on 1-4-2001 was 8 lakhs. (1 lakh for each plot)*

On 1st June 2001, C started a business of dealer in plots and converted the 8 plots as stock-in-trade of his business. He recorded the plots in his books at 45 lakhs being the fair market value on that date. In June 2005, C sold the 8 plots for 50 lakhs.

In the same year, he acquired a residential house property for 45 lakhs. He invested an amount of 5 lakhs in construction of one more floor in his house in June 2006. The house was sold by him in June 2024 for 90,00,000.

The valuation adopted by the registration authorities for charge of stamp duty was 1,60,50,000. As per the assessee's request, the Assessing Officer made a reference to a Valuation Officer. The value determined by the Valuation Officer was 1,70,00,000.

Brokerage of 1% of sale consideration was paid by C. Give the tax computation for the relevant assessment years with reasoning if he has shifted out of the default tax regime.

(Modified 8 Marks: Nov. 2012 & Similar Nov. 2016)

Cost inflation index for various financial year are as under: 2005-06: 117, 2006-07: 122 and 2024-25: 363

SOLUTION

Computation of total income and tax liability of Mr. C (amount in ₹):

Particulars	₹	₹
Capital Gains on sale of residential house property		
Full value of consideration [WN-1]		1,60,50,000
Less: Brokerage @ 1% of sale consideration (1% of 90,00,000		90,000
Net consideration		1,59,60,000
Less: Indexed cost of acquisition (45,00,000 x 363/117)	1,39,61,538	
Less: Indexed cost of improvement (5,00,000 × 363/122)	14,87,705	1,54,49,243
Long-term capital gains (Total Income) (rounded off)		5,10,760
Tax on total income [WN-2]		
Long-term capital gain taxable @ 20% (5,10,760 - 2,50,000)		52,152
Add: Health & Education cess @ 4%		2,086
Total tax liability		**54,240**

Working Notes:

(1) As per the provisions of Section 50C, in this case the value assessed by the stamp valuation authority exceed 110% of the consideration received therefore, the stamp duty value shall be deemed as the full value of consideration.

(2) As per Section 112, the unexhausted basic exemption limit can be exhausted against the long-term capital gains. Since Mr. C does not have any other income in the current year, the whole of the basic exemption limit of 2,50,000 is exhausted against the long-term capital gains of 11,49,160 and the balance long-term capital gains shall be taxable @ 20%. It is assumed that Mr. C is a resident individual below the age of 60 years

CHAPTER – 7
INCOME FROM OTHER SOURCES

ILLUSTRATION 2

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2024-25 from his friend Mr. B,

(1) *Cash gift of ₹ 75,000 on his anniversary, 15th April, 2024.*

(2) *Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2024.*

(3) *A plot of land at Faridabad on 1st July, 2024, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2009.*

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2023, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2024.

Further, on 1st November, 2024, Mr. A took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2024 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2025, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2025-26.

SOLUTION

Computation of "Income from other sources" of Mr. A for the A.Y. 2025-26

Particulars	₹
1) Cash gift is taxable under section 56(2)(x), since it exceeds ₹ 50,000	75,000
(2) Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds ₹ 50,000	60,000
(3) Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
(4) Difference of ₹ 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	-
((5) Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	3,00,000
Income from Other Sources	**9,35,000**

Computation of "Capital Gains" of Mr. A for the A.Y.2025-26

Particulars	₹
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
Short-term capital gains	**2,00,000**

Note – The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

ILLUSTRATION 17

***Taxability of gifts**: Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961*

i) *Ankit HUF received 1,75,000 in cash from niece of Ankit (ie., daughter of Ankit's sister). Ankit is the Karta of the HUF*

ii) *Nikita, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is 19,00,000.*

iii) *Mr. Rakshit received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was 120 per share. He also received jewellery worth 45,000 (FMV) from his nephew on the same day.*

iv) *Rakesh HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 3,00,000.*

v) *Ms. Kareena purchased a land from PMC Co. a partnership concern for 7,15,000. The stamp duty value of the same was 12,00,000.*

SOLUTION

The taxability in the hands of the recipient under section 56(2)(x) is as under-

	Taxable/Non-taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	1,75,000	Sum of money exceeding 50,000 received without consideration from a non relative is taxable under section 56(2)(x). Daughter of Mr. Ankit's sister is not a relative of Ankit HUF, since she is not a member of Ankit HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nikita is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nikita under section 64(2).
(iii)	Taxable	57,000	As per provisions of section 56(2)(x), in case the

			aggregate fair market value of property, other than immovable property, received without consideration exceeds 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (12,000) and jewellery (45,000) exceeds 50,000. Hence, the entire amount of 57,000 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.
(v)	Taxable	4,85,000	Difference between the stamp duty value of 12,00,000 and the actual consideration of 7,15,000 paid is taxable under section 56(2)(x) since the difference exceeds 50,000 being, the higher of 50,000 and 10% of consideration i.e. 71,500.

CHAPTER – 8
INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME

ILLUSTRATION 5

Mr. Vaibhav started a proprietary business on 01.04.2023 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2023-24. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2024, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2024-25. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2025-26. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

SOLUTION

The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2024-25 is computed as under:

Particulars	Mr. Vaibhav's capital contribution (₹)	Capital contribution out of gift from Mrs. Vaishaly (₹)	Total (₹)
Capital as on 1.4.2024	3,00,000 (5,00,000 – 2,00,000)	5,00,000	8,00,000
Profit for P.Y.2024-25 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2024 (3:5)	1,50,000 4,00,000× 3/8	2,50,000 4,00,000×3/ 8	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2024-25 is ₹ 2,50,000. In case Mrs. Vaishaly gave the said amount of ₹ 5,00,000 as a bona fide loan, then, clubbing provisions would not be attracted.

ILLUSTRATION 21

Clubbing of Income: *Determine the Gross total income of Shri Ram Kumar and Smt. Ram Kumar for the assessment year 2025-26 from the following:*

i) *Salary received by Shri Ram Kumar from a company ₹ 1,80,000 per annum and Smt. Ram Kumar also doing job in a company and getting salary of 2,40,000 per annum.*

ii) *Shri Ram Kumar transferred a flat to his wife Smt. Ram Kumar on 1 September, 2024 for adequate consideration. The rent received from this let-out flat is 9,000 per month.*

iii) *Shri Ram Kumar and his wife Smt. Ram Kumar both are partners in a firm. Shri Ram Kumar received 36,000 and Smt. Ram Kumar received 64,000 as interest from the firm and also had a share of profit of 12,000 and 26,000 respectively.*

iv) *Smt. Ram Kumar transferred 10% debentures worth 3,00,000 to Shri Ram Kumar. The whole amount of 3,30,000 invested by Shri Ram Kumar in the similar investments and earned income of 39,000.*

v) *Mother of Shri Ram Kumar transferred a property to Master Rohit (son of Shri Ram Kumar) in the year 2023. Master Rohit (aged 13 years) received 15,000 as income from this property on 20th February, 2025. if she has not shifted out of the default tax regime*

(6 Marks Nov. 2020)

SOLUTION

Computation of Gross Total Income of Shri Ram Kumar and Smt. Ram Kumar for A.Y. 2025-26

Particular	Shri Ram Kumar		Smt. Ram Kumar	
	₹	₹	₹	₹
Salary	1,80,000		2,40,000	
Less: Standard deduction	75,000	1,05,000	75,000	1,65,000
Income from house property Rent received (taken as annual value in the absence of other information)	45,000	63,000		
Less: Deduction u/s 24(a) @ 30% of Annual Value	13,500	31,500	18,900	44,100
Note: Clubbing provisions are not attracted since the transfer to spouse is for adequate consideration. Therefore, the rent for the 5 months upto the date of transfer is taxable in the hands of Ram Kumar and thereafter, in the hands of his wife. **Profits and gains of business or profession** Share of profit from firm [Exempt under section 10(2A)] Interest from firm (assumed that the same is fully deductible in the hands of the firm)	- 36,000	 36,000	- 64,000	 64,000
Income from other sources				
Interest on debentures (interest @ 10% on debentures transferred to Shri Ram Kumar without consideration to be included in the hands of the transferor-spouse, Smt. Ram Kumar) = 10% of 3 lakh [WN-1]	-		30,000	
Income from investments [39,000 x3,00,000/3,30,000] (The clubbing provisions will apply even if the form of the asset is changed. If the debentures are redeemed and invested in similar investments, income from 3 lakh invested (being the value of debentures transferred) alone will be included in the hands of the transferor-spouse, Smt. Ram				

Kumar. Income from accretion to such debentures (ie., income earned by investing debenture interest of 30,000 will not be included in the hands of Smt. Ram Kumar. The same i.e., 3,545, will be taxable in the hands of the Shri Ram Kumar himself) [WN-2]	3,545	3,545	35,455	35,455
Total income (before including minor's income		**1,76,045**		**3,38,555**
Income of minor son Rohit to be included in Smt. Ram Kumar's income, since her total income before including minor's income is higher than that of her husband. She is eligible for exemption of 1,500 u/s 10(32) in respect of the income so included. Therefore, income to be included in her income is 13,500 (15,0001,500) [WN-2]		-		15,000
Total Income		**1,76,045**		**3,53,555**

Working Note:

(1) In respect of transfer of debentures by Smt. Ram Kumar to Shri Ram Kumar, it is not mentioned whether the transfer is for adequate consideration or not. Moreover, the date of transfer is also not given. The above solution is given on the assumption that transfer is for inadequate consideration. However, if it is assumed that transfer is for adequate consideration, the clubbing provisions would not be attracted. In such case, the interest on Debentures of ₹30,000 as well as income from investment of 39,000 will be taxable in the hands of Shri Ram Kumar.

(2) In respect of property transferred to Rohit, the question simply states 15,000 as the income from property, without mentioning the nature of income (whether rental income or otherwise) or nature of property (whether house property or otherwise). Therefore, the said amount has not been treated as income from house property and deduction u/s 24(a) has not been provided in the above solution.

However, if such sum is treated as income from house property, the income to be included in Smt. Ram Kumar's income would be ₹ 10,500 [15,000-4,500 (30% of 15,000 allowable as deduction u/s 24(a)], and the same would be included under the head "Income from house property". Consequently, her total income would be ₹ 3,49,055.

CHAPTER - 9
AGGREGATION OF INCOME, SET – OFF AND CARRY FORWARD OF LOSSES

ILLUSTRATION 22

Computation of Total income: *Ms. Geeta, a resident individual, provides following details of her income/losses for the year ended 31-03-2025:*

	Particulars	Amount (₹)
i)	Income from salary (computed)	41,20,000
ii)	Rent received from house property situated in Delhi	5,00,000
iii)	Interest on loan taken for purchase of above property. Loan was taken from a friend	7,50,000
iv)	Rent received from house property situated in Jaipur	3,20,000
v)	Interest on loan taken for house property in Mumbai which is self-occupied Loan was taken from PNB on 01-01-1999 for purchase of this property.	1,57,000
vi)	Interest on loan taken for repair of house properties situated in Mumbai and Delhi. Loan was taken on 01-04-2021 and was utilized in 50:50 ratio for house properties situated in Mumbai and Delhi, respectively.	1,50,000
vii)	Long term capital gains on sale of equity shares computed in accordance with Section 112A	8,95,000
viii)	Interest on fixed deposit	73,000
ix)	Loss from textile business	7,50,000
x)	Speculation profit	2,30,000
xi)	Lottery income	75,000
xii)	Loss incurred by the firm in which she is a partner	1,60,000
xiii)	Salary received as a partner from partnership firm. The same was allowed to Firm	50,000
xiv)	Brought forward short-term capital loss on sale of gold	2,75,000
xv)	Brought forward loss on sale of equity shares of the nature specified u/s 111A	25,000
xvi)	Life insurance premium paid for her son who is 30 years of age and is working in USA	15,000

Compute total income of Ms. Geeta for the assessment year 2025-26 assuming that he does not opt to taxed under section 115BAC and the amount of loss that can be carried forward.

For the above solution, you may assume principal repayment of loan as under:

i) Loan taken for purchase of house property in Delhi - ₹2,50,000 *ii) Loan taken for purchase of house property in Mumbai - ₹ 50,000*

iii) Loan taken for repair of house properties in Delhi and Mumbai - ₹ 75,000

Working notes should form part of your answer. Wherever necessary, suitable assumption may be made by the candidates and disclosed by way of note. ***(10 Marks, May 2019-NS)***

SOLUTION

Computation of total income of Ms. Geeta (amount in ₹)

Particulars	₹	₹	₹
Income from Salary			41,20,000
Income from House property Delhi (House): Rent received being net annual value	5,00,000		
Less: Standard deduction (30% of NAV)	1,50,000		
Less: Interest on borrowed capital [7,50,000+50% of ₹ 1,50,000]	8,25,000	-4,75,000	
Jaipur (House): Rent received being net annual value	3,20,000		
Less - Standard deduction (30% of NAV)	96,000	2,24,000	
Self Occupied House (Mumbai): Annual value **Less**: Interest on borrowed capital [1,57,000+ 50% of 1,50,000 but restricted to 30,000 since loan been taken for acquisition of house prior to 1-4-1999 and loan taken on 1-4-2021 was for repair of house property]	nil 30,000	-30,000	
(Loss from house property to be set-off from salaries to the extent of 2,00,000). **Balance loss of 81,000 shall be carried forward to be set-off from Income from House property.**		-2,81,000	-2,00,000
Profits and Gains of Business and Profession: Salary received from partnership firm [Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession] Loss incurred by firm, in which she is a partner [Share of loss from a partnership firm cannot be set-off against business income, since share of income of the firm is exempt under section 10(2A)]		50,000 - 	
Speculation profit		2,30,000	
		2,80,000	
Less: Loss from textile business ₹ 7,50,000 (set-off		2,80,000	Nil

to the extent of business income i.e. ₹ 2,80,000) Balance loss (₹7,50,000 - ₹ 2,80,000) i.e. 4,70,000 to be set-off from Income from other sources to the extent of ₹73,000 and remaining loss from Income under the head capital gains i.e. ₹3,97,000. Such loss cannot be set-off from Salaries			
Capital Gains: Long-term Capital Gains on sale of equity shares computed as per Section 112A		8,95,000	
Less: Loss from textile business (Current year loss is to be given priority over set-off		3,97,000	
Less: Brought forward short-term capital loss on sale of gold		2,75,000	
Less: Brought forward loss on sale of equity shares of the nature specified u/s 111A		25,000	1,98,000
Income from Other Sources: Winnings from lottery		75,000	
Interest on fixed deposit		73,000	
Less: Loss from textile business		73,000	75,000
Gross total income **Less:** LIC premium paid for her son (Shall qualify for deduction u/s 80C even if son is not dependent on her)		15,000	**41,93,000**
Repayment loan taken for purchase of house property in Delhi (Not eligible for deduction u/s 80C since loan is taken from friend)		Nil	
Repayment of loan taken for purchase of house property in Mumbai Repayment of loan taken for repair of house properties in Delhi and Mumbai shall not be eligible for deduction u/s 80C since loan is taken for repair of house.		50,000 Nil	65,000
Total income			**41,28,000**

CHAPTER – 10
DEDUCTION FROM GROSS TOTAL INCOME

ILLUSTRATION 5

The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr. A if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). What would be your answer if Mr. A pays tax under the default tax regime under section 115BAC?

SOLUTION

(i) Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD, where Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]

(a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.

(b) Mr. A's contribution to pension scheme is allowable as deduction under section 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 under section 80CCD for Mr. A would be –

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000 50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000	12,00,000 2,40,000
Salary for the purpose of deduction under section 80CCD	**14,40,000**
Deduction under section 80CCD(1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction under section 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).	36,000

₹ 1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000 under section 80CCE. ₹ 36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of ₹ 1,50,000 under section 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction under section 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000- ₹ 50,000) can be claimed as deduction under section 80CCD(1).

(c) Employer's contribution to pension scheme would be allowable as deduction under section 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction under section

80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary under section 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

(ii) Where Mr. A pays tax under the default tax regime under section 115BAC

Mr. A would not be eligible for deduction under section 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime under section 115BAC. However, employer's contribution to pension scheme would be allowable as deduction under section 80CCD(2), subject to maximum of 14% of salary. Hence, he would be allowed deduction of ₹ 201600 (14% of ₹ 14,40,000) or ₹ 1,80,000 (15% of ₹ 12,00,000) whichever is less i.e. ₹ 1,80,000 under section 80CCD(2).

ILLUSTRATION 14

Mr. Shiva aged 58 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

- ***(i)*** *Premium paid to insure the life of her major daughter (policy taken on 1.4.2018) (Assured value ₹ 1,80,000) – ₹ 20,000.*
- ***(ii)*** *Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.*
- ***(iii)*** *Donation to a public charitable institution ₹ 50,000 by way of cheque.*
- ***(iv)*** *LIC Pension Fund – ₹ 60,000.*
- ***(v)*** *Donation to National Children's Fund - ₹ 25,000 by way of cheque*
- ***(vi)*** *Donation to Prime Minister's Drought Relief Fund - ₹ 25,000 by way of cheque*
- ***(vii)*** *Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque*
- ***(viii)*** *Deposit in PPF – ₹ 1,00,000*

Compute the total income of Mr. Shiva for A.Y. 2025-26 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

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

Particulars	₹	₹
Gross Total Income		7,75,000
Less: Deduction under section 80C Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,18,000	
Deduction under section 80CCC in respect of LIC pension fund	60,000	
	1,78,000	
As per section 80CCE, deduction under section 80C & 80CCC is restricted to		1,50,000
Deduction under section 80D		
Medical Insurance premium in respect of self and spouse	26,000	

Restricted to		25,000
Deduction under section 80G (See Working Note below)		**87,500**
Total income		**5,12,500**

Working Note: Computation of deduction under section 80G

	Particulars of donation	Amount donated (₹)	% of deduction	Deduction u/s 80G (₹)
(i)	National Children's Fund Prime Minister's Drought	25,000	100%	25,000
(ii)	Relief Fund	25,000	50%	12,500
(iii)	Approved institution for promotion planning	40,000	100%, subject to qualifying limit	40,000
(iv)	Public Charitable Trust of family	50,000	50% subject to qualifying limit (See Note below)	10,000
				87,500

Note - Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 80G i.e., ₹ 6,00,000, in this case. ₹ 60,000, being 10% of adjusted total income is the qualifying limit, in this case. Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 50,000 to public charitable trust is restricted to 20,000 (being, ₹ 60,000 ₹ 40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be ₹ 10,000, which is 50% of ₹ 20,000.

ILLUSTRATION 27

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

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

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

SOLUTION

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

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

= 60 lakhs x 300 lakhs x 50% = ₹ 22.50 lakhs
400 lakhs

Export turnover of Unit in SEZ is the export sales in SEZ received in convertible foreign exchange by 30.9.2024 which is ₹ 3,00,00,000.

(ii) If Unit in SEZ was set up and began manufacturing from 14-05-2019:

Since A.Y. 2024-25 is the 5th assessment year from A.Y. 2020-21, relevant to the previous year 2019-20, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

= Profits of x Export turnover of U in SEZ x 100%
Unit in SEZ Total turnover of U

= 60 lakhs x 300 Lakhs x 100% = ₹45 lakhs
400 Lakhs

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

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

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,00,00,000	2,00,00,000	4,00,00,000
Export Sales	4,60,00,000	1,60,00,000	3,00,00,000
Net Profit	80,00,000	20,00,000	60,00,000

CHAPTER – 11
TDS, TCS & ADVANCE TAX

ILLUSTRATION 2

Examine the TDS implications under section 194A in the cases mentioned hereunder–

(i) *On 1.10.2024, Mr. Harish made a six-month fixed deposit of ₹ 10 lakh@9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2025.*

(ii) *On 1.6.2024, Mr. Ganesh made three nine months fixed deposits of ₹ 3 lakh each, carrying interest@9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2025.*

(iii) *On 1.10.2024, Mr. Rajesh started a six months recurring deposit of ₹ 2,00,000 per month@8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2025.*

SOLUTION

(i) ABC Co-operative Bank has to deduct tax at source@10% on the interest of ₹45,000 (9% × ₹ 10 lakh × $\frac{1}{2}$) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, ₹ 4,500.

(ii) XYZ Bank has to deduct tax at source@10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [3,00,000 × 3 × 9% × 9/12], which exceeds the threshold limit of ₹ 40,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 60,750 exceeds the threshold limit of ₹ 40,000, tax has to be deducted@10% u/s 194A.

(iii) No tax has to be deducted under section 194A by PQR Bank on the interest of ₹ 28,000 falling due on recurring deposit on 31.3.2025 to Mr. Rajesh, since such interest does not exceed the threshold limit of ₹ 40,000.

ILLUSTRATION 9

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

	Particulars of the payer	*Nature of payment*	*Aggregate of payments made in the F.Y.2024-25*
1.	*Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2023-24*	*Contract Payment for repair of residential house*	*₹ 5 lakhs*
		Payment of commission to Mr. Vallish for business purposes	*₹ 80,000 in November 2024*
2.	*Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2023-24.*	*Contract Payment for reconstruction of residential house (made during the period January - March, 2025)*	*₹ 20 lakhs in January,2025, ₹ 15 lakhs in Feb 2025 and ₹ 20 lakhs in March*

			2025.
3.	*Mr. Satish, a salaried individual*	*Payment of brokerage for buying a residential house in March, 2025*	*₹ 51 lakhs*
4.	*Mr. Dheeraj, a pensioner*	*Contract payment made during October-November 2024 for reconstruction of residential house*	*₹ 48 lakhs*

SOLUTION

	Particulars of the payer	Nature of payment	Aggregate of payments in the F.Y.2024-25	Whether TDS provisions are attracted?
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2023-24	Contract Payment for repair of residential house	₹ 5 lakhs	**No**; TDS under section 194C is not attracted since the payment is for personal purpose. TDS under section 194M is not attracted as aggregate of contract payment to the payee in the P.Y.2024-25 does not exceed ₹ 50 lakh.
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000	**Yes**, u/s 194H 2%, since the payment exceeds ₹ 15,000, and Mr. Ganesh's turnover exceeds ₹ 1 crore in the P.Y.2023-24.
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2023-24	Contract Payment for reconstruction of residential house	₹ 55 lakhs	**Yes**, u/s 194M @ 2%, since the aggregate of payments (i.e., ₹ 55 lakhs) exceed ₹ 50 lakhs. Since, his turnover does not exceed 1 crore in the P.Y.2023-24, TDS provisions under section 194C are not attracted in respect of payments made in the P.Y. 2024-25.
3.	Mr. Satish, a salaried individual	Payment of brokerage for	₹ 51 lakhs	**Yes**, u/s 194M @ 2% , since the payment of ₹ 51

		buying A residential house		lakhs made in March 2025 exceeds the threshold of ₹ 50 lakhs. Since Mr. Satish is a salaried individual, the provisions of section 194H are not applicable in this case.
4.	Mr. Dheeraj, a pensioner	Contract payment for reconstruction of residential house	₹ 48 lakhs	TDS provisions under section 194C are not attracted since Mr. Dheeraj since is a pensioner. TDS provisions under section 194M are also not applicable in this case, since the payment of 48 lakhs does not exceed the threshold of ₹ 50 lakhs.

ILLUSTRATION 19

TDS Implications: *Examine the TDS implications in the following cases along-with reasons thereof*

(i) *Ms. Varsha received a sum of 95,000 on 31 December 2024 towards maturity proceeds of LIC taken on 1st October 2019 for which sum assured was 80,000 and annual premium was 10,000.*

(ii) *Mr. Deepak transferred a residential house property to Mr. Karan for 45 lacs. The stamp duty value of such property is 55 lacs-*

(iii) *XYZ Private Limited pays the following amounts to Mr. Narayan during previous year 2024-25:*
- *₹ 22,000 towards fee for professional services*
- *₹ 18,000 towards royalty*

(iv) *Payment of 1,75,000 made to Mr. Vaibhav for purchase of calendar according to specifications of M/s. ABC Limited. However, no material was supplied for such calendar by ABC Limited to Mr. Vaibhav.*

(v) *Talent Private Limited pays 12,000 to Ms. Sudha, its director, towards sitting fee which is not taxable u/s 192.*

(vi) *Radha Limited is engaged for Shyam Limited only in the business of operation of call centre. On 18-3-2025, the total amount credited by Shyam Limited in the ledger account of Radha Limited is 70,000 regarding service charges of call centre. The amount is paid through cheque on 28-03-2025 by Shyam Limited.*

SOLUTION

The TDS implications are as under

(i) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of 95,000 would not be exempt under section 10(10D) in the hands of Ms. Varsha the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than 1 lakh.

(ii) Since the stamp duty value of residential house property exceeds 50 lakh, Mr. Karan is required to deduct tax at source@1% of the stamp duty value i.e. 1% of 55 lakhs 55,000 under section 194-IA.

(iii) TDS provisions under section 194J would not get attracted, since the limit of 30,000 is applicable for fees for professional services and royalty, separately. It is assumed that there is no other payment to Mr. Narayan towards fees for professional services and royalty during the P.Y. 2024-25.

(iv) According to section 194C, the definition of "work" does not include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer or associate of such customer.
Therefore, there is no liability to deduct tax at source in respect of payment of 1,75,000 to Mr. Vaibhav, since the contract is a contract for 'sale'.

(v) Section 194J provides for deduction of tax at source @ 10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every payment covered under section 194J is, however, not applicable in respect of sum paid to a director.
Therefore, tax @ 10% has to be deducted at source under section 194J in respect of the sum of 12000 paid by Talent Private Limited to its director Ms. Sudha. Amount of TDS = 12,000 × 10% = 1200

(vi) According to Section 194J, in case of a payee, engaged only in the business of operation of call centre, the tax shall be deducted at source @ 2% if the amount credited to the account of the payee exceeds ₹ 30,000. Thus the amount of tax to be deducted at source = 70,000 × 2% = 1,400.

ILLUSTRATION 32

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

(i) *On 1-5-2024, Mr. Brijesh made three fixed deposits of nine months each of 3 lakh each, carrying interest @ 9% with Mumbai Branch, Delhi Branch and Chandigarh Branch of CBZ Bank, a bank which had adopted CBS. These Fixed Deposits mature on 31-01-2025.*

(ii) *Mr. Marwah, aged 80 years, holds 62% Gold Bonds, 1977 of 2,00,000 and 7% Gold Bonds 1980 of 3,00,000. He received yearly interest on these bonds on 28-02-2025.*

(iii) *M/s. AG Pvt. Ltd. took a loan of 50,00,000 from Mr. Hari das. It credited interest of 79,000 payable to Mr. Haridas during the previous year 2024-25. M/s. AG Pvt. Ltd. is not liable for tax audit during previous years 2023-24 and 2024-25.*

(iv) *Mr. Prabhakar is due to receive ₹ 6 lakh on 31-3-2025 towards maturity proceeds of LIC policy taken on 1-4-2021, for which the sum assured is 5.75 lakhs and the annual premium is 1,40,000,* ***(8 Marks, Jan. 2021)***

SOLUTION

(i) CBZ Bank has to deduct tax at source @ 7.5% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is 60,750 [3.00.000 x 9% x 3 x 9 / 12] which exceeds the threshold limit of 40,000.

Since CBZ Bank has adopted core banking solution (CBS), the aggregate interest credited/paid by all branches has to be considered.

Tax to be deducted at source = 60, 750 x 10%= ₹ 6075 [Alternatively, in the absence of information about p.a., the amount of interest can also be worked out as 81,000 [3,00,000 × 9% x 3] and the tax to be deducted thereon would be81000 x 10%=8100]

(ii) Tax @ 10% under section 193 is to be deducted on interest on 6½ Gold Bonds, 1977 and 7% Gold Bonds 1980, since the nominal value of the bonds held by Mr. Marwah i.e., 5,00,000 exceed ₹ 10,000.

Interest on 61/2 Gold Bonds, 1977 = 2,00,000 x 6.5% 13,000

Interest on 7% Gold Bonds 1980 = 3,00,000 x 7% = 21,000

Tax to be deducted at source = 34000 x 10%= 3,400

(iii) M/s. AG Pvt. Ltd. has to deduct tax at source @ 10% under section 194A, since the interest on loan payable is 79,000 which exceeds the threshold limit of 5,000. M/s. AG Pvt. Ltd., being a company, has to deduct tax at source irrespective of the fact that it is not liable to tax audit during P.Y. 2023-24 and 2024-25.

Tax to be deducted at source =79000 x 10%=7,900

(iv) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31-3-2012, the maturity proceeds of 6 lakhs due on 31-3-2025 are not exempt under section 10(10D) in the hands of Mr. Prabhakar. Therefore, tax is required to be deducted @ 5% under section 194DA on the amount of income comprised therein i.e., on 40,000 [6,00,000, being maturity proceeds5,60,000], being the amount of insurance premium paid. Tax to be deducted at source = 40000 x 5 %=2,000

ILLUSTRATION 36

Interest payable u/s 234A, 234B & 234C: *Ms. Priya, aged 61 years, has total income of ₹ 7,50,000, including income from profession, for A.Y. 2025-26, and has paid advance tax of ₹ 10,000 on 13-12-2024. She has filed her return of income on 15-06-2025.*

Calculate the self-assessment tax payable and the interest thereon u/s 234A, 234B and 234C, if any, by Ms. Priya if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). ***(4 Marks, Nov. 2022)***

SOLUTION

Self assessment tax payable	**₹**
Tax on ₹ 7,50,000 Upto ₹ 3,00,000	Nil
₹ 3,00,001 – ₹ 5,00,000 @ 5%	10,000
₹ 5,00,001 – ₹ 7,50,000 @ 20%	50,000
Add: Health and education cess @ 4%	**60,000** 2,400
Less: Advance tax Tax payable	**62,400** 10,000
Add: Interest under section 234A [Interest u/s 234A would not be attracted, since Ms. Priya has furnished her return of income on 15-06-2025 which is before the due date of filing return of income]	**52,400** -

Add: Interest under section 234B would be levied on ₹ 52,400 at 1% for 3 months i.e., From April to June. The interest under section 234B amount to ₹ 1,572	1,572
Add: Interest under section 234C	2,747

Date of Instalment	Specified %of estimated	Amount due and unpaid (rounded off to nearest ₹ 100, ignoring fraction)	Period	Interest @ 1%
15th June 2024	15%	9,300 [15% of ₹ 62,400]	3 months	279
15th September 2024	45%	28,000 [45% of ₹ 62,400]	3 months	840
15th December 2024	75%	36,800 [(75% of ₹ 62,400) – ₹ 10,000]	3 months	1,104
15th March 2025	100%	52,400	1 month	524
				2,747

Self assessment tax payable and interest thereon	**56,719**
Self assessment tax payable and interest thereon (rounded off)	**56,720**

CHAPTER – 13
COMPUTATION OF TOTAL INCOME

Illustration 15

Computation of Total Income and tax liability: Mr. Ashish, a resident individual, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/c for the year ended 31st March, 2025 is as under-

Expenditure	***₹***	***Income***	***₹***
To Employees' Remuneration & Benefits	*13,66,000*	*By Consultancy Charges*	*58,80,000*
To Office & Administrative Expenses	*3,14,000*	*By Interest on Public Provident Fund*	
To General Expenses	*75,000*	*(PPF) Account*	*60,000*
To Electricity Expenses	*65,000*	*By Interest on Saving Bank Account*	*20,000*
To Medical Expenses	*80,000*	*By Interest on National Savings Certificates VIII Issue (for 3rd year)*	*21,000*
To Purchase of Furniture	*48,000*		
To Depreciation	*90,000*		
To Excess of income over Expenses	*39,43,000*		
	59,81,000		***59,81,000***

The following other information relates to financial year 2024-25:

(i) *The expenses on Employees' Remuneration & Benefits includes:*

a. *Family Planning expenditure of 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.*

b. *Payment of salary of 25,000 per month to sister-in-law of Mr. Ashish, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is 20,000 per month.*

(ii) *Amount received by Mr. Ashish as Employees' Contribution to EPF for the month of February, 2025 - 10,000 was also deposited after the due date under the relevant Act relating to EPF.*

(iii) *Medical Expenses of 80,000 as appearing in the Income & Expenditure A/c was expensed for the treatment of father of Mr. Ashish. His father was 72 years old and was not covered by any health insurance policy. The said payment of 80,000 was made through account payee cheque.*

(iv) *General expenses as appearing in the Income & Expenditure A/c, includes a sum of 25,000 paid to Ms. Anjaleen on 5th January, 2025 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.*

(v) *Written down value of the depreciable assets as on 1st April, 2025 were as follows:*
- *Professional books = ₹ 90,000*
- *Computers = ₹ 35,000*

(vi) *The new Furniture as appearing in the Income & Expenditure A/c. was purchased on 31st August, 2024 and was put to use on the same day. The payment was made as under:*
- *₹ 18,000 paid in cash at the time of purchase of new furniture on 31-08-2024.*
- *₹ 19,000 paid by account payee cheque on 05-09-2024 as balance cost of new furniture and*
- *₹ 11,000 paid in cash on 31-08-2024 to the transporter as freight charges for the new furniture.*

(vii) *Mr. Ashish purchased a car on 02-04-2023 for 3,35,000 for personal use. However, on 30-042024 he brought the said car for use in his profession. The fair market value of the car as on 30-04-2024 was 2,50,000.*

(viii) *Mr. Ashish made a contribution of 1,00,000 in his PPF A/c on 31-01-2025.*

(ix) *The Gross Professional Receipts of Mr. Ashish for P.Y. 2023-24 was 52,00,000.*

Compute the total income and tax liability of Mr. Ashish for A.Y. 2025-26, assuming that he has not opted for payment of tax under section 115BAC. Ignore provisions relating to AMT and under section 14A relating to disallowance of expenditure incurred in relation to income not includible in total income. ***(14 Marks, July 2021)***

Solution

Computation of total income of Mr. Ashish (amount in ₹)

	Particulars	₹	₹	₹
I	**Income from business or profession** Excess of income over expenditure		39,43,000	
	Add: Items debited but not allowable while computing business income - Family planning expenditure incurred for employees [not allowable as deduction since expenditure on family planning for employees is allowed only to a company assessee /not allowed in case of individuals. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	20,000		
	- Salary payment to sister-in-law in excess of market rate [Any expenditure incurred for which payment is made to a relative, to the extent it is considered unreasonable is disallowed. However, sister-in-law is not included in the definition of "relative" for the purpose of section 40A(2) Therefore, no adjustment is required for excess salary paid to Mr. Ashish's sister- in-law]	Nil		
	- Employees' Contribution to EPF [Sum	10,000		

	received by the assessee from his employees as contribution to EPF is income of the employer. Deduction in respect of such sum is allowed only if such amount is credited to the employee's account on or before due date under the relevant Act. Since, the employees contribution to EPF for February 2025 is deposited after the due date under the relevant Act, deduction would not be available]			
	- Medical expenses for the treatment of father [Not allowed as deduction since it is a personal expenditure/not an expenditure incurred for the purpose of business of Mr. Ashish. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	80,000		
	- Commission to Ms. Anjaleen without deduction of tax at source - [Mr. Ashish would be liable to deduct tax at source on commission since his gross receipts from profession exceeded 50 lakhs during F.Y. 2023-24. Since commission has been paid without deduction of tax at source, hence 30% of 25,000, being commission paid without deducting tax at source, would be disallowed u/s 40(a)(ia) while computing the business income of A.Y. 2025-26]	75,000		
	- Depreciation as per books of account	90,000		
	- Purchase of Furniture [not allowable, since it is a capital expenditure]	48,000	2,55,500	
			41,98,500	
	Less: Depreciation as per Income-tax Rules			
	- On Professional Books [90,000 × 40%]	36,000		
	– On Computers [35,000 × 40%]	14,000		
	- On Furniture [19,000 x 10%, since it has been put to use for more than 180 days during the year] [Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person, otherwise than by an a/c payee cheque/ bank draft or use of ECS or through prescribed electronic mode, exceeds 10,000 in a day, such expenditure would not form part of actual cost of such	1,900		

	asset. Hence, 18,000 and 11,000 paid on 31-8-2024 in cash would not be included in the actual cost of furniture]			
	- On Car [3,35,000 × 15%] [Actual cost of car would be the purchase price of the car to Mr. Ashish, i.e., 3,35,000]	50,250	1,02,150	
			40,96,350	
	Less: Items of income credited but not taxable or taxable under any other head of income			
	- Interest on Public Provident Fund [Exempt]	60,000		
	- Interest on savings bank account [Taxable under the head "Income from other sources"]	20,000		
	- Interest on National Savings Certificates VIII Issue (3rd Year) [Taxable under the head "Income from other sources"]	21,000	1,01,000	39,95,350
II	**Income from other sources** Interest on savings bank account		20,000	
	Interest on National Savings Certificates VIII Issue (3rd Year)		21,000	41,000
	Gross Total Income			**40,36,350**
	Less: Deduction under Chapter VI-A Deduction u/s 80C: Contribution to PPF	1,00,000		
	Interest on NSC (3rd Year) (Reinvested)	21,000	1,21,000	
	Deduction u/s 80D: Medical expenses for the treatment of father [Since Mr. Ashish's father is a senior citizen and not covered by any health insurance policy, payment for medical expenditure by a mode other than cash would be allowed as deduction to the extent of 50,000]		50,000	
	Deduction u/s 80TTA: **Interest on savings bank account to the extent of 10,000**		**10,000**	**1,81,000**
	Total Income			**38,55,350**

Computation of tax liability of Mr. Ashish :

Particulars	₹	₹
Tax on total income of 38,55,350 Upto₹ 2,50,000	Nil	

₹ 2,50,001 - ₹ 5,00,000 [@ 5% of 2.50 lakh]	12,500	
₹ 5,00,001- ₹ 10,00,000 [@ 20% of 5 lakh]	1,00,000	
₹ 10,00,001- ₹ 38,55,350 [@ 30% of 28,55,350]	8,56,605	9,69,105
Add: Health and education cess @ 4%		38,764
Tax liability (rounded off)		**10,07,870**

Illustration 16

***Determination of Residential status and Tax liability**: Mrs. Rohini, aged 62 years, was born and brought up in New Delhi. She got married in Russia in 1998 and settled there since then. Since her marriage, she visits India for 60 days each year during her summer break. The following are the details of her income for the previous year ended 31-03-2025:*

Particulars	*₹*
1. Pension received from Russian Government	*65,000*
2. Long-term capital gain on sale of land at New Delhi (computed)	*3,00,000*
3. Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid both at the time of acquisition as well as at the time of sale (computed)	*60,000*
4. Premium paid to Russian Life Insurance Corporation at Russia	*75,000*
5. Rent received (equivalent to Annual Value) in respect of house property in New Delhi	*90,000*

You are required to ascertain the residential status of Mrs. Rohini and compute her total income and tax liability in India for Assessment Year 2025-26. Assessee has not opted for provisions of Section 115BAC. ***(6 Marks, July 2021)***

Solution

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

Since Mrs. Rohini is a person of Indian origin who comes on a visit to India only for 60 days in the P.Y. 2024-25 and her income other than from foreign sources does not exceed 15,00,000, she is nonresident for the A.Y. 2025-26. [Even if her total income exceeds 15 lakh, still, she would be nonresident since the minimum period of stay required in the current year for being a resident is 120 days.]

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

Computation of total income and tax liability of Mrs. Rohini (amount in ₹)

Particulars	*₹*
Salaries Pension received from Russian Government [Not taxable, since it neither accrues or arises in India nor is it received in India]	Nil

Income from House Property Annual Value [Rental Income from house property in New Delhi is taxable, since it is deemed to accrue or arise in India, as it accrues or arises from a property situated in India] 90,000 **Less:** Deduction u/s 24(a) @ 30% 27,000	63,000
Capital Gains Long-term capital gains on sale of land at New Delhi [Taxable, since it is deemed to accrue or arise in India as it is arising from transfer of land situated in India]	3,00,000
Short-term capital gains on sale of shares of Indian listed companies in respect of which STT was paid [Taxable, since it is deemed to accrue or arise in India, as such income arises on transfer of shares of Indian listed companies]	60,000
Gross Total Income **Less:** Deduction under Chapter VI-A **Deduction u/s 80C:** Life insurance premium of 75,000 [Premium paid to Russian LIC allowable as deduction. However, the same has to be restricted to gross total income excluding LTCG and STCG, as Chapter VI-A deductions are not allowable against such income chargeable to tax u/s 112 and 111A, respectively]	**4,23,000** 63,000
Total Income	**3,60,000**
Computation of Tax Liability: Long-term capital gains taxable @ 12.5% u/s 112 [3,00,000 × 12.5%]	37,560
Short-term capital gains taxable @ 20% u/s 111A [60,000 × 20%]	12,000
 Add: Health and Education Cess @ 4%	49,560 1,982
Tax Liability	**51,542**

Note: The benefit of adjustment of unexhausted basic exemption limit against long-term capital gains taxable u/s 112 and short-term capital gains taxable u/s 111A is not available in case of non-resident. Further, rebate u/s 87A is not allowable to a non-resident, even if his income does not exceed 5 lakh.

Illustration 17

***Computation of total income and tax liability**: Mrs. Mitual, a resident individual, aged 63 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs. Mitual for the year ending March 31st 2025 is as under:*

Expenditure	₹	*Income*	₹
To Salary to Staff	*1,20,000*	*By Consultation Fees*	*12,00,000*
To Administrative Exp.	*2,90,000*	*By Salary received from True Care Hospitals (P) Ltd.*	*1,80,000*
To Conveyance	*24,000*	*By Rental Income from House Property*	*78,000*
To Power & Fuel	*24,000*	*By Dividend from Foreign Companies*	*10,000*

To Interest on Housing Loan	1,00,000		
To Interest on Education Loan for son	26,000		
To Amount paid to scientific research association approved & Notified u/s 35	25,000		
To net profit	8,59,000		
Total	**14,68,000**	**Total**	**14,68,000**

Explanatory Information:

(i) *She is working part-time with True Care Hospitals (P) Ltd. Her salary details are as under:*

Basic Pay	*13,000 p.m.*
Transport Allowance	*2,000 p.m.*
Total	*15,000 p.m.*

Further, during P.Y. 2024-25, her son had undergone a medical treatment in True Care Hospitals (P) Ltd, free of cost. The hospital would have charged a sum of 60,000 for a similar treatment to unrelated patients.

(ii) *She owns a residential house. Ground floor of the house is self-occupied by her while first floor has been rented out since 01-10-2024. The reconstruction of the house was started on 01-04-2024 and was completed on 30-09-2024. The monthly rent is 10,000. The tenant also pays ₹3,000 p.m. as power back-up charges. She took a housing loan of 12 lakhs on 01-04-2024. Interest on housing loan for the period 01-04-2024 to 30-09-2024 was 60,000 and for the period 01-10-2024 to 31-032025 was 40,000. During the year, she also paid municipal taxes for the F.Y. 2023-24 5,000 and for F.Y. 2024-25 5,000.*

(iii) *Other information:*

- **(a)** *Conveyance expenses include a sum of 12,000 incurred for conveyance from house to True Care Hospitals (P) Ltd. and vice-versa in relation to her employment.*
- **(b)** *Power & fuel expenses include a sum of ₹ 6,000 incurred for generator fuel for providing power back-up to the tenant.*
- **(c)** *Administrative expenses include a sum of 10,000 paid as Municipal Taxes for her house.*
- **(d)** *Clinic equipments' details are: Opening W.D.V. Of clinic equipments as on 01-04-2024 was 1,00,000 and fresh purchase made on 28-08-2024 is 25,000 which was paid in cash.*
- **(e)** *She also paid tuition fee of 40,000 for her grand-daughter, which has been debited to her Capital A/C.*
- **(f)** *She availed a loan of ₹ 8,00,000 from bank for higher education of her son. She repaid principal of ₹ 50,000 and interest of 26,000 during P.Y. 2024-25.*

You are required to compute her total income and tax liability for Assessment Year 2025-26 if he has not opted for the provisions of Section 115BAC. ***(14 Marks, Nov. 2019-NS)***

Solution

Computation of total income and tax liability of Mrs. Mitul (amount in ₹)

Particulars	₹	₹	₹
Income from salaries:			

Basic pay (13,000 × 12)		1,56,000	
Transport allowance (2,000 × 12) [Fully taxable]		24,000	
Medical facility [Exempt from tax since provided in employers hospital]		Exempt	
Gross Salary		**1,80,000**	
Less: Standard Deduction u/s 16(ia)		50,000	1,30,000
Income from House Property: **Self occupied portion [Ground Floor]** Annual value	Nil		
Less: Interest on borrowed capital [1,00,000/2] = 50,000 [Deduction shall be allowed subject to maximum of ₹ 30,000]	30,000	-30,000	
Let out property [First Floor] Actual rent being Gross Annual Value [10000 x6]	60,000		
Less: Municipal taxes paid [Taxes paid during FY 2022-23 shall be allowed as deduction on actual payment basis relating to let out portion] [10000/2]	5,000		
Net Annual Value 55,000	**55,000**		
Less: Deductions under section 24- (a) Statutory Deduction@ 30% of NAV 16,500	16,500		
(b) Interest on loans relating to let out portion to be allowed on due basis [1,00,000/2]	50,000	-11,500	-41,500
Profits and gains from business or profession: Net Profit as per Income and Expenditure account **Add:** Items debited to Income & Expenditure a/c to be disallowed/considered separately-		8,59,000	
Conveyance expenses incurred in relation to employment		12,000	
Power & Fuel expenses for providing power back up to tenant		6,000	
Interest on housing loan		1,00,000	
Interest on education loan on son (being personal in nature)		26,000	
Municipal tax of house property		10,000	
		10,13,000	
Less: Items credited to Income & Expenditure a/c to be disallowed/considered separately- Salary received from True Care Hospital (P) Ltd		1,80,000	
Rental Income from House property		78,000	

Dividend from shares of foreign company		10,000	
Depreciation on clinic equipments u/s 32 [15% of 1 lakh]		15,000	7,30,000
Income from other sources: Dividend from shares of foreign companies		10,000	
Power Back up charges recovered from tenant [3,000 × 6] [WN-2]	18,000		
Less: Expenses	6,000	12,000	22,000
Gross Total Income			**8,40,500**
Less: Deduction u/s 80E (Interest on loan for higher education of his son)			26,000
Less: Tution fee of her grand-daughter [Not eligible for deduction u/s 80C]			Nil
Total Income (rounded off)			**8,14,500**
Income taxable at normal rates [Since senior citizen] **Add: HEC@4%**			72,900 2,916
Total tax liability (rounded off)			**75,820**

Working Notes:

(1) Where an assessee incurs any expenditure for acquisition of any asset or part thereof in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft or use of electronic clearing system through a bank account or through such other prescribed electronic mode, exceeds 10,000, such expenditure shall not form part of actual cost of such asset. Hence, Cash purchase of 25,000 on 28-08-2023 shall not from part of the actual cost, since cash payment exceeds 10,000.

(2) Where composite rent includes rent of building and charges for different services (power etc.), the composite rent is has to be split up in the following manner-

(a) the sum attributable to use of property is to be assessed under section 22 as income from house property;

(b) the sum attributable to use of services is to be charged to tax under the head "Income from other sources", as the case may be. Hence, the power backup charges recovered from tenant is taxable under income from other sources.

(3) 100% deduction is allowed in respect of payment to approved scientific research association. Since the expenditure is already debited to Profit and loss Account, hence no adjustment is required.

Illustration 18

***Computation of Total Income**: Mr. Jagdish, aged 61 years, has set-up his business in Thailand and is residing in Thailand since last 20 years. He owns a house property in Bangkok, half of which is used as his residence and half is given on rent (such rent received, converted in INR is 6,00,000). The annual value of the house in Thailand is ₹ 50,00,000 i.e. converted value in INR. He purchased a flat in Pune during F.Y. 2019-20, which has been given on monthly rent of 27,500 since 01-07-2023. The annual property tax of Pune flat is 40,000 which is paid by Mr. Jagdish* *whenever he comes to India. Mr. Jagdish last visited India in July 2023. He has taken a loan from Union Bank of India for purchase of the Pune flat amounting to 15,00,000. The interest on such loan for the F.Y. 2024-25 was 84,000. However, interest for March 2025 quarter has not yet been paid by Mr. Jagdish.*

He had a house in Jaipur which was sold in May 2019. In respect of this house he received arrears of rent of 96,000 in February 2025 (not taxed earlier).

He also derived some other incomes during F.Y. 2024-25 which are as follows:

Profit from business in Thailand 2,75,000

Interest on bonds of a Japanese Co. 45,000 out of which 50% was received in India.

Income from Apple Orchid in Nepal given of contract and the yearly contract fee of 5,00,000, for F.Y. 2024-25 was deposited directly by the contractor in Kathmandu branch of Union Bank of India in Mr. Jagdish's bank account maintained with Union Bank of India's Pune Branch.

Compute the total income of Mr. Jagdish for A.Y. 2025-26 chargeable to income tax in India. Assessee has not opted for provisions of Section 115BAC.

(7 Marks, Nov. 2019-NS)

Solution

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

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

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

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

Since Mr. Jagdish do not satisfy any of the above condition, he is non resident in Financial year 2024-25. In case of non resident, income which is received in India or deemed to be received in India and income which accrues in India or deemed to accrue or arise in India is chargeable to tax.

Computation of total income of Mr. Jagdish (amount in ₹):

Particulars	₹	₹	₹
Income from House Property: House Property in Bangkok (Let out portion) [Income from house property at Bangkok neither accrues or arises in India, nor is it deemed to accrue or arise in India; and it is also not stated to be received in India. Hence, it is not taxable in India, since he is a non- resident] **Let out property in Pune**		Nil	
Actual rent receivable being gross annual value [27,500 × 12]	3,30,000		
Less: Municipal taxes paid during the year	Nil		
Net annual value	**3,30,000**		
Less: Deduction under Section 24 Standard deduction [30% of NAV]	99,000		
Interest on borrowed capital [to be allowed as deduction			

on due basis]	84,000	1,47,000	
Arrears of rent received in Jaipur [Section 25A]	**96,000**		
Less: Deduction 30%	28,800	67,200	2,14,200
Profits from business in Thailand [Since the same accrues and received outside India, hence it will not be taxable in India]			Nil
Income from other sources: Interest on bonds of Japanese Company [50% received in India is taxable] Income from Apple Orchid in Nepal [Income is received in India] [Since it is directly credited in Indian branch of Bank, it is received in India, hence taxable]		22,500 5,00,000	5,22,500
Total Income			**7,36,700**

Illustration 19

Computation of Total income: *Mrs. Babu, working as Journalist with ABC Limited provides the following information from the year ended 31-3-2025.*

Particulars	₹
Basic salary p.m	*25,000*
DA (50% of it is meant for retirement benefits)	*50% Basic Pay*
Own contribution to Recognized Provident Fund (R.P.F.)	*30,000*
Employer's contribution to R.P.F	*20% of basic salary*
Interest credited in the R.P.F. Account @ 15% p.a.	*15,000*
Arrears of rent received from ABC Limited	*69,000*

Received interest ₹10,000 from Axis Bank Savings account during the year, and interest of ₹ 12,040 from the debentures of M/s. Coal India Ltd.

She made payment through cheque 12,500 for Mediclaim Insurance Policy for her major daughter. She had contributed ₹ 1,196 pm towards Atal Pension Yojana and 5,000 pm towards Sukanya Samridhi account.

M/s. ABC Limited has taken residential house of Mrs. Babu as Company's guest house and later purchased from her in the year 2023 at market value for 75 lakhs. Purchase cost was only 10 lakhs in April, 2004.

During August, 2024 Mrs. Babu had lost her gold chain and a diamond ring which she had purchased in April, 2004 for ₹ 1,13,000 and market value of these two items were 2,50,000 and she has received insurance compensation of ₹ 3,80,000 during February, 2025.

Compute Total Income for the Assessment Year 2025-26. Assessee has not opted for provisions of Section 115BAC. [CII for 2004-05 = 113 and 2024-25=363]

(10 Marks, May 2018)

Solution

Computation of total income of Mrs. Babu (amounts in ₹)

Particulars	₹	₹

Income from salaries: Basic salary (25,000 × 12)	3,00,000	
Dearness allowance (50% of basic pay)	1,50,000	
Employers contribution to RPF in excess of 12% of Salary [20% of 3,00,000 - 12%(3,00,000+ 75,000)[WN-1]	1,5,000	
Interest credited to RPF in excess of 9.5% p.a. [15,000 - 15,000 × 9.5% ÷ 15%][WN-2]	5,500	
Gross Salary	**4,70,500**	
Less: Standard Deduction u/s 16(ia)	50,000	4,20,500
Income from House Property: Arrears of rent received under Section 25A[WN-3]	69,000	
Less: Standard deduction @ 30%	20,700	48,300
Long-term capital gains: **Gold Chain and Diamond Ring** Insurance compensation received being Full value of Consideration[WN-4]	3,80,000	
Less: cost of acquisition [since transfer takes place after 22/7/2024, no benefit of indexation shall be available]	1,13,000	2,67,000
Income from other sources: Debenture Interest (assumed to be gross)	12,040	
Saving bank interest	10,000	22,040
Gross Total Income		**7,57,840**
Less: Deduction u/s 80C (Own contribution to RPF 30,000+ Sukanya Samridhi A/c 60,000)	90,000	
Less: Deduction u/s 80CCD - Atal Pension Yojna (1,196 x 12)	14,352	1,04,352
Less: Deduction u/s 80D for medical insurance premium paid (Assumed to be dependant on her)		12,500
Less: Deduction u/s 80TTA- Interest on savings bank account. However, deduction cannot exceed 10,000.		10,000
Total Income (rounded off)		**6,30,990**

Working Notes:

(1) Employer's contribution to recognized provident fund is exempt upto 12% of salary. (Salary means Basic Salary + DA, if the terms of employment so provide + % wise fixed commission on turnover). Taxable amount = 20% of 3,00,000-12% of (3,00,000+ 75,000).

(2) Interest credited to recognised provident fund is exempt upto 9.5% p.a. Hence, interest @ 5.5% [15% - 9.5%] is taxable.

(3) Arrears of rent received is chargeable to tax under the head Income from house property after allowing deduction of 30% of such arrears rent as per provisions of Section 25A of the Income tax Act, 1961.

(4) As per Section 45(1A), if insurance compensation is received on loss of capital asset, the amount so received is treated as full value of consideration for computing Capital Gains.

(5) Employees contribution to RPF and contribution to Sukanya Samridhi account qualifies for deduction under Section 80C and contribution to Atal pension Yojna qualifies for deduction under Section 80CCD.

(6) Since the house has been sold in 2023, no capital gain will arise in the financial year 2024-25.

Illustration 20

Computation of tax liability: *Mr. Rajat Saini, aged 32 years, furnishes the following details of his total income for the A.Y. 2025-26:*

Particulars	₹
Income from Salaries (computed)	*27,88,000*
Income from House Property (Computed)	*15,80,000*
Interest Income from FDR's	*7,22,000*

He has not claimed any deduction under chapter VI-A. You are required to compute tax liability of Mr. Rajat Saini as per the provisions of Income-tax Act, 1961. He has opted for provisions of Section 115BAC. ***(5 Marks, Nov. 2018-NS)***

Solution

Computation of tax liability of Mr. Rajat Saini (amount in ₹)

Particulars	₹
Total Income	**50,90,000**
Tax on Total Income	12,17,000
Add: Surcharge @ 10% [Since Total Income exceeds 50,00,000]	1,12,700
Tax including surcharge	13,38,700
Less: Marginal Relief	58,700
Tax payable after marginal relief	12,80,000
Add: HEC@ 4%	51,200
Total tax payable	**13,31,200**

Note: Marginal relief is available in case total income exceeds 50 lakhs. The additional amount of income-tax payable (together with surcharge) on the excess of income over 50 lakhs should not be more than the amount of income exceeding 50 lakhs.

Illustration 21

Computation of total income and tax liability*: Mr. Hari, aged 55 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2024-25.*

Receipts and Payments Account

Receipts	**₹**	***Payments***	**₹**
Opening Balances (01-04-2024) Cash & Bank	*20,000*	*Staff salary, bonus and stipend to articled clerks*	*20,50,000*
Fee from professional services	*39,60,000*	*Other general and administrative expenses*	*12,00,000*

Motor car loan from SBI @ 10% interest per annum	*2,00,000*	*Office rent*	*48,000*
		Life Insurance Premium *Motor car (Acquired in January 2025 by way of online payment)*	*23,000* *4,00,000*
		Books bought (annual publication by credit card)	*22,000*
		Computer acquired on 01-11-2024 for professional use	*25,000*
		Domestic drawings	*2,50,000*
		Motor car maintenance	*12,000*
		Public Provident Fund subscription	*1,40,000*
		Closing balances (31-03-2025) Cash & Bank	*10,000*
	41,80,000		***41,80,000***

Other Information:

(i) *Motor car was put to use for both official and personal purposes. 1/4th of the motor car is for personal purpose. No interest on car loan was paid during the year.*

(ii) *Mr. Hari purchased a flat in Jaipur for 15,00,000 in July 2014 cost of which was partly financed by a loan from State Bank of India of 10,00,000 @ 10% interest, his own savings 1,00,000 and a deposit from Bank of Baroda for 4,00,000. The flat was given to Bank of Baroda on lease for 10 years @40,000 per month. The following particulars are relevant :*

(a) Municipal taxes paid by Mr. Hari = ₹ 4,200 per annum

(b) House insurance = ₹ 1,000

(iii) *He earned ₹ 1,00,000 in share speculation business and lost 1,50,000 in commodity speculation business.*

(iv) *Mr. Hari received a gift of ₹ 40,000 each from four of his family friends.*

(v) *He contributed 1,11,000 to Prime Minister's Drought Relief Fund by way of bank draft.*

(vi) *He donated to a registered political party 3,00,000 by way of cheque.*

Compute the total income of Mr. Hari and the tax payable for the Assessment Year 2025-26. Assessee has not opted for provisions of Section 115BAC. ***(10 Marks, May 2018-NS)***

Solution

Since Mr. Hari follows cash system of accounting, only those income and expenses would be considered for computation of professional income, which have actually been received or paid, as the case may be. Accordingly, the computation is as follows, (amount in ₹)-

Particulars	₹	₹	₹
Income from House Property: Let out portion: Actual Rent received/receivable [40,000 × 12] (GAV)		4,80,000	
Less: Municipal Taxes paid by the assessee		-4,200	

Net Annual value **Less:** Deduction u/s 24:		**4,75,800**	
(i) Standard Deduction @ 30% of NAV		1,42,740	
(ii) Interest on borrowed capital [10% of 10,00,000]		-1,00,000	2,33,060
Profits & Gains of Business or Profession: Fee from professional services		39,60,000	
Less: Expenses allowable as deduction- Staff salary, bonus and stipend	20,50,000		
Other administrative expenses	12,00,000		
Office rent	48,000		
Motor Car Maintenance [12,000 x 3/4th towards professional use]	9,000		
Car loan interest [Not allowable, as not paid during the year]	-	33,07,000	
Less: Deprecation Motor Car 4,00,000 x 15% x 50% as used for less than 180 days during the previous year x 3/4th relating to professional use]	22,500		
Books bought of annual publications [40% of 22,000] Computers [50% of 40% of 25,000 since put to use for less than 180 days]	8,800 5,000	36,300	6,16,700
Speculation business Gains (Shares) Speculation business loss (Commodity)		1,00,000 1,50,000	
Balance speculation business loss to be carried forward since it cannot be set-off from general business profits.		-50,000	
Income from Other Sources: Gift received from friends [40,000 × 4]			1,60,000
Gross Total Income			**10,09,760**
Less: Deduction u/s 80C Life Insurance Premium	23,000		
Public Provident Fund [Subject to maximum of 1,50,000]	1,40,000	-1,50,000	
Deduction u/s 80GGC Donation to registered Political party [100% of 3,00,000]		-3,00,000	
Deduction u/s 80G: Donation to Prime Minister's Drought Relief Fund [50% of ₹ 1,11,000]		-55,500	-5,05,500

Total Income (rounded off)			**5,04,260**
Tax on Income at normal rates			13,352
Add: HEC@ 4%			534
Tax payable			**13,890**

Illustration 22

Computation of total income and tax liability: *Mr. Pandey, a resident individual, aged 45 years, is a Chartered Accountant in practice. He maintains his accounts on cash basis. His Profit & Loss Account for the year ended 31 March, 2025 is as follows:*

Profit & Loss Account for the year ending March 31, 2025

Expenditure	₹	Income	₹
Staff Salary	18,25,000	Fees earned	23,00,000
Rent of the office premises	6,00,000	Audit	14,50,000
Administrative expenses	5,75,000	Taxation	
Stipend to Articled clerks	1,85,000		
Meeting, seminars and conferences	36,500	Consultancy services relating to syndication of loan from financial Institution	10,00,000
Depreciation	55,000		**47,50,000**
Printing and Stationery	8,75,000		
Net profit	19,13,500	Gifts	1,00,000
		Dividends from Indian companies	12,00,000
		Interest on deposit	15,000
	60,65,000		**60,65,000**

Other information:

(1) *Depreciation allowable under Income-tax Act ₹ 1,25,000.*

(2) *Administrative expenses include ₹ 55,000 paid to a tax consultant in cash for assisting Mr. Pandey in one of the professional assignments.*

(3) *Gifts represent fair market value of a LED TV which was given by one of the clients for successful presentation of case in the Income Tax Appellate Tribunal.*

(4) *Last month's rent of 50,000 was paid without deduction of tax at source.*

(5) *Mr. Pandey had taken a loan of 32,00,000 for the purchase of a house property stamp duty value 46,00,000 from a recognized financial institution on 1" May, 2024. He repaid 1,50,000 on 31 March, 2025 out of which 1,00,000 is towards principal payment and the balance is for interest on loan. The possession of the property will be handed over to him in October 2025.*

(6) *Mr. Pandey paid medical insurance premium of his parents (senior citizens and not dependent on him) by cheque amounting to 27,000. He also paid 8,500 by cash towards preventive health checkup for himself and his spouse.*

Compute the total income of Mr. Pandey and tax payable by him for Assessment Year 2025-26, assuming that Mr. Pandey does not want to opt for presumptive taxation scheme under section 44ADA. Assessee has not opted for provisions of Section 115BAC. ***(10 Marks, Nov. 2017)***

Solution

Computation of Total income and Tax payable (amounts in ₹)

Particulars	₹	₹
Income under the head Profits & Gains of Business and Profession	19,13,500	
Net profit as per Profit and Loss Account **Add**: Expenses debited but not allowable- Depreciation debited in Profit and loss Account**[WN-1]**	55,000	
Payment to tax consultant in cash is disallowed u/s 40A(3), since such cash payment is in excess of 10,000 in a day	55,000	
Payment of rent of office premises without deducting tax at source [30% of 50,000]**[WN-2]**	15,000	
Gifts from client**[WN-3]**	Nil	
Less: Income credited but not taxable under this head - Dividend on shares of Indian Companies not to be taxed under this head	12,00,000	
Interest on deposit Certificates issued under Gold Monetization Scheme, 2015 is exempt u/s 10(15)	15,000	
Depreciation allowable under Income-tax Act**[WN-1]**	1,25,000	6,98,500
Income from other sources: Dividend from shares of Indian company [Fully taxable in hands of shareholder]	12,00,000	
Interest on deposit Certificates issued under Gold Monetization Scheme, 2015 is exempt u/s 10(15)	-	12,00,000
Gross total income	-	**18,98,500**
Less: Deduction u/s 80C (Repayment of loan taken for purchase of house)**[WN-4]**	Nil	
Deduction u/s 80D (Health Insurance Premium)**[WN-5]**	32,000	32,000
Total Income (rounded off to nearest ₹10)		**18,66,500**
Tax on total income		3,72,450
Add: HEC@ 4%		14,898
Tax liability (rounded off to nearest 10)		**3,87,350**

Working Notes:

(1) Depreciation debited to profit and loss account will be added back and allowable depreciation as per Income tax Act, shall be reduced.

(2) An individual is liable to deduct tax at source on rent payments if his turnover in preceding financial year exceeds 1crore. Presuming that turnover Mr. Pandey in preceding financial year exceeded ₹ 1 crore, he was liable to deduct tax at source. Since he has not deducted tax at source, 30% of rent payments shall be disallowed under Section 40(a)(ia) of the Act.

(3) Gifts given by one of the clients for successful presentation of case in the Income Tax Appellate Tribunal is value of benefit received from clients during the course of profession is taxable under section 28(iv) under the head Profits and gains from business or profession. Since the same has already been credited to profit and loss account, hence no adjustment is required.

(4) Interest on borrowed capital is allowed as deduction under section 24. Interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction under section 24. Further, Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction. It is stated that the possession of property will be handed over in October, 2024. Hence, deduction under Section 24 in respect of interest on housing loan cannot be claimed in the assessment year 2024-25.

Section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. However, deduction is prima facie eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During the assessment year 2024-25, there is no such income chargeable under this head, hence, deduction under section 80C cannot be claimed for assessment year 2024-25.

(5) (a) Premium paid to insure the health of his parents being senior citizen is eligible for deduction u/s 80D upto 30,000, even though they are not dependent.

(b) Expenditure on preventive health check up for himself and spouse is eligible for deduction upto ₹ 5,000 even if payment is made in cash.

Illustration 23

***Computation of Total Income**: Mr. Vinod Kumar, resident, aged 62, furnishes the following information pertaining to the year ended 31-3-2025:*

	Particulars	₹
i)	*Pension received (Net of TDS)*	*6,27,000*
ii)	*Short-term capital gains (from sale of listed shares) i*	*65,000*
iii)	*Long-term capital gains (from sale of listed shares)*	*1,24,000*
iv)	*Interest on fixed deposit from bank*	*1,60,000*
v)	***Pertaining to consultancy services provided by him:*** *Gross receipts*	*12,60,000*
	Expenses: *Rent for premises*	*1,44,000*
	Salary of P.A.	*1,20,000*
	Stenographer's salary	*1,00,000*
	Business Development expenditure	*91,000*
	Conveyance	*3,00,000*
vi)	*Contribution to PPF*	*1,10,000*
vii)	*Premium on life insurance policy taken on 10-1-2025 (sum assured 5,00,000)*	*60,000*
viii)	*Medi-claim Insurance Premium for self (paid otherwise than by cash)*	*47,000*

	Preventive health checkup expenses (in cash)	*6,000*
ix)	*Donation given in cash to a charitable trust registered under section 12AB (eligible for deduction u/s 80G) of the Income-tax Act, 1961*	*14,000*
x)	*Interest received from Post Office Saving A/c.* ***Additional information:*** *TDS from pension*	*18,000* *25,000*
	1/4th of conveyance expenses is estimated for personal use.	

Compute the total income of the assessee for the assessment year 2025-26 under proper heads of income. Listed share were sold in recognized stock exchange. Ignore the provisions of Section 44ADA. Assessee has not opted for provisions of Section 115BAC.

(Modified, 10 Marks, May 2016)

Solution

Computation of total income of Mr. Vinod Kumar for A.Y. 2025-26 (amounts in ₹)

Particulars	₹	₹
Income under the head Salary: Pension received (Net of TDS)	6,27,000	
Add: TDS from pension	25,000	
Gross salary	**6,52,000**	
Less: Standard deduction u/s 16(ia)	50,000	6,02,000
Profits and gains of business or profession: Gross receipts	12,60,000	
Less: Rent for premises	1,44,000	
Salary of P.A.	1,20,000	
Stenographer's salary	1,00,000	
Business Development expenditure	91,000	
Conveyance[WN-1]	2,25,000	5,80,000
Capital Gains: Short-term capital gains (from sale of listed shares)	65,000	
Long-term capital gains (from sale of listed shares)	1,24,000	1,89,000
Income from Other Sources: Interest on fixed deposit from bank	1,60,000	
Interest received from Post Office Saving A/c. [18,000 - ₹3,500] [WN-3]	14,500	1,74,500
Gross Total Income		**15,45,500**
Less: Deduction u/s 80C Contribution to PPF	1,10,000	
Premium on life insurance policy taken on 10-1-2025 (sum assured ₹ 5,00,000) **[WN-4]**	50,000	

Amount of deduction under Section 80C cannot exceed 1,50,000	1,60,000	1,50,000
Deduction u/s 80D: Mediclaim Insurance Premium for self (paid otherwise than by cash)	47,000	
Preventive health checkup expenses (in cash) **[WN-5]**	5,000	
Deduction u/s 80TTB (Interest on fixed deposit from bank) [WN-6]	52,000	50,000 50,000
Deduction u/s 80G (Donation in cash exceeding 2,000 is not eligible for deduction)		Nil
Total Income (rounded off)		**12,95,500**

Working Notes:

(1) Since 1/4th of the conveyance expenses is estimated for personal use, hence, the same shall not be allowed under Section 37(1). Therefore, allowable conveyance expenses is 3/4th of 3,00,000 = ₹ 2,25,000.

(2) Long-term capital gain on sale of shares on which STT is paid both at the time of acquisition & sale is exempt upto ₹ 1.25 lakh as per section 112A.

(3) Interest from post office saving bank account is exempt from tax u/s 10(15) upto 3,500.

(4) Deduction shall be allowed in respect of premium paid for life insurance only to the extent of 10% of sum assured in respect of insurance policy issued after 01-04-2013. Thus, 10% of 5,00,000 = ₹ 50,000 shall be eligible for deduction u/s 80C.

(5) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person who is a senior citizen i.e., aged 60 years or more, deduction shall be allowed up to 50,000. Further, deduction up to 5,000 in aggregate (within the monetary limits of 50,000) shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-check up 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. Hence, maximum 50,000 shall be eligible in the above case.

(6) In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto 50,000 under section 80TTB.

Illustration 24

Computation of total income and tax liability: *Mrs. Ann provides the following information for the Financial year ending 31-03-2025. Compute her total income and tax payable thereon for assessment year 2025-26 as per Income-tax Act, 1961 if he has exercised the option of shifting out of default tax regime.*

→ ***Income/Receipts***

(1) *Salary from M/s. Prominent Technologies, - 60,000 per month (Joined from 1st March, 2024).*

(2) *She is in receipt of HRA. 15,000 per month and also educational allowance of 1,500 per month for all the three of her children.*

(3) *She bought a light goods vehicle on 01-08-2024 and has been letting it on hire. She does not maintain books of account for this business. But she declares for income tax purpose, that she is earning net income of 11,000 per month from this business.*

(4) *She received 8,500 as interest on Post Office Savings Bank Account.*

(5) *She received 25,000 as interest from Company Deposits.*

(6) *Amounts withdrawn from National Savings Scheme (Principal ₹ 10,000 & Interest ₹ 25,000)*

→ ***Expenses/Payments:***

(1) *Interest payable to bank 1,000 per month on loan for the purchase of truck.*

(2) *Total interest paid to bank for loan borrowed for investing in company deposits is 5,000.*

(3) *Rent paid for residence is 18,000 per month.*

(4) *Tuition fees paid for the year 2024-25 for her three children is 50,000, 30,000 and 20,000 respectively, to educational institution situated in India.*

(5) *Medical insurance premium for her and for her husband is 30,000 (paid by cheque) and 25,000 (paid by cash) respectively.*

(6) *She has deposited during the year, in 5 year Post office Recurring Deposit Scheme 20,000.*

Solution

Computation of total income and tax liability of Mrs. Ann (amount in ₹)

Particulars	₹	₹
Basic Salary (60000 x12)		**7,20,000**
HRA (15000 x12)	1,80,000	
Less: Exempt u/s 10(13A) **[WN-1]**	1,44,000	36,000
Education Allowance (1,500x12)	18,000	
Less: Exempt u/s 10(14) (100 x 12 x 2)	2,400	15,600
Gross Salary		**7,71,600**
Less: Standard Deduction u/s 16(ia)		50,000
Income from Salary		**7,21,600**
Profits and gains from business or profession : Income from the business of letting on hire of light goods vehicle **[WN-2]**		88,000
Income from Other Sources:		
Interest on Post office Saving bank account	8,500	
Less: Exemption u/s 10(15)(i)	3,500	
Balance Interest	**5,000**	
Interest from National Savings scheme	25,000	
Interest on Company deposit	25,000	
	55,000	
Less: Deduction u/s 57 (Interest paid for making investment in company deposit)	5,000	50,000
Gross Total Income		**8,59,600**
Less: Deductions under Chapter VI-A Deduction u/s 80C**[WN-3]**	80,000	
Deduction u/s 80D**[WN-3]**	25,000	
Deduction u/s 80TTA **[Interest on Post office saving bank account subject to maximum of10,000]**	5,000	1,10,000

Total Income		**7,49,600**
Tax on total income		62,420
Add: Health and Education cess @ 4%		2,497
Tax payable (rounded off)		**64,920**

Working Notes:

(1) HRA is exempt to the extent of the least of the following under section 10(13A)
(a) 50% of salary (assumed to be in Mumbai) i.e. 50% of 7,20,000 = 3,60,000;
(b) Excess of rent paid over 10% of salary = 2,16,000-72,000 = 1,44,000;
(c) Actual HRA received = 15,000 x 12 = 1,80,000.
Least of the above i.e. 1,44,000 is exempt under section 10(13A).

(2) In the case of a person owning not more than 10 vehicles at any time during the previous year, estimated income from each light goods vehicle will be deemed to be 7,500 for every month or part of the month during which the vehicle is owned by the assessee during the previous year. If, however, the assessee declares a higher amount, such amount will be considered as income. Also, interest is not deductible, since under section 44AE, all deductions under sections 30 to 38 are deemed to have been allowed from such declared income. [Section 44AE]
Actual income = 11,000 × 8 = 88,000.

(3) Deductions u/s 80C and Section 80D:

Tuition fees paid for two of his children (most favourable to Mrs. Ann) [5 year Post office recurring deposit do not qualify for deduction u/s 80C].	80,000
Medical Insurance Premium for self paid in cheque qualifies for deduction subject to maximum of25,000. [Health insurance premium paid for her husband in cash do not qualify for deduction u/s 80D]	25,000

Illustration 25

Computation of total income and tax liability: *Mr. Devansh an Indian Resident aged 38 years carries on his own business. He has prepared following Profit & Loss A/c for the year ending 31-03-2025:*

Particulars	₹	*Particulars*	₹
Salary	*48,000*	*Gross Profit*	*4,30,400*
Advertisement	*24,000*	*Cash Gift (on the occasion of Marriage)*	*1,20,000*
Sundry Expenses	*54,500*	*Interest on Debentures (Listed in recognised stock Exchange) Net of Taxes*	*7,200*
Fire Insurance (10,000 relates to House Property)	*30,000*		
Income Tax and Wealth Tax	*27,000*		
Household expenses	*42,500*		
Depreciation(Allowable)	*23,800*		
Contribution to an University approved andnotified u/s 35(1)(ii)	*1,00,000*		

Municipal taxes paid for House property	*36,000*		
Printing & Stationary	*12,000*		
Repairs & Maintenance	*24,000*		
Net Profit	*1,35,800*		
	5,57,600		***5,57,600***

Other information:

(i) *Mr. Devansh owns a House Property which is being used by him for the following purposes:*
25% of the property for own business
25% of the property for self-residence
50% let out for Residential purpose

(ii) *Rent received from 50% let out portion during the year was 1,65,000.*

(iii) *On 01-12-2024 he acquired a vacant site from his friend for 1,05,000. The State Stamp Valuation Authority fixed the value of the site at 2,80,000 for stamp duty purpose.*

(iv) *He received interest on Post Office Savings bank Account amounting to 500.*

(v) *Cash gift on the occasion of marriage includes gift of 20,000 from Non-relatives.*

(vi) *LIC premium paid (Policy value 3,00,000 taken on 01-06-2015) 60,000 for his handicapped son. (Section 80U disability)*

(vii) *He purchased 10,000 shares of X Company Ltd. on 01-01-2014 for 1,00,000 and received a 1:1 bonus on 1-1-2016. He sold 5,000 bonus shares in September 2024 for 2,20,000. Shares are not listed and STT not paid).*

Compute Total Income and Net Tax payable by Mr. Devansh for the Assessment Year 2025-26. Assessee has not opted for provisions of Section 115BAC. ***(10 Marks, Nov. 2014)***

Solution

Computation of total income and tax payable (amounts in ₹)

Particulars	₹	₹
Income from house property: Actual Rent Received [Being Gross Annual Value u/s 23(1)]	1,65,000	
Less: Municipal taxes paid	18,000	
Net Annual Value (NAV)	**1,47,000**	
Less: Standard deduction u/s 24 @ 30% of NAV	44,100	**1,02,900**
Income under the head Profits & Gains of Business and Profession Net profit as per Profit and Loss Account	1,35,800	
Add: Expenses debited but not allowable Municipal Taxes of house property not relatable to Business [75% of 36,000] **[WN-1]**	27,000	
Fire Insurance of house property not relatable to Business [75% of 10,000] **[WN-1]**	7,500	
House hold expenses **[WN-3]**	42,500	
Income tax and wealth tax**[WN-2]**	27,000	

	2,39,800	
Less: Income credited but not taxable under this head -Cash Gift (on the occasion of Marriage)	1,20,000	
Interest on Debentures (Listed in recognised stock Exchange) Net of Taxes	7,200 **1,27,200**	1,12,600
Capital Gains (Long Term) Sale of Bonus Shares	2,20,000	
Less: Cost of Acquisition	Nil	2,20,000
Income from other sources: Cash gift on occasion of marriage is not taxable	-	
Interest on Post Office Savings bank Account [In case of individual account, a sum upto 3,500is exempt u/s 10(15)]	-	
Interest on debentures [Gross amount will be taxable i.e. 7,200 × 100/90]	8,000	
Purchase of immovable property for inadequate consideration **[WN-4]**	1,75,000	1,83,000
Gross Total Income		**6,18,500**
Less: Deduction u/s 80C (LIC Premium - Actual amt. or 15% of capital sum assured, whichever is less)		45,000
Total Income (rounded off to nearest ₹10)		**5,73,500**
Tax on total income:		
Tax on long term capital gains: 12.5% of ₹ 2,20,000	27,500	
Tax on balance income	5,175	
	32,675	
Less: Tax rebate u/s 87A [Not available since total income exceeds 5,00,000]	Nil	
Balance Tax	**32,675**	
Add: Health and Education cess @ 4%	1,307	
Tax liability (rounded off to nearest ₹10)		33,980
Less: TDS on interest on debentures		800
Tax payable		**33,180**

Working Notes:

(1) Since 25% of the house property is used by Mr. Devansh for his own residence and 50% of the property is let out for residential purposes, therefore expenditure relatable for the said portion shall not be allowed while computing business income. Thus following expenses shall be disallowed
(a) 75% of Municipal taxes paid for the property i.e. 75% of 36,000 = ₹ 27,000
(b) 75% of Fire Insurance of House Property i.e. 75% of 10,000 = ₹ 7,500

(2) Income tax and Wealth tax are disallowed under Section 40(a).

(3) House hold expenses are specifically disallowed under Section 37(1).

(4) Since Mr. Devansh purchased immovable property for inadequate consideration, the difference between the stamp duty value of 2,80,000 and the actual consideration of 1,05,000 paid is taxable u/s 56(2)(x) as Income from other sources, since the difference exceeds 50,000 being,the higher of 50,000 and 10% of consideration i.e.₹ 10,500.

(5) Contribution to an University approved and notified u/s 35(1)(ii) is eligible for 100% deduction. Since the expenditure is already debited to Profit and loss account, no adjustment shall be required.

Illustration 26

Computation of Total Income and Tax Liability*: Mrs. Rani a resident aged 50 years is running an acupuncture clinic. Her Income and Expenditure Account and other relevant information for the year ending 31st March, 2025 are given below:*

Expenditure	*₹*	*Income*	*₹*
To Staff Salary	*52,40,000*	*By Fees receipts*	*61,45,000*
To Clinic rent	*1,20,000*	*By Dividend from Indian Companies (Gross)*	*10,500*
To Medicines and needles	*1,05,000*	*By Winning from Lotteries net of TDS (TDS 6,000)*	*14,000*
To Depreciation	*81,000*	*By Income-tax Refund*	*1,750*
To Administrative expenses	*1,52,000*		
To Donation to Prime Minister's National Relief Fund	*20,000*		
To Excess of Income over Expenditure	*4,53,250*		
	61,71,250		***61,71,250***

(i) *Depreciation in respect of all assets has been ascertained at 60,000 as per Income-tax rules. (ii) Medicines & needles of 22,000 have been used for her family.*

(ii) *Fees Receipts include 24,000 being honorarium for valuing acupuncture examination answer books.*

(iii) *She has also received 57,860 on maturity of one LIC Policy, not included in the above Income and Expenditure Account.*

(iv) *She has paid an LIC premium of 12,000 for self (Sum Assured ₹ 50,000).*

(v) *She has paid 2,500 for purchase of lottery tickets.*

Compute the total Income and tax payable thereon of Mrs. Rani for the A.Y. 2025-26. Assessee has not opted for provisions of Section 115BAC. ***(10 Marks, IPCC May 2013)***

Solution

Computation of Total income and Tax liability of Mrs. Rani (amount in ₹)

Particulars	₹	₹
Profits and Gains of Business or Profession: Net Profits as per Income and Expenditure A/c	4,53,250	
Less: Income tax refund	1,750	

Dividend from Indian companies	10,500	
Winnings from lottery (net of TDS)	14,000	
Honorarium for valuing acupuncture examination answer books.	24,000	
Allowable depreciation as per Income tax rules	60,000	
	3,43,000	
Add: Expenditure debited but not allowable Donation to Prime Minister's National Relief Fund	20,000	
Deprecation	81,000	
Cost of medicines and needles for self use	22,000	4,66,000
Income from other sources: Honorarium for valuing acupuncture examination answer books	24,000	
Gross Winnings from lottery **[WN-1]**	20,000	
Dividend from Indian company (Taxable)	10,500	54,500
Gross Total Income		**5,20,500**
Less: Deduction u/s 80C [LIC premium of 12,000 for self (Sum Assured 50,000) shall be allowed subject to 10% of capital sum assured assuming that the policy is issued on or after 0104-2013] Deduction u/s 80G (Donation to Prime Minister's National Relief Fund)**[WN-3]**	5,000 20,000	25,000
Total Income (rounded off)		**4,95,500**
Tax on Lottery Winnings [20,000 × 30%]		6,000
on Balance Income (4,95,500 - 20,000 - 2,50,000)		11,275
Total tax		**17,275**
Less: Tax rebate under Section 87A [100% of tax or 12,500 whichever is less]		12,500
Total Income-tax		**4,775**
Less: TDS on dividends (10,500 × 10%)		1,050
Less: TDS on lottery winnings		6,000
Tax payable (rounded off		**-2,280**

Working Notes:

(1) Winnings from lottery should be grossed up for the chargeability under the head "Income from other sources". Hence, taxable amount is (14,000+ 6,000) = 20,000. Further cost of lottery tickets is not allowed as deduction.

(2) ₹ 57,860 received on maturity of one LIC Policy, is exempt from tax under section 10(10D).

(3) Donation to Prime Minister's National Relief Fund is eligible for 100% deduction.

(4) Income tax refund shall not be taxable but interest on IT refund is taxable.

Illustration 27

***Computation of Total Income**: The following is the Profit and Loss Account of Mr. Aditya, aged 58 years, a resident, for the year ended 31-03-2025:*

Particulars	₹	Particulars	₹
Rent	60,000	Gross Profit	1,85,000
Repair of car	3,000	Gift of cash from a friend (received on 15-9-2024)	25,000
Wealth tax	5,000	Sale of car	17,000
Medical expenses	4,500	Interest on income-tax refund	3,000
Salary	18,000		
Depreciation on car	3,000		
Advance income-tax	1,500		
Net Prof	1,35,000		
	2,30,000		**2,30,000**

Other information:

(1) *Aditya bought a car during the year for 20,000. He charged depreciation @ 15% on the value of the car. The above car was sold during the year for 17,000. The use of the car was 3/4thfor business and 1/4th for personal use.*

(2) *Medical expenses were incurred for the treatment of Nikita, his wife.*

(3) *Salary had been paid on account of car driver.*

(4) *Rent includes arrears of rent from April 2022 to October 2024 @5,000 p.m., paid in cash on 01-11-2024.*

(5) *Mr. Aditya had also let out a house property at a monthly rent of 25,000. The annual letting value is considered to be 2,50,000. The municipal taxes are 6,000, out of which 3,000 are paid by the tenant and 3,000 are yet to be paid by Mr. Aditya. Interest on loan taken for the house property is 20,000.*

(6) *Mr. Aditya's minor daughter received 75,000 from stage acting. Interest on company deposits of Mr. Aditya's daughter (deposit was made out of income from stage acting) was 10,000.*

(7) *Aditya incurred an expense of 50,000 on the medical treatment of his dependant son, who has disability of more than 80%.*

(8) *Aditya had taken a loan during the year 2024-25 for the education of his son, who is pursuing B. Com. in Delhi University. Interest paid on the same during the year was 10,000.*

Compute the total income of Mr. Aditya. Assessee has not opted for provisions of Section 115BAC.

(10 Marks, Nov.2013)

Solution

Computation of Total Income of Mr. Aditya (amounts in ₹)

Particulars	₹	₹
Income from house property: Gross Annual Value [Actual Rent Receivable (25,000 x 12) or Annual letting value2,50,000 which ever is higher]	3,00,000	
Less: Municipal taxes [WN-1]	Nil	
Net annual Value (NAV)	3,00,000	
Less: Standard deduction (@ 30% of NAV)	90,000	
Less: Interest on borrowed capital	20,000	1,90,000

Profits and gains of business profession: Net profit as per P&L A/c	1,35,000	
Gift of cash from a friend (received on 15-09-2022)	-25,000	
Sale of car	-17,000	
Interest on income-tax refund	-3,000	
Add: Items debited to profit and loss account to be disallowed/ considered separately		
Advance Income Tax [Not allowable as deduction u/s 40(a)]	1,500	
Car expenses disallowed @ 25% for personal use [3,000 × 25%]	750	
Depreciation on car [3,000, Since, the car is sold in the year of purchase, hence block does not exist at year end, hence no depreciation shall be admissible]	3,000	
Wealth tax [Disallowed under Section 40(a)]	5,000	
Salary of car driver for personal use [18,000 × 25%]	4,500	
Arrears of rent paid in cash [Since, it exceeds 10,000, the same shall be disallowed under section 40A(3)] (5,000 × 7) Medical expenses [Personal expenses, hence disallowed under Section 37(1)]	35,000 4,500	1,44,250
Capital Gains: Original cost of car	20,000	
Sale proceeds of car	17,000	
Short term capital loss [Short term capital loss cannot be set off from any other head of Income and hence the same shall be carried forward]	-3,000	Nil
Income from other sources: Interest on income tax refund	3,000	
Gift of cash from a friend [Not taxable u/s 56(2)(x), since it does not exceed ₹ 50,000]	Nil	
Interest on company deposits of Mr. Aditya's daughter will be clubbed with Aditya's Income and exemption of 1,500 u/s 10(32) shall be allowed. (10,000 - 1,500)	8,500	11,500
Gross Total Income		**3,45,750**
Less: Deduction under section **Section 80DD:** Medical treatment of dependent disabled suffering from severe disability [Fixed sum shall be allowed as deduction, irrespective of expenditure incurred]	1,25,000	
Section 80E: Interest on loan taken for higher education of son	10,000	1,35,000
Total Income (rounded off)		**2,10,750**

Working Note:

(1) Municipal taxes of ₹ 3,000 yet to be paid by Mr. Aditya., shall not be allowed as deduction, since Municipal taxes paid during the previous year is allowed as deduction. Municipal taxes paid by tenant (3,000) are also not eligible for deduction.

(2) Income of 75,000 received by Mr. Aditya's minor daughter from stage acting will not be clubbed in hands of Aditya.

Illustration 28

Computation of Total Income and tax liability: *From the following details compute the total income of Kamal, A resident individual aged 54 years for the year ended 31-3-2025. Tax payable need not be calculated.*

	Particulars	₹
i)	*Salary including Dearness Allowance*	*5,00,000*
ii)	*Bonus*	*15,000*
iii)	*Salary to servant provided by Employer*	*12,000*
iv)	*Bill paid by Employer for Gas, Electricity and water provided free of cost at his flat*	*14,500*
v)	*Cost of Laptop provided by the employer (Used both for official and personal purposes)*	*40,000*

Following additional information is provided:

(1) *Kamal purchased a flat in a Co-operative Housing Society in Delhi for 10,75,000 in April, 2015 by taking loan from State Bank of India amounting to 5,00,000 @ 15% per annum interest, 65,000 from his own savings and deposit from a Nationalized Bank to whom this flat was given on lease for 10 years at a monthly lease rental of 5,500. The outstanding amount of loan is ₹1,60,000.*

(2) *Municipal Taxes paid by Kamal 4,500 p.a.*

(3) *Insurance in respect of the said flat ₹ 1,275*

(4) *Kamal earned a profit of ₹ 15,000 in shares speculation business and incurred a loss of 20,200 in speculation business of cotton.*

(5) *In the year 2017-18, he had gifted 50,000 to his wife and 30,000 to his son who was aged 11 years then. These amounts were advanced to Mr. Mohan @ 15% per annum interest.*

(6) *Kamal received a gift of *25,000 each from his four friends on the occasion of his birthday.*

(7) *He contributed 10,500 to Public Provident Fund and 6,000 to Unit Linked Insurance plan.*

(8) *He deposited 60,000 in tax saver deposit with a Nationalised Bank in the name of his married son.*

(9) *He has taken a policy on life for his married daughter on 1-4-2024 and paid a premium of 25,000. The sum assured for policy is ₹ 2,00,000. Assessee has not opted for provisions of Section 115BAC.* ***(10 Marks, May 2014)***

Solution

Computation of total income and tax liability of Mr. Kamal (amounts in ₹)

Particulars	₹	₹
Income under the head Salary: Salary including dearness allowance	5,00,000	
Bonus	15,000	

Salary of servant provided by the employer (Taxable as perquisite) Bill paid by employer for gas, electricity and water provided free of cost at the residence of Kamal (Taxable as perquisite	12,000 14,500	
Laptop for official and personal use	Exempt	
Gross Salary	**5,41,500**	
Less: Standard deduction u/s 16(ia)	50,000	4,91,500
Income from House Property: Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) [5,500 × 12]	66,000	
Less: Municipal Taxes paid	4,500	
Net Annual Value (NAV)	**61,500**	
Less: Standard Deduction @30% of NAV	18,450	
Less: Interest on loan from SBI [1,60,000 × 15% x 1] **Profits and gains of business or profession:**	24,000	19,050
Profit in Share speculation business	15,000	
Loss in Cotton speculation business	-20,200	
Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income.	**-5,200**	
Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Kamal as per Section 64(1A). However, as per section 10(32) an exemption of 1,500 shall be available (4,500-1,500)	3,000	
Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1) (₹ 50,000 × 15%)	7,500	
Gift from four friends @ 25,000 each - Since the aggregate amount exceeds 50,000, hence, whole of the sum will be taxable u/s 56(2)(x)	1,00,000	1,10,500
Gross Total Income		**6,21,050**
Less: Deduction u/s 80C		
Contribution to Public Provident Fund	10,500	
Tax saver deposit with a Nationalised Bank in the name of his married son **[WN-1]**	Nil	
LIC premium in respect of policy taken in name of married daughter **[WN -2]**	20,000	
Unit Linked Insurance Plan	6,000	36,500
Total Income (rounded off)		5,84,550
Tax on total income		29,410

Add: Health and Education cess @ 4%		1,176
Total Tax (rounded off)		**30,590**

Working Notes:

(1) Tax saver deposit in the name of married son does not qualify for deduction under section 80C.

(2) Premium paid for insurance on the life of any child of the individual, whether married or not, qualifies for deduction u/s 80C. Therefore, the life insurance premium paid for insurance policy of married daughter is allowed as deduction. However, the same cannot exceed 10% of capital sum assured since the policy is taken after 31-03-2012.

(3) It has been assumed that Kamal own flat in a co-operative housing society, which he has rented out to a nationalised bank, is also in Delhi. Therefore, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

Illustration 29

Computation of Total Income: *Mr. Raghuveer, a resident individual aged 35 years, furnished the following information from his Profit and Loss Account for the year ended 31 March, 2025:*

(i) *The net profit was 6,50,000.*

(ii) *The following incomes were credited in the Profit & Loss Account :*

- ***(1)*** *Divident from a foreign company ₹ 18,000*
- ***(2)*** *Interest on government securities ₹ 25,000*
- ***(3)*** *Gold coins worth 55,000 received as gift from his father.*

(iii) *Depreciation debited in the books of account was 85,000. Depreciation allowed as per Income tax Act, 1961 was 96,000.*

(iv) *Interest on loan amounting to 68,000 was paid in respect of capital borrowed for the purchase of the new asset which has not been put to use till 31 March, 2025.*

- ***(v)*** *General expenses included:*
- ***(4)*** *An expenditure of 20,500 which was paid by a bearer cheque.*
- ***(5)*** *Compensation of ₹4,500 paid to an employee while terminating his services in business unit.*

(vi) *He contributed the following amounts by cheque:*

- ***(6)*** *45,000 in Sukanya Samridhi Scheme in the name of his minor daughter Alpa.*
- ***(7)*** *20,000 to the Swachh Bharat Kosh set up by the Central Government.*
- ***(8)*** *28,000 towards premium for health insurance and 2,500 on account of preventive health checkup for self and his wife.*
- ***(9)*** *35,000 on account of medical expenses of his father aged 82 years (no insurance scheme had been availed on the health of his father).*

You are required to compute the total income of Mr. Raghuveer for the Assessment Year 2025-26. Assessee has not opted for provisions of Section 115BAC. ***(10 Marks, Nov. 2016)***

Solution

Computation of total income of Mr. Raghuveer (amount in ₹)

Particulars	₹	₹
Profits and Gains of Business or Profession Net profit as per profit and loss account	6,50,000	
Add: Expenses debited to P&L A/c but not allowable as		

deduction Interest on loan amounting to was paid in respect of capital borrowed of the new asset which has not been put to use till 31-3-2023 **[WN-1]**	68,000	
Expenditure which was paid by a bearer cheque. **[WN-2]**	20,500	
Depreciation debited in the books of account	85,000	
Compensation paid to an employee while terminating his services in business unit. **[WN-3]**	-	
	8,23,500	
Less: Incomes credited to P&L A/c but not taxable as business income		
Interest on government securities	25,000	
Dividend from a foreign company	18,000	
Gold coins received as gift from his father	55,000	
Depreciation allowable under the Income-tax Rules, 1962	96,000	6,29,500
Income from Other sources Interest on government securities	25,000	
Dividend from a foreign company[WN-4]	18,000	
Gold coins received as gift from his father[WN-5]	-	43,000
Gross Total Income		**6,72,500**
Less: Deduction under Chapter VI-A U/s 80C: Sukanya Samridhi Scheme	45,000	
U/S 80D: Insurance premium**[WN-6]**	25,000	
Medical Expenses of Father (82 Yrs)**[WN-6]**	35,000	
U/s 80G: Contribution to Swachh Bharat Kosh**[WN-7]**	20,000	
Total Income		**5,47,500**

Working Note:

(1) As per Section 36(1)(iii), interest on capital borrowed for the purchase of asset, paid from the date on which the capital was borrowed upto the date such asset was first put to use, shall not be allowed as a deduction.

(2) As per Section 40A(3), expenditure in respect of which aggregate payments made to a person in a day, in excess of 10,000, made otherwise than by way of account payee cheque/demand draft is disallowed in full.

(3) Compensation of 4,500 paid to an employee while terminating his services in business unit is allowed as deduction under section 37.

(4) Dividend from Foreign Company is Taxable under the Head "Income from Other Sources".

(5) As per Section 56(2)(x), gift received from a relative (father) is exempt from tax.

(6) Deduction in respect of health insurance premium paid on the health of himself and preventive health check up for self and his wife shall be allowed subject to maximum of 25,000. Deduction under section 80D in respect of medical expenditure of his father who is a senior citizen shall be allowed of 35,000.

(7) 100% deduction under section 80G for contribution to Swachh Bharat Kosh set up by the Central Government shall be allowed without any restriction.