

YOUNG PASSIONATE PROFESSOR MAKING **TAX EASY**
WITH HIS LOVE FOR THE SUBJECT & A PRACTICAL
CORPORATE EXPERIENCE OF **6 YEARS** IN TAX

SOCIAL MEDIA
HANDLES



(amit_mahajan0707)



CA Amit Mahajan



Amit Mahajan

05

Income From House
Property

89
109

10

Deductions From Gross
Total Income

216
238

#LetsCrackTax



 Telegram Link



 YouTube Link



Changes/Amendments
in Rapider 2.0 and
Questions will be
updated here

CA Amit Mahajan

Health & Education Cess @ 4%			6,800
Total Tax Payable			176,800

Final Tax Liability:

- Total Tax payable by Mr. X for A.Y. 2025-26 = ₹176,800



Question 2

Mr. X has a total income of Rs 16,00,000 for P.Y.2024-25, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2025-26 assuming his age is –

- 45 years
- 63 years
- 82 years

(b) Computation of Tax liability of Mr. X (aged 63 years)

Tax liability:		
First	Rs 3,00,000	- Nil
Next	Rs 3,00,001 – Rs 5,00,000	- @5% of Rs 2,00,000 Rs 10,000
Next	Rs 5,00,001 – Rs 10,00,000	- @20% of Rs 5,00,000 Rs 1,00,000
Balance	i.e., Rs 16L minus Rs 10L	- @30% of Rs 6,00,000 <u>Rs 1,80,000</u>
		Rs 2,90,000

for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A has exercised the option to shift out of section 115BAC.



Solution

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

(A)	Income-tax (including surcharge) computed on total income of Rs 51,00,000		
	Rs 2,50,000 – Rs 5,00,000 @5%	Rs 12,500	
	Rs 5,00,001 – Rs 10,00,000 @20%	Rs 1,00,000	
	Rs 10,00,001 – Rs 51,00,000 @30%	Rs 12,30,000	
	Total	Rs 13,42,500	

	Total	Rs 13,42,500	
	Add: Surcharge@10%	Rs 1,34,250	Rs 14,76,750
(B)	Income-tax computed on total income of Rs 50 lakhs (Rs 12,500 plus Rs 1,00,000 plus Rs 12,00,000)		Rs 13,12,500
(C)	Excess tax payable (A)-(B)		Rs 1,64,250
(D)	Marginal Relief (Rs 1,64,250 – Rs 1,00,000, being the amount of income in excess of Rs 50,00,000)		Rs 64,250
(E)	Tax liability (A)-(D)		Rs 14,12,500
	Add: Health and education cess @4%		Rs 56,500
	Tax liability (including cess)		Rs 14,69,000

(B)	Income-tax computed on total income of ₹ 1 crore (₹1,40,000 plus ₹25,50,000)	26,90,000
	Add: Surcharge@10%	₹ 2,69,000
		₹ 29,59,000
(C)	Total Income Less ₹ 1 crore	₹ 1,00,000
(D)	Income-tax computed on total income of 1 crore plus the excess of total income over 1 crore (B+C)	₹30,59,000
(E)	Tax liability: lower of (A) & (D)	₹ 30,59,0
	Add: Health and education cess @4%	₹1,22,3
	Tax liability (including cess)	₹ 31,81,3
(F)	Marginal relief (A-D)	₹ 69,0



Question 5

Compute the tax liability of Mr. C (aged 58), having total income of Rs 2,01,00,000 for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. C has exercised the option to shift out of section 115BAC.



Solution

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

(A)	Income-tax (including surcharge) computed on total income of Rs 2,01,00,000
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	Tax liability (including cess)	Rs 70,55,750
	Marginal relief (A-D)	Rs 5,18,750

Alternative method

(A)	Income-tax (including surcharge) computed on total income of Rs 2,01,00,000		
	Rs 2,50,000 – Rs 5,00,000 @ 5%	Rs 12,500	
	Rs 5,00,001 – Rs 10,00,000 @ 20%	Rs 1,00,000	
	Rs 10,00,001 – Rs 2,01,00,000@30%	Rs 57,30,000	
	Total	Rs 58,42,500	
	Add: Surcharge@25%	Rs 14,60,625	Rs 73,03,125

2025-26	
Income-tax (including surcharge) computed on total income of 5,01,00,000	
₹3,00,000 - ₹7,00,000@5%	₹ 20,000
₹7,00,001 - ₹10,00,000@10%	₹ 30,000
₹10,00,001 - ₹12,00,000@15%	₹ 30,000
₹12,00,001- ₹15,00,000@20%	₹ 60,000
₹15,00,001- ₹5,01,00,000@30%	<u>₹1,45,80,000</u>
Total	₹1,47,20,000
Add: Surcharge@25%	<u>₹36,80,000</u>
	₹1,84,00,000

(E)	Tax liability (₹) of (D) (including rebate)	₹ 1,93,57,000
	Add: Health and education cess@4%	₹ 7,44,500
	Tax liability (including cess)	₹ 1,93,57,000
(F)	Marginal Relief (A - D)	₹ 17,18,300

Alternative method

(A)	Income-tax (including surcharge) computed ₹ 5,01,00,000 on total income of		
	₹ 3,00,000 - ₹ 5,00,000@5%	₹ 10,000	
	₹ 5,00,001 - ₹ 10,00,000@20%	₹ 1,00,000	
	₹ 10,00,001 - ₹ 5,01,00,000@30%	₹ 1,47,30,000	
	Total	₹1,48,40,000	

section 115BAC.

Computation of tax liability of Mr. Raghav for A.Y. 2025-26

Step 1: Calculation of Tax Before Rebate

Income Slab (₹)	Income (₹)	Rate (%)	Tax (₹)
0-3,00,000	3,00,000	Nil	0
3,00,001-6,50,000	3,50,000	5%	17,500

Total Tax Before Rebate : ₹17,500

Step 2: Rebate Under Section 87A

- Eligibility** : Individuals with total income up to ₹7,00,000 are eligible for rebate under section 87A

3,00,001 - 6,50,000 @ 5%	17,500
Total Tax Before Rebate	17,500
Rebate Under Section 87A	17,500
Final Tax Liability	₹ 0

Mr. Raghav's final tax liability for AY 2024-25 is ₹ 0 after applying the rebate under section 87A.

Question 8

Mr. Pawan aged 35 years and a resident in India, has a total income of Rs 7,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 under default tax regime under section 115BAC.

Solution

Computation of tax liability of Mr. Piyush for A.Y. 2025-26

Particulars	Rs
Tax on total income of Rs 4,15,000	
Tax@5%of Rs 1,65,000	8,250
Less: Rebate u/s 87A (Lower of tax payable or Rs 12,500)	8,250
Tax Liability	Nil

Question 10

Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2024-25.

Income from salary		10,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000-₹ 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	-
Gross Total Income		13,30,000
Less: Deductions under Chapter VI-A		-
Total Income		<u>13,30,000</u>

Step 1 : ₹ 13,30,000 + ₹ 3,10,000 = ₹ 16,40,000
Tax on ₹ 16,40,000 = ₹ 1,82,000
(i.e., 5% of ₹ 4,00,000 plus 10% of ₹ 3,00,000 plus 15% of ₹ 2,00,000 plus 20% of ₹ 3,00,000 plus 30% of ₹ 1,40,000)

Income from house property		2,50,000
Net agricultural income [₹ 4,80,000-₹ 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	-
Gross Total Income		13,30,000
Less: Deductions under Chapter VI-A		-
Total Income		<u>13,30,000</u>

Step 1 : ₹ 13,30,000 + ₹ 3,10,000 = ₹ 16,40,000
Tax on ₹ 16,40,000 = ₹ 3,04,500
(i.e., 5% of 2,50,000 plus 20% of 5,00,000 plus 30% of ₹6,40,000)

Step 2 : ₹ 3,10,000 + ₹ 2,50,000 = ₹ 5,60,000
Tax on ₹ 5,60,000 = ₹ 24,500

Step 2 : ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000

Tax on 6,10,000 = ₹ 32,000

(i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 1,10,000)

Step 3 : ₹ 3,02,000 - ₹ 32,000 = 2,70,000

Step 4 & 5: Total tax payable = ₹ 2,70,000
= ₹ 2,70,000 + 4% of ₹ 2,70,000 = ₹ 2,80,800.

the Act;

- ❖ Every person who is deemed to be an assessee in default under any provision of the Act.



Question 12

State any four instances where the income of the previous year is assessable in the previous year itself instead of the assessment year.



Solution

The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few cases, the income is taxed in the previous year in which it is earned. These exceptions

assessment of the income up to the date of dissolution as income of the relevant assessment year.

- (iv) During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year.

Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing

or may not be present.



Question 14

The Jain HUF in Assam comprises of Mr. Suresh Jain, his wife Mrs. Sapna Jain, his son Mr. Sarthak Jain, his daughter-in-law Mrs. Preeti Jain, his daughter Miss Seema Jain and his unmarried brother Mr. Pritam Jain. Which of the members of the HUF are eligible for coparcenary rights?



Solution

Dayabaga school of Hindu law is prevalent in Assam. In Dayabaga school of Hindu law, nobody acquires the right, share in the property by birth as long as the head of family is living.

Thus, the children do not acquire any right, share in the family property, as long

Circulars are issued by CBDT.	Notifications are issued by the Central Government. The CBDT is also empowered to issue notifications.
Circulars are issued with certain specific problems and to clarify doubts regarding the scope and meaning of certain provisions of the Act.	Central Government issues notifications to affect the provisions of the Act and CBDT issues notifications to make and amend Income-tax Rules.
The department is bound by the circulars. While such circulars are not binding on the assesses, they can take advantage of beneficial circulars.	Notifications are binding in nature. Both department and assesses are bound by the notifications.



Solution

As per section 69B, if the assessee is found to be the owner of gold (market value of which is ₹ 50 lakhs) during the financial year ending 31.3.2025 but he has recorded to have spent only ₹ 10 lakhs in acquiring it, the Assessing Officer can add the difference of the market value of such gold and ₹ 10 lakhs i.e., ₹ 40 lakhs as the income of the assessee for A.Y.2024-25, if the assessee offers no satisfactory explanation thereof. Such income would be chargeable to tax @ 78% (@60% plus surcharge @25% and cess @4%).



Question 19

Examine with reasons whether the following statements are correct/incorrect

2024-25

Particulars	₹	₹
Income from salary (computed)	1,20,000	
Less: Set-off loss from house property	(30,000)	90,000
house property	30,000	
Less: Set-off against salary income	(30,000)	-
Income from business		40,000
Lottery winning		5,60,000
Total Income		6,90,000
Tax liability		
Tax @30% on lottery income		1,68,000

learn?

- (c) What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including FY 2023-24?



Solution

- (a) **Determination of Residential Status of Mr. Brett Lee for the AY 2024-25:-**

Period of stay during FY 2023-24 = 100 days

Calculation of period of stay during 4 preceding previous years (100 x 4 = 400 days)

2020-21	100 days
2019-20	100 days

Total

700 days

Since his period of stay in India during the past 7 previous years is less than 730 days, he is a not-ordinarily resident during the AY 2024-25. (See Note below)

Therefore, Mr. Brett Lee is a resident but not ordinarily resident during the FY 2023-24 relevant to the AY 2024-25.

Note: An individual, not being an Indian citizen, would be not-ordinarily resident person if he satisfies any one of the conditions specified under section 6(6), i.e.,

- (i) If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or



Question 3

Mr. B, a Canadian citizen, comes to India for the first time during the P.Y. 2019-20. During the financial years 2019-20, 2020-21, 2021-22, 2022-23 and 2023-24, he was in India for 55 days, 60 days, 90 days, 150 days and 70 days, respectively. Determine his residential status for the AY 2024-25.



Solution

During the FY 2023-24, Mr. B was in India for 70 days and during the 4 years preceding the FY 2023-24, he was in India for 355 days (i.e. 55+ 60+ 90+ 150 days).

Thus, he does not satisfy the basic condition under section 6(1). Therefore, he is a non-resident for the FY 2023-24.



Question 5

From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2025, compute the total income for the AY 2025-26, if he is:

- (i) Resident and ordinary resident;
- (ii) Resident but not ordinarily resident;
- (iii) Non-resident

	Particulars	Rs.
(a)	Short term capital gains on sale of shares of an Indian Company received in Germany	15,000
(b)	Dividend from a Japanese Company received in Japan	10,000

3)	Rent from property in London deposited in a bank in London [See Note (i) below]	52,500	-	-
4)	Dividend from RP Ltd., an Indian Company	6,000	6,000	6,000
5)	Agricultural income from land in Gujarat [See Note (ii) below]	-	-	-
Total Income		83,500	21,000	21,000

Notes:

- (i) It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @30% under section 24, has been

(ii)	Foreign Allowance [not included in (i) above]	4,00,000
(iii)	Interest on fixed deposit from bank in India	1,00,000
(iv)	Income from agriculture in Nepal	2,00,000
(v)	Income from house property in Nepal	2,50,000

Compute his Gross Total Income for AY 2025-26.



Solution

As per section 6(1), Mr. David is a non-resident for the AY 2025-26, since he was not present in India at any time during the FY 2024-25.

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

- (i) Income received or deemed to be received in India; and

Gross total income	6,00,000
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Question 7

Miss Rashi paid a sum of 5000 USD to Mr. Kulasekhara, a management consultant practising in Colombo, specializing in project financing. The payment was made in Colombo. Mr. Kulasekhara is a non-resident. The consultancy is related to a project in India with possible Ceylonese collaboration. Is this payment chargeable to tax in India in the hands of Mr. Kulasekhara, since the services were used in India?



Solution

A non-resident is chargeable to tax in respect of income received outside India only if such income accrues or arises or is deemed to accrue or arise to

non- resident for the AY 2025-26 –

Particulars	Amount (Rs.)
Salaries (computed)	10,000
Short term capital gains on sale of shares of an Indian company received in London	20,000
Dividend from British company received in London	5,000
Long term capital gains on sale of plant at Germany, 50% of profits are received in India	40,000
Income earned from business in Germany which is controlled from Delhi (Rs.40,000 is received in India)	70,000

Interest on savings bank deposit in State Bank of India	12,000
Income from a business in Russia, controlled from Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000



Solution

Self Practice

during the previous year must be 182 days instead of 60 days given in (ii) above.

During the FY 2024-25, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the AY 2025-26.



Question 10

Mr. Dey, a non-resident, residing in US since 1990, came back to India on 1.4.2024 for permanent settlement. What will be his residential status for AY 2025-26?

Question 11

Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the financial year 2024-25. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the AY 2025-26 assuming that both have exercised the option of shifting out of default tax regime provided under section 115BAC (1A).

Sr. No.	Particulars	Mr. Ramesh (Rs.)	Mr. Suresh (Rs.)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000

Solution**Ramesh - 4,27,500 | Suresh - 3,74,000**

of whether the non-resident has a residence or place of business or business connection in India.



Question 13

Examine with reasons whether the following transactions attract income-tax in India in the hands of recipients:

- (i) Salary paid by Central Government to Mr. John, a citizen of India Rs.7,00,000 for the services rendered outside India considering that he pays tax under sec 115 BAC.
- (ii) Interest on moneys borrowed from outside India Rs.5,00,000 by a non-resident for the purpose of business within India say, at Mumbai.
- (iii) Post office savings bank interest of Rs.19,000 received by a resident

			outside India would be deemed to accrue or arise in India since he is a citizen of India. He would be entitled to standard deduction of Rs.50,000 under section 16(ia).
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			be taxable in the hands of Mr. Ram, a resident.
(iv)	Not Taxable		- Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).

use of know-how for a business in Sri Lanka & this amount was received in Korea.

- (c) Received Rs. 7 Lacs from RR Ltd., an Indian company as fees for providing technical services in India.
- (d) Received Rs. 5 Lacs from R & Co., Mumbai, resident in India, for conducting the feasibility study for a new project in Nepal & the payment was made in Nepal.
- (e) Received Rs. 8 Lacs towards interest on moneys borrowed by a NR for the purpose of business within India. Amount was received in Korea.

Examine briefly whether the above receipts are chargeable to tax in India.

Ans: (a) - Taxable | (b) - Not Taxable | (c) - Taxable | (d) - Not Taxable | (e) - Taxable



Answers

Case I - Mr Dhruv is NR and Case II - Mr Dhruv is RNOR

		115BAC	
Income from Salaries			
Salary from Government of India	7,20,000		
(Salary payable by the Government to a citizen of India for services rendered outside India is deemed to accrue/arise in India u/s 9(I)(iii).			
Foreign Allowance from Government of India exempt u/s 10(7)	Nil	7,20,000	7,20,000
Less: Standard deduction u/s 16(ia)		(50,000)	(75,000)

amount is converted/stated in Indian Rupees].

- (C) Received 7 Lakhs from RR Co. Ltd, an Indian Company, for providing Technical know-how in India.
- (D) Received 5 Lakhs from R & Co. Mumbai for conducting Feasibility Study for a new project in Nepal & the payment was made in Nepal.

Explain briefly whether, these receipts are chargeable to tax in India.



Solution

- (A) Chargeable to tax in India. In this case as the payer is a NR, income received for patent used for business in India, shall be deemed to accrue or arise in India.
- (B) Not chargeable to tax in India. In this case as the payer is a NR, income

2.	Profits from a profession in Delhi, but managed directly from America	50,000
3.	Long term capital gain on sale of shares of an Indian company, received in India	60,000
4.	Interest on savings bank deposit in SBI, Delhi	17,000
5.	Agricultural income from a land situated in Tamilnadu	55,000
6.	Rent (computed) from property in America deposit in a Bank there, later on remitted to India	1,00,000
7.	Cash gift received from a friend on her birthday on 16.8.2023	51,000
8.	Past foreign untaxed income brought to India	70,000

Determiner her residential status and compute the total income chargeable

01.04.2023 to 20.09.2023	-	173 days
27.03.2024 to 31.03.2024	-	5 days
Total		178 days

Four preceding previous years

P.Y.2022-23 [1.4.2022 to 31.3.2023]	-	12 days
P.Y.2021-22 [1.4.2021 to 31.3.2022]	-	Nil
P.Y.2020-21 [1.4.2020 to 31.3.2021]	-	Nil
P.Y.2019-20 [1.4.2019- to 31.3.2020]	-	Nil
Total		12 days

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 12 days.

7.	Cash gift received from a friend on Mrs. Kaira birthday on 16.8.2023 Note: As per section 56(2) (x), cash gifts received from a non-relative would be taxable, if the amount exceeds Rs. 50,000 in aggregate during the previous year.	51,000
8.	Past foreign untaxed income brought to India [Not taxable, since it does not represent income of the P.Y.2023-24].	-
Gross Total Income		1,78,000
(-) Deduction u/s 80 TTA		(10,000)
Net Total In come		1 , 68, 000

	Income to tax in India	
(ii)	Income accrued and arisen in India	5,00,000
(iii)	Income deemed to accrue and arise in India	8,00,000
(iv)	Income arising in Dubai from a profession set up in India	10,00,000

- I. Determine the residential status of Mr. Sarthak and taxable income for the previous year 2023- 24 (assuming no other income arise during the previous year).
- II. What would be your answer if income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs?
- III. What would be your answer, if Mr. Sarthak is not an Indian citizen but his parents were born in India? (MTP 6 Marks April '23, PYP 6 Marks Nov '22)

(iii)	Income deemed to accrue or arise in India (taxable)	8,00,000
(iv)	Income arising in Dubai from a profession set up in India would be taxable in case of RNOR	10,00,000
	Total income	23,00,000

- II. If income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs, his total income (excluding income from foreign sources) would be only ₹ 15 lakhs. Since the same does not exceed the threshold limit of ₹ 15 lakhs, he would not be deemed resident. Accordingly, he would be non-resident in India for the P.Y. 2023-24 and hence, his total income would be only ₹ 13 lakhs (aggregate of (ii) and (iii) above i.e., ₹ 5 lakhs + ₹ 8 lakhs).

2019-20	May 27th	Sept 30th							
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(RTP May 19)



Solution

The residential status of Ms. Nicole Kidman, a foreign national, would be determined in the following manner -

Previous Year	2023-2024	2022-2023	2021-2022	2020-2021	2019-2020	2018-2019	2017-2018	2016-2017	2015-2016
No. of days of stay in India	102	20	46	201	137	102	102	102	102

In the present case, her stay in India in the last seven previous years prior to P.Y.2023- 24 is 710 days [20 +46 +201+137 +102 +102 +102], which is less than 730 days. Therefore, she is resident but not ordinarily resident for the P.Y.2023-24 even if she is resident in the two assessment years i.e., A.Y.2021-22 and A.Y.2020-21 as per the information given in the question.



Question 21

From the following particulars of income furnished by Mr. Ashutosh, aged 65 years, pertaining to year ended 31.03.2024, compute the total income for the A.Y. 2024-25, if he is

(a) Resident and ordinarily resident

a foreign company, for business outside India and received also outside India



Solution

Computation of total income of Mr. Ashutosh for the A.Y. 2024-25

Particulars	Resident and ordinarily resident (₹)	Non- resident (₹)
Capital gain on sale of land in Jaipur to Mr. Ramesh, a non- resident, outside India and received outside India	1,50,000	1,50,000

Less: Deduction under section 80TTB/80TTA		
[Interest on savings bank account subject to a maximum of ₹ 50,000/₹ 10,000]	18,000	10,000
Total Income	3,61,000	2,77,000

Notes –

1. In case of a resident and ordinarily resident, global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:
 - (i) Income received or deemed to be received in India; and

information:

- (1) Short term capital gain on the sale of shares of Tilt India Ltd., a listed Indian company, amounting to ₹ 58,000. The sale proceeds were credited to his bank account in Singapore.
- (2) Dividend amounting to ₹ 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore. He had borrowed money from Mr. Abhay, a non-resident Indian, for the above-mentioned investment on 2nd April, 2023. Interest on the borrowed money for the previous year 2023-24 amounted to ₹ 5,800.
- (3) Interest on fixed deposit with Punjab National Bank, Delhi amounting to ₹ 9,500 was credited to his saving bank account. (RTP May '20)

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

	listed company is chargeable to tax in the hands of Mr. Rajesh Sharma, since it has accrued and arisen in India even though the sale proceeds were credited to bank account in Singapore.	
(2)	Dividend of ₹ 48,000 received from Singapore based company transferred to his bank account in Singapore is not taxable in the hands of the non-resident since the income has neither accrued or arisen in India nor has it been received in India. Since dividend is not taxable in India, interest paid for investment is not allowable as deduction.	Nil

92 days) during the P.Y. 2023-24 and for a period of more than 365 days (i.e., 519 days) during the 4 immediately preceding previous years, he satisfies one of the basic conditions and he is a resident for the A.Y. 2024-25.

Since his period of stay in India during the preceding 7 previous years is less than 730 days (i.e., 519 days), he is a resident but not-ordinarily resident in India during the A.Y. 2024-25.

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

other than the Income from foreign sources exceeds ₹ 15 lakhs during the P.Y. 2023-24 as she is an Indian citizen and is not liable to tax in Dubai.

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

	Particulars of income	(₹)
1	Profit from consultancy profession in Dubai which was set up in India [Includible]	12,00,000
2	Profit from consultancy profession in India [Includible]	3,00,000
3	Long term capital gain on sale of shares of British company [Not includible, since it is a foreign source income]	-

	since it accrues and arises in India]	
3	Long term capital gain on sale of shares of British company [Not taxable, since it accrues and arises outside India]	-
4	Short term capital loss on sale of listed shares of an Indian company [Since, it accrues and arises in India, it is allowed to be carry forward to A.Y. 2025-26]	-
		3,00,000



Question 24

Mr. Jadish, 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

tax in India.(PYP 7 Marks, Nov'19)



Solution

Stay in India for a minimum period of 182 days in the relevant previous year or, in the alternative, 60 days in the relevant previous year and 365 days in the four immediately preceding previous years is required to qualify as a resident. In this case, since Mr. Jagdish has not visited India at any time during the P.Y.2023 - 24, he would be a non- resident for that year.

	27,500 x 12)			
	Less: Municipal taxes (Deduction is not allowable, since no amount has been paid during the previous year 2023-24)		Nil	
	Net Annual Value (NAV)		3,30,000	
	Less: Deductions u/s 24			
	(a) 30% of NAV	99,000		
	(b) Interest due on housing loan (allowable even if not paid)	84,000	1,83,000	

	since it is stated to be received in India]			
	Income from Apple Orchid in Nepal [Contract fee directly credited to bank account in India is taxable in India, since it is received in India]		5,00,000	5,22,500
Total Income				7,36,700

Note: Contract fee for Apple Orchid has been stated to have been deposited directly by the contractor in the Kathmandu branch of UBI in Mr. Jagdish's bank account maintained with UBI's Pune Branch. Since the deposit is stated to have been made by 4 Rent received is taken as the gross annual value in

- (C) Short-term capital gains on sale of shares of an Indian company received in Australia - ₹ 50,000. The shares were sold online from Australia.
- (D) Income from agricultural land in Australia, received there and then brought to India - ₹ 2,00,000 Find out the residential status of Mr. Prashant and compute his total income for Assessment Year 2024-25. (PYP 4 Marks May '23)



Solution

Determination of Residential Status of Mr. Prashant¹

Mr. Prashant is an Australian citizen who comes on a visit to India for 125 days in every financial year since the past 11 years. During the P.Y. 2022-23,

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

Second condition

Stay in India in 7 immediately preceding PYs = $7 \times 125 \text{ days} = 875 \text{ days} > 730 \text{ days}$ Since both the conditions are satisfied, he is Resident and Ordinarily Resident (ROR).

In case of ROR, global income would be taxable in India. Accordingly, his total income for A.Y. 2024-25 would as follows:

is 729 days or less.

- Mr. Prashant does not satisfy either of the above conditions on account of being resident in more than 1 year out of 10 years and stay in India for 875 days in the 7 years preceding the P.Y.2023-24. Hence, he is a Resident and Ordinarily Resident in the P.Y.2023-24.
- (2) In the absence of information relating to whether Mr. Prashant is a person of Indian origin, the above solution has been worked out assuming that Mr. Prashant is not a person of Indian origin.
- However, alternate assumption that Mr. Prashant is a person of Indian origin is also possible since the purpose of his visit was to meet his family members who are settled in India. Accordingly, if it is assumed that he is a person of Indian origin, then, for determining whether he is resident income would be same as determined in the above solution.
- In case if it assumed that he is a PIO whose total income (other than income from foreign sources) for the P.Y.2021-22 and P.Y.2022-23 $\leq$ ₹ 15 lakhs, he would be non-resident for P.Y.2021-22 and P.Y.2022-23, since his stay in India is for less than 182 days in those years. In such a case, for P.Y.2023-24, he would be RNOR, since he would be non-resident in all the 10 years immediately preceding the current P.Y.
- In such case, the computation of total income for A.Y.2024-25 would be as follows –

Sale Proceeds of sugar	25,00,000		
Less: Market value of sugar (70%)	22,00,000		
Less: Manufacturing exp.	<u>1,50,000</u>		
	<u>1,50,000</u>		
Agricultural income			
Market value of sugar (70%)		22,00,000	
Less: Cost of cultivation		<u>14,00,000</u>	8,00,000
Sale of sugarcane			
Agricultural Income			
Sale proceeds of sugarcane (30%)		10,00,000	
Less: Cost of cultivation		<u>5,00,000</u>	<u>5,00,000</u>
			<u>13,00,000</u>

reference to the provisions of the Income-tax Act, 1961.



Solution

No. Such income is not includible in Mr. A's chargeable income since section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family.



Question 4

Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.

Question 6

Y Ltd. furnishes you the following information for the year ended 31.3.2024:

Particulars	Rs. (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction under section 10AA for the A.Y. 2024-25, assuming that Y Ltd. commenced operations in SEZ and DTA in the year 2019-20 and Mr Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Additional Questions**Question 7**

Examine whether the following incomes are chargeable to tax, and if so, compute the amount liable to tax:

- (i) Arvind received Rs.20,000 as his share from the income of the HUF.
- (ii) Mr. Xavier, a 'Param Vir Chakra' awardee, who was formerly in the service of the Central Government, received a pension of Rs.2,20,000 during the financial year 2022-23.

(iii)	taxable	1,27,000	Agricultural income from a land in any foreign country is taxable in the case of a resident taxpayer as income under the head "Income from other sources". Exemption under section 10(1) is not available in respect of such income.
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Question 8

Examine the taxability of agricultural income under the Income-tax Act, 1961. How will income be computed where an individual derives agricultural and non-agricultural income?



Solution

Agricultural income is exempt from tax as per section 10(1). However, aggregation of agricultural and non-agricultural income is to be done to determine the rate at which the non-agricultural income shall be chargeable to tax. In case the agricultural income is not more than Rs.5,000 or the taxpayer has non-agricultural income not more than the basic exemption limit, then no such aggregation needs to be done.

	- grown, cured, roasted and grounded by the seller in India	40%	60%
Rule 8	Income from sale of tea grown and manufactured by the seller in India	40%	60%

Thereafter, income-tax shall be computed by aggregating the agricultural income and the non-agricultural income in the manner described below:

- (1) Aggregate the agricultural income with non-agricultural income and determine tax payable on such amount.
- (2) Aggregate the agricultural income with the basic exemption limit of the assessee i.e., Rs.2,50,000 / Rs.3,00,000 / Rs.5,00,000, as the case may be, and determine tax on such amount.
- (3) Compute the difference between the tax computed in Step (1) and Step

- (i) Exemption is available to a Sikkimese individual, only in respect of income from any source in the State of Sikkim.
- (ii) Pension received by a recipient of gallantry award, who was a former employee of Central Government, is exempt from income-tax.
- (iii) Mr. A, a member of a HUF, received Rs.10,000 as his share from the income of the HUF. The same is to be included in his chargeable income.



Solution

- (i) False: Exemption under section 10(26AAA) is available to a Sikkimese individual not only in respect of the said income, but also in respect of income by way of dividend or interest on securities.
- (ii) True: Section 10(18) exempts any income by way of pension received by

1961, for the Assessment year 2023-24, in the following situations.

- (i) If both the units were set up and start manufacturing from 22-05-2015.
- (ii) If both the units were set up and start manufacturing from 14-05-2019.



Solution

Computation of deduction under section 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Rudra Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 01.04.2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a

Since A.Y. 2023-24 is the 4th assessment year from A.Y. 2020-21, relevant to the FY 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.

$$\begin{aligned} &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total Turnover of Unit A}} \times 100\% \\ &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 100\% = \text{Rs.45 lakhs} \end{aligned}$$

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the

Compute the Business Income & Agricultural Income of Mr. Sharan for FY 2023-24.



Solution

Particulars		Business Income	Agricultural Income	
1	Sale of Rice			
	Business income			
	Sale Proceeds of Rice	38,00,000		
	Less: Market Value of paddy (60%)	28,60,000		

- 3) A political party registered u/s 29 A of the Representation of People Act, 1951 earned rental income of ₹. 6,00,000 by letting out premises.
- 4) Agricultural income to a resident of India from a land situated in Malaysia.
- 5) Allowance received by an employee working in a transport system at ₹. 10,000 per month to meet his personal expenditure while on duty. He is not receiving any daily allowance.
- 6) Rent of ₹72,000 received for letting out agricultural land for a movie shooting.

		enable the AO to properly deduce its income therefrom and the accounts are audited by a chartered accountant.
4)	Taxable	- Agricultural income from a land in any foreign country is taxable in the case of a resident taxpayer as income under the head "IFOS". Exemption u/s 10(1) is not available in respect of such income.

		from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, ₹. 72,000, being rent received from letting out of agricultural land for movie shooting, is not exempt u/s 10(1). The same is chargeable to tax under the head "IFOS".
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Question 14

State with reasons in brief whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961: (i) Exemption is

behalf.

(iii) **False:** Section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family. Therefore, ₹. 10,000 should not be included in Mr. A's chargeable income. (iv) **False:** Section 2(24) defining the term "income" includes voluntary contributions received by any trust, university or educational institution. Hence, the statement is not correct.

(v) **False:** As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a

Business income (before deduction u/s 10AA) (₹50 lacs + ₹40 lacs)	90.00
Less: Deduction under section 10AA Profit of unit in SEZ x Export turnover of unit in SEZ/Total turnover of (In Lakhs) 90.00 unit in SEZ ₹50 lacs x ₹100 lacs/₹120 lacs	41.67
Total Income	48.33
Tax on total income @ 30%	14.50
Add: Health & Education cess @ 4%	0.58
Tax liability (as per normal provisions)	15.08

25 falls within first five-year period commencing from the year of provision of services by the Unit in SEZ of ABC LLP and therefore, deduction 100% of the profit derived from export of such services has been provided.

Note: Exemption shall be least of the following three limits:

- (a) the actual amount received ($\text{₹ } 15,000 \times 12$) = ₹ 1,80,000
- (b) excess of the actual rent paid by the assessee over 10% of his salary
= Rent Paid (-) 10% of salary for the relevant period
= ($\text{₹ } 16,000 \times 12$) (-) 10% of [$\text{₹ } 40,000 + \text{₹ } 6,000$] $\times 12$
= ₹ 1,92,000 - ₹ 55,200 = ₹ 1,36,800
- (c) 40% salary as his accommodation is situated at Kanpur
= 40% of [$\text{₹ } 40,000 + \text{₹ } 6,000$] $\times 12$ = ₹ 2,20,800

Note: For the purpose of exemption under section 10(13A), salary includes dearness allowance only when the terms of employment so provide but excludes all other allowances and perquisites.

Taxable allowances

₹ 25,800

If Mr. Srikant pays tax under default tax regime under section 115BAC

Children Education Allowance [$(\text{₹ } 150 + \text{₹ } 70) \text{ p.m.} \times 12 \text{ months}$]	₹ 2,640
Transport allowance ($\text{₹ } 1,800 \text{ p.m.} \times 12 \text{ months}$)	₹ 21,600
Tribal area allowance ($\text{₹ } 500 \text{ p.m.} \times 12 \text{ months}$)	<u>₹ 6,000</u>
Taxable allowances	<u>₹ 30,240</u>



Question 3

Mr. Sagar who retired on 1.10.2024 is receiving ₹ 5,000 p.m. as pension. On 1.2.2025, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

$$\left[\frac{1}{3} \times \frac{₹ 3,00,000}{60\%} \times 100 \right]$$

₹ 1,66,667

₹ 1,33,333

Taxable pension

₹ 1,57,333

(c) He is a private sector employee and did not receive any gratuity at the time of retirement

Uncommuted pension received (October – March) ₹ 24,000

[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]

Commuted pension received ₹ 3,00,000

Less: Exempt u/s 10(10A)

$$\left[\frac{1}{2} \times \frac{₹ 3,00,000}{60\%} \times 100 \right]$$

₹ 2,50,000

₹ 50,000

Taxable pension

₹ 74,000

Solution

(a) He is covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement ₹ 15,00,000

Less: Exemption under section 10(10)

Least of the following:

i. Gratuity received ₹ 15,00,000

ii. Statutory limit ₹ 20,00,000

iii. 15 days' salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months

INCOME FROM SALARY

$$= \frac{1}{2} \times \frac{\left[(50,000 \times 10) + (10,000 \times 60\% \times 10) + \left(1\% \times 1,20,00,000 \times \frac{10}{12} \right) \right]}{10} \times 26$$

= ₹ 8,58,000

(c) He is a government employee

Gratuity received at the time of retirement ₹ 15,00,000

Less: Exemption under section 10(10) ₹ 15,00,000

Taxable gratuity Nil



Question 5

Mr. Gupta retired on 1.12.2024 after 20 years of service and received leave salary of

Less: Exempt under section 10(10AA) [See Note below] ₹ 26,400

Taxable Leave Salary ₹ 4,73,600

Note: Exemption under section 10(10AA) is least of the following:

(i) Leave salary received ₹ 5,00,000

(ii) Statutory limit ₹ 25,00,000

(iii) 10 months' salary based on average salary of last 10 months

$$= \left[10 \times \frac{(5000 \times 8) + (4000 \times 2) + (60\% \times 3000 \times 10)}{10 \text{ months}} \right] \quad ₹ 66,000$$

(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) Leave Due = Leave allowed – Leave taken

Deposits in the PPF account	40,000
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will be fully exempt from tax.



Solution

Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2025-26 is computed hereunder:

Particulars	₹
Amount taxable under the head "Salaries":	
Employer's share in the payment received from the URPF	2,20,000
Interest on the employer's share	50,000
Total	2,70,000



Question 8

Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. 2024-25. You are required to compute his gross salary from the details given below:

Basic Salary	₹ 10,000 p.m.
D.A. (50% is for retirement benefits)	₹ 8,000 p.m.
Commission as a percentage of turnover	0.1%
Turnover during the year	₹ 50,00,000
Bonus	₹ 40,000

Gross Salary		2,92,740
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$$= (\text{₹ } 20,000 + \text{₹ } 5,000) \times 6 \times 12 \text{ months}$$

$$= \text{₹ } 18,00,000$$

Notes:

1. Gratuity received during service is fully taxable.
2. Employers' contribution in the RPF is exempt up to 12% of the salary i.e., 12% of [Basic Salary + Dearness Allowance forming part of retirement benefits + Commission based on turnover] = 12% of [₹ 1,20,000 + (50% × ₹ 96,000) + ₹ 5,000] = 12% of ₹ 1,73,000 = ₹ 20,760
3. Employee's contribution to RPF is **not** taxable. It is eligible for deduction under section 80C, if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).



Question 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".

and employer's contribution during the year – RPF balance as on 1.4.2023 = ₹ 2,06,711 (₹ 27,43,048 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 9,81,137)

Favg Balance to the credit of recognized provident fund as on 1st April, 2023 + Balance to the credit of recognized provident fund as on 31st March, 2024)/2 = (₹ 9,81,137 + ₹ 27,43,048)/2 = ₹ 18,62,093

Note – Interest on the aggregate of following will also be chargeable to tax during

A.Y. 2024-25 –

(i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y.

TP1 Taxable perquisite under section 17(2)(viii) for the P.Y. 2023-24 = ₹ 1,532

R $I/\text{Favg} = 3,50,307/36,95,802 = 0.09479$

I RPF balance as on 31.3.2025 – employee's and employer's contribution during the year – RPF balance as on 1.4.2024 = ₹ 3,50,307 (₹ 46,48,555 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 27,43,048)

Favg Balance to the credit of recognized provident fund as on 1st April, 2024 + Balance to the credit of recognized provident fund as on 31st March, 2025)/2 = (₹ 27,43,048 + ₹ 46,48,555)/2 = ₹ 36,95,802

INCOME FROM SALARY

- (b) to an employee in lieu or in commutation of an annuity on his retirement at or after a specified age or on his becoming incapacitated prior to such retirement; or
- (c) by way of refund of contribution on the death of a beneficiary; or
- (d) by way of contribution to an employee on his leaving the service in connection with which the fund is established otherwise than by retirement at or after a specified age or his becoming incapacitated prior to such retirement, to the extent the payment made does not exceed the contribution made prior to 1-4-1962 and the interest thereon.
- (e) by way of transfer to the account of the employee under a pension scheme referred to in section 80CCD, which is notified by the Central Government.



Question 12

In the above illustration 11, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.



Solution

Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children. Taxable

$$\text{LTC} = 15,000 \times \frac{1}{3} = ₹ 5,000.$$

LTC exempt would be only ₹ 55,000 (i.e. ₹ 60,000 – ₹ 5,000)

Particulars	₹	₹
Treatment of Mrs. G in a Government hospital		-
Treatment of Mr. G's father (75 years and dependent) abroad	50,000	
Expenses of staying abroad of the patient and attendant	30,000	
	80,000	
Less: Exempt up to limit specified by RBI	75,000	5,000
Medical premium paid for insuring health of Mr. G		-
Treatment of Mr. G by his family doctor		5,000

for A.Y.2025-26.



Solution

Value of the rent free unfurnished accommodation

= 10% of salary for the relevant period

= 10% of [(₹ 8,500 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)] [See Note below]

= 10% of ₹ 53,000 = ₹ 5,300.

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

INCOME FROM SALARY

Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of ₹ 1,025 p.m. and Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.



Solution

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

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

furnished accommodation.



Solution

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

to have been provided at a concessional rate, if the licence fees determined by the employer as increased by the value of furniture and fixture exceeds the rent recovered/ recoverable from the employee.

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

Value of the accommodation (₹ 700 × 5)	= ₹ 3,500
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Add: Value of furniture provided by the employer (computed earlier)	= ₹ 4,625
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Value of furnished accommodation	= ₹ 8,125
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Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
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In the case of Mr. Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by section 17(2)(iii). Hence, there is no perquisite element in the hands of Mr. Y.



Question 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 1.1.1995 at the age of 30 years and received the following on his retirement:

- (i) Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.



Solution

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

Particulars	₹
Basic Salary = ₹ 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher (See Note - 1)	6,000
Transfer of car (See Note - 2)	56,000
Gratuity (See Note - 3)	80,769
Leave encashment (See Note - 4)	1,30,000
Uncommuted pension (₹ 5000 x 2)	10,000

the employer as reduced by 20% of WDV of such motor car for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	₹
Purchase price (30.1.2022)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2023	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 29.1.2024	3,20,000
Less: Depreciation @ 20%	64,000
WDV on 29.1.2025	2,56,000

INCOME FROM SALARY

meaning of salary. Since in this case, Mr. X is covered under payment of Payment of Gratuity Act, 1972, D.A. has to be included within the meaning of salary for computation of exemption under section 10(10).

(4) Taxable leave encashment

Particulars	₹
Leave Salary received	3,30,000
Less : Exempt under section 10(10AA) - Least of the following:	
(i) Notified limit	₹ 25,00,000
(ii) Actual leave salary	₹ 3,30,000

Since Mr. X is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of 1/3rd of the amount of the pension which he would have received had he commuted the whole of the pension.

Particulars	₹
Amount received	3,00,000
Less: Exemption under section 10(10A) = $\frac{1}{3} \times \left(3,00,000 \times \frac{3}{2} \right)$	1,50,000
Taxable amount	1,50,000

refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000.

- (iv) A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- (v) Telephone provided at the residence of Shri Bala and the bill aggregating to ₹ 25,000 paid by the employer.
- (vi) Housing loan @ 6% per annum. Amount outstanding on 1.4.2024 is ₹ 6,00,000. Shri Bala pays ₹ 12,000 per month towards principal, on 5th of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2025-26.

education provided to his child Arthy, since the cost does not exceed ₹ 1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds ₹ 1,000 per month. The taxable perquisite value would be ₹ 14,400 (₹ 1,200 × 12).

Note – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 2,400.

- (iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and

the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

“Maximum outstanding monthly balance” means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is $10\% - 6\% = 4\%$

= ₹ 74,280 [i.e. ₹ 18,000 + ₹ 14,400 + ₹ 11,000 + ₹ 10,000 + ₹ 20,880].

Note - In case the alternate views are taken for items (ii) & (iv), the total value of taxable perquisite would be ₹ 57,280 [i.e., ₹ 18,000 + ₹ 2,400 + ₹ 11,000 + ₹ 5,000 + ₹ 20,880].



Question 22

AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2024. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

(i) What is the perquisite value of sweat equity shares allotted to Sri Chand?

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

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be ₹ 3,00,000.



Question 23

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

- (1) Accommodation taken on lease by X Ltd. for ₹ 15,000 p.m. ₹ 5,000 p.m. is recovered from the salary of Mr. Y.

10% of salary i.e., 10% of ₹ 10,00,000

Lower of the above

Less: Rent paid by Mr. Y (₹ 5,000 × 12)

Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (₹ 3,000 × 12)

1,00,000

60,000

40,000

36,000

76,000

INCOME FROM SALARY

Medical expenses reimbursed < 25,000
Professional tax paid ₹ 2,000 (₹ 1,000 was paid by his employer)

Mr. Goyal contributes ₹ 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y. 2025-26, if Mr. Goyal is a State Government employee.



Solution

Computation of salary of Mr. Goyal for the A.Y.2025-26 under default tax regime under section 115BAC

Particulars	₹
Basic Salary	4,00,000

Basic Salary	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment Allowance received	40,000
Employee's contribution to RPF [Note]	-
Medical expenses reimbursed	25,000
Professional tax paid by the employer	1,000
Gross Salary	7,16,000
Less: Deductions under section 16 under section 16(ia) - Standard deduction of upto ₹ 50,000	50,000

INCOME FROM SALARY

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

Compute the relief available under section 89 and the tax payable for the A.Y. 2025-26. Assume that Mr. Hari exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Note: Rates of Taxes:

10,00,000	10,00,000
Above ₹ 10,00,000	Above ₹ 10,00,000
30%	30%

Note – Education cess@2% and secondary and higher education cess@1% was attracted on the income-tax for all above preceding years.



Solution

Computation of tax payable by Mr. Hari for the A.Y.2025-26

Particulars	Incl. arrears of salary ₹	Excl. arrears of salary ₹
Current year salary (computed)	10,20,000	10,20,000

Add: Cess@3%	2,937	2,280	4,038	2,985	4,425	3,450
Tax payable	1,00,837	78,280	1,38,638	1,02,485	1,51,925	1,18,450

Computation of relief under section 89

	Particulars	₹	₹
i	Tax payable in A.Y.2025-26 on arrears:		
	Tax on income including arrears	2,28,280	
	Less : Tax on income excluding arrears	1,20,640	1,07,640
ii	Tax payable in respective years on arrears :		
	Tax on income including arrears (₹ 1,00,837 + ₹ 1,38,638 + ₹ 1,51,925)	3,91,400	

his basic salary with effect from 01.02.2025. Rent paid by him during the P.Y.2024-25 is as under:

April and May, 2024- Nil, as he stayed with his parents

June to October, 2024 - ₹ 6,000 p.m. for an accommodation in Ghaziabad
November, 2024 to March, 2025 - ₹ 8,000 p.m. for an accommodation in Delhi

Compute his gross salary for A.Y.2025-26, assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

employment) (50% of basic salary)					
Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2

HRA received					
2. Rent paid (–) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40 % of salary	-	30,000	15,000	7,500	16,500
(Residence at Ghaziabad – June to Oct, 2024)	-	(40% × ₹ 75,000)	(50% × ₹ 30,000)	(50% × ₹ 15,000)	(50% × ₹ 33,000)

INCOME FROM SALARY

	(A) On treatment of her self-employed daughter in a private clinic	4,000
	(B) On treatment of herself by family doctor	8,000
	(C) On treatment of her mother-in-law dependent on her, in a nursing home	5,000
2	Payment of premium on Mediclaim Policy taken on her health	7,500
3	Medical Allowance	2,000 p.m.
4	Medical expenses reimbursed on her son's treatment in a government hospital	5,000
5	Expenses incurred by company on the treatment of her minor son abroad including stay expenses	1,05,000

- (B) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite.
- (C) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite.

The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite

2. Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free perquisite as per clause (iii) of the first proviso to section 17(2).
3. Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.

INCOME FROM SALARY

(ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed ₹ 2 lakh.

Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed ₹ 2 lakh.

Basic salary [₹ 25,000 × 12]		3,00,000
Commission [₹ 1,000 × 12]		12,000
Entertainment allowance [₹ 1,000 × 12]		12,000
Rent free accommodation [Note 1]	32,400	
Add : Value of furniture [₹ 2,40,000 × 10% p.a. for 8 months]	16,000	48,400
Interest on personal loan [Note 2]		22,500
Use of motor cycle [₹ 60,000 × 10% p.a. for 4 months]		2,000
Transfer of motor cycle [Note 3]		12,000
Gross Salary		4,08,900

INCOME FROM SALARY

- (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.

Basic salary $\{(\text{₹ } 50,000 \times 7) + (\text{₹ } 60,000 \times 5)\}$	8,50,000
Dearness Allowance (40% of basic salary)	2,60,000
Bonus (₹ 50,000 + 40% of ₹ 50,000) (See Note 1)	70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of ₹ 6,50,000 (See Note 2)	26,000
Professional tax paid by employer	2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 4)	12,000
Gross Salary	10,20,000
Less: Deduction under section 16	
Standard deduction u/s 16(ia) ₹ 50,000	
Professional tax u/s 16(iii) (See Note 6) ₹ 2,500	52,500
Taxable Salary	9,67,500

INCOME FROM SALARY

It is assumed that the Leave Travel Concession was availed for journey within India.

He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

6. As per section 17(2)(iv), a “perquisite” includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year.

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.

Gross Salary	3,78,749
Less: Deduction under section 16(ia) – Standard deduction	50,000
Salary income chargeable to tax	3,28,749

Notes:

1. Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly worked out.
2. Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 10% of

Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.
 Note - An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000.

6. Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.



Question 31

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

- (i) He retired on 31-12-2024 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.
- (ii) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of

Basic Salary = ₹ 25,000 x 9 months		2,25,000	Commuted Pension received	3,00,000	
House Rent Allowance = ₹ 6,000 x 9 months [Fully taxable under default tax regime]		54,000	Less: Exempt under section 10(10A) 1/3 x ₹ 3,00,000/60% x 100%)	1,66,667	1,33,333
Gratuity	3,50,000		Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt]		Nil
Less: Least of the following exempt under section 10(10)(ii)	3,50,000	Nil			
(i) Actual Gratuity received ₹ 3,50,000					
(ii) 15 days salary for every year of completed service $[15/26 \times ₹ 25,000 \times 26] = ₹ 3,75,000$					
(iii) Notified limit = ₹ 20,00,000					
Leave encashment	3,15,000				

INCOME FROM SALARY

Basic salary	8,20,000		
Dearness allowance	4,20,000	Medical expenses reimbursed by the employer is fully taxable	18,000
Commission	75,000	Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Entertainment allowance	9,000	Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Medical expenses reimbursed by the employer	18,000	Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv)	10,000
Profession tax (of this, 50% paid by employer)	4,000	Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Health insurance premium paid by employer	8,000		
Gift voucher given by employer on her birthday	10,000		
Life insurance premium of Akansha paid by employer	26,000		
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]			

INCOME FROM SALARY

employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.

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

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

particulars:

Basic Salary Rs. 70,000 p.m.

Dearness Allowance (30% forms part of retirement benefits) Rs. 24,000 p.m.

Bonus Rs. 21,000 p.m

- Her employer has provided her with an accommodation on 1st April 2021 at a concessional rent. House was taken on lease by Shipra Ltd. for Rs. 12,000 p.m. Ms. Aarohi occupied the house from 1st November 2021. Rs. 4,800 p.m. is recovered from the salary of Ms. Aarohi.
- Employer gave her a gift voucher of Rs. 10,000 on her birthday. She contributes 18% of her salary (Basic Pay + DA) towards RPF & company contributes the same amount.
- Company pays medical insurance premium to effect insurance on health

value > Rs. 5,000) [See Note]	10,000
Employer's contribution to RPF in excess of 12% of salary = $18\% \times [(70,000 + 24,000) \times 12] - 12\% \times \{[Rs. 70,000 + Rs. 7,200]$ (being 30% of Rs. 24,000)) $\times 12\} = 2,03,040 - 1,11,168$	
[Salary = BS + DA (forming part of RB)	91,872
Medical insurance premium of Rs. 20,000 paid by the employer	Nil
Provision of motor car = Rs.2400 p.m. [Rs.2,400 $\times$ 5 months]	12,000
Gross salary	15,18,972
Less: Standard deduction under section 16(ia)	50,000
Salary chargeable to tax	14,79,872
Working Note:	
Value of perquisite = Lower of (a) Lease rent or (b) 10% of salary i.r.o. period during which the house is occupied by the employee, reduced by	

- retirement benefits).
- Bonus equal to one-month salary. This was paid in November, 2024 on basic salary plus dearness allowance applicable for that month.
 - Contribution of employer to RPF A/c of the employee @ 18% of basic salary, employee also contribute an equivalent amount.
 - Profession tax paid 6,000 of which 3,000 was paid by the employer.
 - Facility of laptop was provided to Janakaraj for both official & personal use. Cost of laptop 65,000 & was purchased by the company on 11.10.2022.
 - Leave travel concession given to Janakaraj, his wife & three children (one daughter aged 6 & twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer 20,000 for adults & lump sum of 25,000 for

INCOME FROM SALARY

employer section 17(2)(iv)			
Facility of Laptop/computer		Nil	Nil
Leave Travel Concession		Nil	45,000
Gross Salary		14,80,800	15,25,800
Less: Deduction u/s 16(ia)		(50,000)	(75,000)
Less: Deduction of professional tax u/s 16(iii)		(₹6,000)	Nil
Income u/h Salary		14,24,800	14,50,800

Question 36

Mr. Samaksh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under

quarter towards principal starting from June 2024. The lending rate of SBI for similar loan as on 01.04.2024 was 8%. (ix) Facility of laptop costing 50,000



Solution

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

Particulars	₹	₹
Basic Salary [70,000 x 12 months]		8,40,000

Allotment of sweat equity shares		
Fair market value of 800 sweat equity shares 700 each	5.60,000	
Less: Amount recovered ₹ 450 each	3,60,000	2,00,000
Use of furniture by employee		
10% p.a. of the actual cost of 1,10,000		11,000
Use of Laptop		
Facility of use of laptop is not a taxable perquisite		Nil
Transfer of asset to employee		
Value of furniture transferred to Mr. Samaksh	1,10,000	

June, 2024	14,50,000	4.229
July, 2024	14,50,000	4.229
August, 2024	14.50,000	4,229
September, 2024	14,00,000	4,083
October, 2024	14,00,000	4,083
November, 2024	14,00,000	4,083
December, 2024	13,50,000	3,937.50
January, 2025	13,50,000	3,937.50
February, 2025	13.50,000	3,937.50
March, 2025	13,00,000	3,792
Total value of this perquisite		49.290.50

Note: An alternate view possible is that only the sum in excess of ₹ 5,000 is

INCOME FROM SALARY

- (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 Rs. 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)
- (i) reimbursed by the employer Rs. 30,000 for adults and Rs. 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law. Compute the salary income chargeable to tax in the hands of Mr. Balaji for the assessment year 2025-26 assuming

Taxable Salary	9,67,500
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Notes:

1. Since bonus was paid in the month of October, the basic salary of Rs. 50,000 for the month of October is considered for its calculation.
2. It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
3. As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.

employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of Rs. 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year.

Therefore, in the present case, the professional tax paid by the employer on behalf of the employee Rs. 2,000 is first included in the salary and deduction of the entire professional tax of Rs. 2,500 is provided from salary.

was provided to the assessee, both for official and personal use. Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	7,000

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

Life insurance premium of Mrs. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [$(₹ (2,400 + 900) \times 12)$] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000

amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2002 dated 12.12.2002, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,71,600, respectively.



Question 39

Mr. Kashyap, aged 38 years, is entitled to a salary of ₹ 40,000 per month. He is given an option by his employer either to take house rent allowance or a

Following -

- 50% of Basic Salary ₹ 2,40,000		
- Actual HRA received ₹ 96,000		
- Rent paid less 10% of salary ₹ 30,000	66,000	
₹30,000		
Gross Salary	5,46,000	5,28,000
Less: Standard deduction u/s 16(IA)	50,000	50,000
Net Salary	4,96,000	4,78,000
Less: Deduction under Chapter VI-A	-	-
Total Income	4,96,000	4,78,000
Tax on total income	12,300	11,400



Question 40

Mrs. Anjali is a Finance Manager of Anand Construction Ltd. in Mumbai, furnishes the following particulars for the financial year 2024-25:

- (i) She was appointed on 01-03-2024 in the scale of ₹ 20,000 - ₹ 2,500 - ₹ 35,000.
- (ii) She is paid dearness allowance (which forms part of salary for retirement benefits) @30% of basic pay and bonus equivalent to two month's basic pay as at the end of the year.
- (iii) She receives ₹ 2,000 per month as transport allowance (for commuting between place of residence and office) and ₹ 4,000 each as hostel allowance for three children.
- (iv) She contributes 15% of his salary (basic pay plus dearness allowance)

INCOME FROM SALARY

Computation of taxable salary of Mrs. Anjali for A.Y. 2025-26

Particulars		₹
Basic pay $[(\text{₹}20,000 \times 11) + (\text{₹}22,500 \times 1)] = \text{₹}2,20,000 + \text{₹}22,500$		2,42,500
Dearness allowance [30% of basic pay]		72,750
Bonus $[\text{₹}22,500 \times 2]$		45,000
Employer's contribution to Recognized Provident Fund in excess of 12% $(15\% - 12\% = 3\% \text{ of } \text{₹}3,15,250)$		9,458
Taxable allowances		
Transport allowance $(\text{₹}2,000 \times 12)$	24,000	

Note 6 below]		
Gross Salary		4,80,413
Less- Standard Deduction (Actual salary or Rs 50,000 whichever is lower) Less:		50,000
Professional tax paid by the company [Section 16(iii)]		2,000
Salary chargeable to tax		4,28,213

Notes:

- Where the accommodation is taken on lease or rent by the employer, the value of rent -free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15%

INCOME FROM SALARY

this case, the balance of ₹ 20,000 (i.e., ₹ 35,000 – ₹ 15,000) is a taxable perquisite.

The ₹ 15,000 allowance is withdrawn. Hence full ₹ 35,000 will be added.

3. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000. Therefore, entire amount of ₹ 6,000 is liable to tax as perquisite.

Alternative View: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.

anniversary from Smile Ltd.

- (v) Smile Ltd. allotted 800 sweat equity shares in August 2024. The shares were allotted at ₹ 450 per share and the fair market value on the date of exercising the option by Mr. Samaksh was ₹ 700 per share.
- (vi) He was provided with furniture during September 2020. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 1,10,000. On 31st March, 2025, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.
- (vii) Received ₹ 10,000 towards entertainment allowance.
- (viii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2024 is ₹ 15 Lakhs. ₹ 50,000 is paid by Mr. Samaksh every

employer [tax free perquisite]		
Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding ₹ 5,000 in aggregate during the previous year is fully taxable] (See note below)		10,000
Allotment of sweat equity shares		
Fair market value of 800 sweat equity shares @ ₹ 700 each	5,60,000	

Working Note:

Computation of perquisite value of loan given at concessional rate

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

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 3.5% for the month (₹)
April, 2024	15,00,000	4,375
May, 2024	15,00,000	4,375
June, 2024	14,50,000	4,229
July, 2024	14,50,000	4,229

Basic Salary ₹ 60,000 p.m.
 Dearness Allowance ₹ 24,000 p.m. (40% of which forms part of retirement benefits) Bonus ₹ 21,000 p.m.
 Motor car owned by the employer (cubic capacity of engine exceeds 1.6 liters) provided to Ms. Aashima from 1st October, 2024 which is used for both official and personal purposes. Repair and running expenses of ₹ 60,000 were fully met by the company. The motor car was self-driven by the employee.
 Professional tax paid ₹ 2,500 out of which ₹ 2,000 was paid by the employer. Her employer has provided her with an accommodation on 1st April 2024 at a concessional rent. The house was taken on lease by ABC Ltd. for ₹ 12,000 p.m. Ms. Aashima occupied the house from 1st December, 2024, ₹ 4,800 p.m. is recovered from the salary of Ms. Aashima. The employer gave her

Gift voucher given by employer on Ms. Aashima's birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) [See Note 4]		8,000
Employer's contribution to recognized provident fund in excess of 12% of salary = $15\% \times [(\text{₹ } 60,000 + \text{₹ } 24,000) \times 12] - 12\% \times \{[\text{₹ } 60,000 + \text{₹ } 9,600 \text{ (being 40\% of ₹ 24,000)}] \times 12\} = 1,51,200 - 1,00,224$ [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]		50,976

INCOME FROM SALARY

of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Ms. Aashima. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year. Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.

3. Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or 15% (10%) of salary, whichever is lower, in respect of the period during which the house is occupied by the employee, as reduced by the rent recoverable from the employee, is the value of the perquisite. Actual

amount of ₹ 8,000 is liable to tax as perquisite. The above solution has been worked out accordingly. Alternative view - An alternate view is also possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 3,000. The salary chargeable to tax, in this case, would be ₹ 13,06,676.



Question 43

Mr. Sunil is the CEO of Sheetal Textiles Ltd. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his

	recognized provident fund during P.Y. 2022-23 = ₹ 27,600
PC1	Nil
TP1	Nil
R	$I/\text{Favg} = 5,56,500/60,90,850 = 0.0914$
I	RPF balance as on 31.3.2025 – employee's and employer's contribution during the year – RPF balance as on 1.4.2024 = ₹ 5,56,500 (₹ 71,46,700 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 50,35,000)
Favg	Balance to the credit of recognized provident fund as on 1st April, 2023 + Balance to the credit of recognized provident fund as on 31st March, 2023)/2 = (₹ 50,35,000 + ₹ 71,46,700)/2 = ₹ 60,90,850

I	RPF balance as on 31.3.2025 – employee's and employer's contribution during the year – RPF balance as on 1.4.2024 = ₹ 7,55,800 (₹ 94,57,700 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 71,46,700)
Favg	Balance to the credit of recognized provident fund as on 1st April, 2024 + Balance to the credit of recognized provident fund as on 31st March, 2025)/2 = (₹ 71,46,700 + ₹ 94,57,700)/2 = ₹ 83,02,200

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

whereas his younger son is studying in U.S.A. and stays in a hostel for which Mr. Honey gets ₹ 3,000 per month as combined allowance.

The company has taken an accident insurance policy and a life insurance policy. During the previous year, the company paid premium of ₹ 5,000 and ₹ 10,000, respectively. Compute Mr. Honey's taxable income from salary for the Assessment Year 2025-26. Assume that he does not opt for 115BAC. (PYP 10 Marks, May'18)



Solution

Since Mr. Honey stays in India for at least 184 days every year, he is resident and ordinarily resident in India, every year. Therefore, his global income would be taxable in India. The salary received by him in India and outside

USA			
Lower of:			
- 15% 10% of ₹ 6,36,000 (Basic Salary + Children Education and Hostel Allowance) (It is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee)		63,600	
- Rent paid by employer = ₹ 15,000 x 12		1,80,000	

INCOME FROM SALARY

Education expenditure of elder son in India met by employer [Fully taxable perquisite]			12,000
Life insurance premium paid by the employer – any sum payable by the employer to effect an assurance on the life of the employee is a taxable perquisite			10,000

be reduced to arrive at the value of perquisite of free food provided by the employer. If the beneficial view given in the circular is considered for answering this question, an assumption as to the number of working days per month has to be made and thereafter, calculation for 6 months has to be made to arrive at the value of taxable and exempt perquisite of provision of lunch facility.

3 It is assumed that the same is fully met by the employer above solution, the perquisite value of motor car provided by employer has been worked out assuming that the employer fully meets the running and maintenance expenses. However, if expenses of running and maintenance of motor car are fully met by Mr. Honey himself, then, the value of perquisite of motor car would be as follows:

INCOME FROM SALARY

Computation of GAV of each house owned by Jayashree

	Particulars	House I (Rs.)	House II (Rs.)	House III (Rs.)	House IV (Rs.)	House V (Rs.)
(i)	Municipal value	80,000	55,000	65,000	24,000	80,000
(ii)	Fair rent	90,000	60,000	65,000	25,000	75,000
(iii)	Higher of (i) & (ii)	90,000	60,000	65,000	25,000	80,000
(iv)	Standard rent	N.A.	75,000	58,000	N.A.	78,000
(v)	Expected rent [Lower of (iii) & (iv)]	90,000	60,000	58,000	25,000	78,000

India. Municipal taxes paid in London is be to allowed as deduction from the gross annual value.

**Computation of Net Annual Value of the property of Mr. Rajesh for AY
2025-26**

Particulars	Rs.
Gross Annual Value (£ 10,000 x 12 x 95)	1,14,00,000
Less: Municipal taxes paid (£ 8,000 x 95)	7,60,000
Net Annual Value (NAV)	1,06,40,000

I	Interest on loan taken for acquisition of residential house property at Bombay $30,00,000 \times 10\% = \text{Rs.}3,00,000$ Restricted to Rs.2,00,000	2,00,000
II	Interest on loan taken for repair of residential house property at Delhi $\text{Rs.}5,00,000 \times 11\% = \text{Rs.}55,000$ Restricted to Rs.30,000	
Total interest		2,30,000
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to		2,00,000

Step 2	to SR of Rs.1,20,000 p.a. Compute actual rent received / receivable	
	Actual rent received / receivable less unrealized rent as per Rule 4 = $\text{Rs.}1,32,000 - \text{Rs.}11,000$	1,21,000
Step 3	Compare ER of Rs.1,20,000 and Actual rent received / receivable of Rs.1,21,000	
Step 4	GAV is the higher of ER and Actual rent received / receivable	1,21,000
Gross Annual Value (GAV)		1,21,000

INCOME FROM HOUSE PROPERTY

However, the tenant vacated the property on 31.1.2025. Unrealised rent was Rs.20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was Rs.65,000 for the year. Compute the income from house property of Ganesh for AY 2025-26.



Solution

Computation of income from house property of Ganesh for AY 2025-26

Particulars	Amount in Rs.
Computation of GAV	
Step 1 Compute ER	

Gross Annual Value (GAV)

Less: Municipal taxes (paid by the owner during the previous year) = 8% of Rs.2,50,000

Net Annual Value (NAV)

Less: Deductions under section 24

(a) 30% of NAV = 30% of Rs.1,60,000

(b) Interest on borrowed capital (actual without any ceiling limit)

Income from house property

		1,80,000
		20,000
		1,60,000
	48,000	
	65,000	1,13,000
		47,000

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be Rs.2,00,000, being the actual rent, since the actual rent is lower than the expected rent of Rs.2,10,000 owing to

Interest on borrowed capital

Interest on loan was taken for construction of house on or after 1.4.99 and same was completed within the prescribed time - interest paid or payable subject to a maximum of Rs.2,00,000 (including apportioned pre- construction interest) will be allowed as deduction.

In this case the total interest is Rs.1,80,000 + Rs.72,000 (Being 1/5th of Rs.3,60,000) = Rs.2,52,000. However, the interest deduction is restricted to Rs.2,00,000.

Loss from house property

2,00,000

(2,00,000)**Question 7**

Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal

Step 2

Compute Actual rent received/ receivable
Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = (Rs.50,000 x 9) - (Rs.50,000 x 2) = Rs.4,50,000 - Rs.1,00,000

3,50,000

Step 3

Compare ER for the whole year with the actual rent received / receivable for the let out period i.e. Rs.4,80,000 and Rs.3,50,000

INCOME FROM HOUSE PROPERTY

24(a) would be Rs.96,000, being 30% of Rs.3,20,000. The income from house property would, therefore, be Rs.1,99,000.



Question 8

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

Particulars	House I	House II	House III
Municipal valuation p.a.	Rs.3,00,000	Rs.3,60,000	Rs.3,30,000
Fair rent p.a.	Rs.3,75,000	Rs.2,75,000	Rs.3,80,000
Standard rent p.a.	Rs.3,50,000	Rs.3,70,000	Rs.3,75,000
Date of completion/purchase	31.3.2000	31.3.2003	01.4.2016

Gross Annual Value (GAV)

ER is the GAV of house property

ER = Higher of MV and FR, but restricted to SR

	3,50,000	3,60,000	3,75,000
Less: Municipal taxes (paid by the owner during the previous year)	36,000	28,800	19,800
Net Annual Value (NAV)	3,14,000	3,31,200	3,55,200
Less: Deductions under section 24			
(a) 30% of NAV	94,200	99,360	1,06,560
(b) Interest on borrowed capital	-	55,000	1,75,000
Income from house property	2,19,800	1,76,840	73,640

Ganesh can opt to treat any two of the above house properties as self-occupied.

INCOME FROM HOUSE PROPERTY

Income from house property	1,840
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OPTION 3 (House II and III – self-occupied and House I – deemed to be let out)

If House II and III are opted to be self-occupied, the income from house property shall be –

Particulars		Amount in Rs.
House I (Deemed to be let-out)		2,19,800
House II (Self-occupied) (interest deduction restricted to Rs.30,000)	(30,000)	

2025-26.



Solution

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

Step 2	Compute actual rent received/ receivable $\text{Rs.}8,000 \times 12 = \text{Rs.}96,000$	96,000	
Step 3	Compare ER and Actual rent received / receivable		
Step 4	GAV is the higher of ER and actual rent received/ receivable i.e. higher of Rs.1,00,000 and Rs.96,000	1,00,000	
Gross Annual Value(GAV)			1,00,000
Less:	Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3rd of (10% of Rs.3,00,000) = $\text{Rs.}30,000/3 = \text{Rs.}10,000$		10,000

not realise two months rent of Rs.20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2020-21.

Further, he had let out his property from April, 2020 to February, 2024 to Mr. Satish. In April, 2022, he had increased the rent from Rs.12,000 to Rs.15,000 per month and the same was a subject matter of dispute. In September, 2024, the matter was finally settled and Mr. Anand received Rs.69,000 as arrears of rent for the period April 2021 to February, 2024.

Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?

INCOME FROM HOUSE PROPERTY



Question 11

Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of Rs.50,00,000@10% taken on 1.4.2023 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of Rs.3,00,000@12% on 1.10.2023 for repairs of this flat.

Computation of deduction u/s 24(b) available to Ms. Dimple for

AY 2025-26

Particulars	Rs.
Interest on loan taken for acquisition of residential property at Calcutta house Rs.50,00,000 x 10% = Rs.5,00,000	
Ms. Dimple's share = 50% of Rs.5,00,000 = Rs.2,50,000	
Restricted to Rs.2,00,000	2,00,000
Deduction under section 24(b)	2,00,000

Compute the income from this property chargeable in the hands of Mr. Raman for the AY 2025-26.



Solution

Computation of income from house property of Mr. Raman for AY 2025-26

Particulars	Rs.	Rs.
Gross Annual Value (See Note 1 below)		1,80,000
Less: Municipal taxes – paid by the tenant, hence not deductible		Nil
Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		
(i) 30% of NAV	54,000	

(e) Expected rent [lower of (c) and (d)]			1,60,000	
(f) Actual rent [Rs.15,000 x 12]			1,80,000	1,80,000
(g) Gross Annual Value [higher of (e) and (f)]				

- Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
- Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share

Insurance charges Rs.3,000 p.a.

Repairs Rs.12,000 p.a.

Compute income from house property of Mr. X for the AY 2025-26 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) .



Solution

Computation of Income from house property for AY 2025-26

Particulars	Rs.	Rs.
(A) Rented unit (50% of total area – See Note below)		
Step I - Computation of Expected Rent		

Less : Deductions under section 24 -

(i) 30% of net annual value 22,525

(ii) Interest on borrowed capital (Rs.750 x 12) 9,000 31,525

Taxable income from let out portion

(B) Self occupied unit (50% of total area – See Note below)

Annual value

Nil

Less : Deduction under section 24 -

9,000

Interest on borrowed capital (Rs 750 x 12)

9,000

Loss from self occupied portion

(9,000)

Income from house property

34,675

INCOME FROM HOUSE PROPERTY



Solution

Computation of income from house property of Mr. Vikas for the AY 2025-26

Particulars	Rs.	Rs.
Income from house property		
I. Self-occupied portion (Two third)		
Net Annual value		Nil
Less: Deduction under section 24(b)		
Interest on loan (See Note below) (Rs.18,600 x 2/3)		12,400

Note: Interest on loan taken for construction of building

Interest for the year (1.4.2024 to 31.3.2025) = 12% of Rs.1,00,000 = Rs.12,000

Pre-construction period interest = 12% of Rs.1,00,000 for 33 months (from 1.07.2017 to 31.3.2018) = Rs.33,000

Pre-construction period interest to be allowed in 5 equal annual installments of Rs.6,600 from the year of completion of construction i.e. from F.Y. 2020-21 till F.Y. 2024-25.

Therefore, total interest deduction under section 24 = Rs.12,000+6600= 18,600

INCOME FROM HOUSE PROPERTY

1.7.2024 to 31.3.2025	1,31,300
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She had a house property in Bangalore, which was sold in March, 2021. In respect of this house, she received arrears of rent of Rs.60,000 in March, 2025. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the AY 2025-26 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Would your answer change if she pays tax under the default tax regime under section 115BAC?.



Solution

Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as

2.	Self-occupied house property, at Chennai		Nil
	Annual value		
	Less: Deduction under section 24		
	Interest on borrowed capital (See Note below)		1,91,940
			(1,91,940)
3.	Arrears in respect of Bangalore property (Section 25A)		
	Arrears of rent received	60,000	
	Less: Deduction @ 30% u/s 25A(2)	18,000	42,000
	Loss under the head "Income from house property"		(1,49,940)

Note: Interest on borrowed capital

INCOME FROM HOUSE PROPERTY

residence and the balance of six units were let out at a rent of Rs.12,000 per month per unit. The municipal value of the house property is Rs.9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

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

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

Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house.

The other income of Mr. Arun and Mr. Bimal are Rs.2,90,000 and Rs.1,80,000, respectively, for the financial year 2024-25.

Total Income	4,15,850	3,05,850
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Working Note – Computation of Income from Let-Out Portion of House

Property

Particulars	Rs.	Rs.
Let-out portion (75%)		
Gross Annual Value		
(a) Municipal value (75% of Rs.9 lakh)	6,75,000	
(b) Actual rent [(Rs.12000 x 6 x 12) – (Rs.12,000 x 1 x 4)] = Rs.8,64,000 - Rs.48,000	8,16,000	
- whichever is higher		8,16,000

INCOME FROM HOUSE PROPERTY

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

property of PY 2023-24.

(2) Interest on housing loan allowable as deduction u/s 24

- Interest for Current year (Rs. 22,00,000 x 9%) = Rs. 1,98,000
- Pre-construction interest

For the period 1.8.2021 to 31.03.2022: (Rs. 22,00,000 x 9% x 8/12) = Rs. 1,32,000.

Rs. 1,32,000 allowed in 5 equal instalments (Rs. 1,32,000/5) from PY 2023-24 to PY 2026-27. Total Deduction u/s 24(b) = Rs. 1,98,000 + Rs. 26,400 = Rs. 2,24,400.

(3) Deduction u/s 24(b) i.r.o. interest for let out property, fully allowed without any limit

INCOME FROM HOUSE PROPERTY

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 construction is completed only in May, 2023. Hence, deduction u/s 24 i.r.o. interest on housing loan cannot be claimed in AY 2023-24.

(b) Deduction u/s 80C cannot be claimed

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

two HPs in Country Y, one is used as his residence. Another HP is rented for a monthly rent of \$ 18,000. Fair rent of HP is \$ 20,000. The value of one CYD (\$) may be taken as 78.

He took ownership & possession of a flat in Delhi on 1.10.2022, which is used for self- occupation, while he is in India. The flat was used by him for 3 months at the time when he visited India during PY 2022-23. Municipal valuation is 4,58,000 p.a. & fair rent is 3,60,000 p.a. He paid property tax of 13,800 & 2,800 as sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of 18,00,000 @ 9.5% from HDFC Bank on 1st August, 2020 for purchasing this flat. No amount is repaid by him till 31.03.2023.

1.	Self-occupied house at Delhi		
	Annual value		Nil
	Less: Deduction u/s 24		Nil
	Interest on borrowed capital (See Note)		(2,00,000)
	Chargeable income from this HP		(2,00,000)
2.	Let out HP at Bangalore		
	ER, being higher of 3,58,000 MV & FR of 4,58,000 but restricted to SR of 4,20,000	4,20,000	
	Actual rent [40,000 x 12]	4,80,000	
	GAV (being higher of ER & AR)		4,80,000
	Less: Municipal taxes		(5,400)

Mrs. Disha Khanna, a resident of India, owns a HP at Bhiwani in Haryana. Municipal value of the property is Rs. 7,50,000, Fair Rent of the property is 6,30,000 & Standard Rent is 7,20,000 p.a.

Property was let out for 75,000 p.m. for the period April 2022 to December 2022.

Thereafter, the tenant vacated the property & Mrs. Disha Khanna used the house for self-occupation. Rent for the months of November & December 2022 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly. She paid municipal taxes @ 12% during the year & paid interest of 35,000 during the year for amount borrowed towards repairs of the HP. You are required to compute her income from HP for AY 2023-24

INCOME FROM HOUSE PROPERTY

(g) GAV = Higher of (e) or (f)

7,20,000



Question 21

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

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

INCOME FROM HOUSE PROPERTY

Income from house property (A)-(B)	(69,000)	(8,800)
Loss under the head "Income from house property" of Mr. Suresh (both ground floor and first floor)	(77,800)	

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

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

remains vacant for February and March 2025 when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Sailesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation - ₹ 2,88,000 Fair rent - ₹ 2,98,000

Standard rent under the Rent Control Act - ₹ 2,78,000 Municipal taxes - ₹ 30,000 paid by Mr. Sailesh Repairs - ₹ 7,000

Interest on capital borrowed for the construction of the property - ₹ 90,000, Ground rent - ₹ 6,000 and Fire insurance premium paid - ₹ 60,000.

x 10] less unrealized rent of January, 2022 ₹ 20,000			
Gross Annual Value		1,80,000	
Less: Municipal taxes [50% of ₹30,000]		15,000	
Net Annual Value		1,65,000	
Less: Deductions from Net Annual Value			
(a) 30% of Net Annual Value		49,500	
(b) Interest on loan [50% of ₹ 90,000]		45,000	70,500
Unit – 3 [25% of floor area – Self occupied]			
Net Annual Value		-	

of ₹ 1,39,000 and actual rent of ₹ 2,00,000. Thereafter, unrealized rent of ₹ 20,000 and municipal taxes of ₹ 15,000 would be deducted from GAV of ₹ 2,00,000 to arrive at the NAV of ₹ 1,65,000



Question 23

Shraddha has two flats in Mumbai, both of which are self-occupied. The particulars of these are given below:

Particulars	(Value in ₹)	
	Flat at Goregaon	Flat at Navi Mumbai
Municipal Valuation per annum	1,40,000	1,35,000
Fair Rent per annum	1,60,000	1,80,000

INCOME FROM HOUSE PROPERTY

As per amendment-

Particulars	Amount in ₹
Flat at Goregaon (Self-occupied) [Annual value is Nil]	Nil
Flat at Navi (Self-occupied) [Annual value is Nil]	Nil
Income from house property	Nil



Question 24

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



Solution

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

Particulars		₹	₹
Basic Salary = ₹ 30,000 x 12		3,60,000	
Rent free accommodation		36,000	
[Lower of lease rental paid or payable by the employer (or) 15% 10% of salary i.e., lower of ₹ 65,000 or ₹ 54,000 ₹ 36,000, being 10% of ₹ 3,60,000]			

Net Annual Value (NAV)	57,000	2,15,000	
Less: Deductions u/s 24 30% of NAV	17,100	64,500	
Interest on loan	Nil	17,000	
Income from house property [₹ 39,900 + ₹ 1,33,500]	39,900	1,33,500	1,73,400
Income from Other Sources			
Purchase of rural agricultural land for a consideration less than stamp duty value [Not taxable under section 56(2) (x), since rural agricultural land is not a capital asset]			Nil

INCOME FROM HOUSE PROPERTY

(vi)	G	6 kms	8,000	No
(vii)	H	7 kms	4,00,000	No
(viii)	I	8 kms	10,50,000	Yes
(ix)	J	9 kms	15,00,000	No

Question 2

How will you calculate the period of holding in case of the following assets?

- (1) Shares held in a company in liquidation
- (2) Bonus shares
- (3) Flat in a co-operative society

obtained may be taken as the date of acquisition.

Question 3

A is the owner of a car. On 1-4-2024, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2025 and gets a profit of Rs 1 lakh. Discuss the tax implication in his hands under the head "Capital gains".

Solution

Since car is a personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be trapped by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

being the fair market value on the date of conversion) would also be taxable in the A.Y.2025-26. Thus, both capital gains and business income would be chargeable to tax in the A.Y.2025-26.



Question 5

M held 2000 shares in a company ABC Ltd., an Indian company. This company amalgamated with another Indian company XYZ Ltd. during the previous year ending 31-3-2025. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by Rs 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax Rs 50,000 as capital gain. Is he justified?



Solution

We know that capital gains arises only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- (i) As per the provisions of section 47(iii), gift of a capital asset is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (ii) As per the provisions of section 47(i), distribution of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.



Question 8

Examine, with reasons, whether the following statements are True or False.

- (i) Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated

infrastructure debt fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.



Question 9

Mr. A converts his capital asset acquired for an amount of Rs 50,000 in June, 2004 into stock-in-trade in the month of November, 2023. The fair market value of the asset on the date of conversion is Rs 4,50,000. The stock-in-trade was sold for an amount of Rs 6,50,000 in the month of September, 2024. What will be the tax treatment?

Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Indexed cost of acquisition (Rs 50,000 x 348/113)	1,53,982	2,96,018

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered.



Question 10

Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2023. The depreciation on these machines is charged @15%. The opening balance of these machines after providing depreciation for P.Y. 2023-24 was Rs 8,50,000. Three of the old machines were sold on 10th June, 2024

Since the value of the block as on 31.3.2025 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is Rs 45,000, being 7½% of Rs 6,00,000.

- (ii) The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:
- When one or some of the assets in the block are sold for consideration more than the value of the block.
 - When all the assets are transferred for a consideration more than the value of the block.

1.4.2024 [(i.e., W.D.V. as on 31.3.2024) after providing depreciation for P.Y. 2023-24]	8,50,000	17,00,000
Purchase of second plant during the year		
Short term capital gains		4,00,000



Question 11

Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2024 his Unit 1 by way of slump sale for a total consideration of Rs 25 lacs. The fair market value of capital assets of unit 1 on 1.4.2024 is Rs 30 lacs. Unit 1 was started in the year 2006-07. The expenses incurred for this transfer were Rs 28,000. His Balance Sheet as on 31.3.2024 is as under:

Computation of capital gains on slump sale of Unit 1

Particulars	Rs
Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2024 or FMV of monetary consideration received]	30,00,000
Less: Expenses for transfer	28,000
	29,72,000
Less: Net worth (See Note 1 below)	12,50,625
Long-term capital gain	17,21,375

Less: Depreciation for Financial Year 2023-24	9,375
Balance as on 1.4.2024	28,125

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of Rs 3 lakh and Rs 9 lakh (Rs 12 lakh – Rs 3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

Note - The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is Rs 8,00,000.



Question 13

Long term capital gain of Rs 75 lakh arising from transfer of building on 1.5.2024 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI under section 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act, 1961.

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

Income from other sources

Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares x ₹ 10 per share]

2,000

Other income

8,00,000

Total Income

13,94,000

Tax Liability

Tax on STCG u/s 11A

20% of ₹ 3,96,000

79,200

12.5% of (1,96,000 - 1,25,000) since it is transferred on or after 23.7.2024

8,875

Tax on other income of 8,02,000

Aarav converts his plot of land purchased in July, 2004 for ₹ 80,000 into stock-in-trade on 31st March, 2024. The fair market value as on 31.3.2024 was ₹ 3,00,000. The stock-in-trade was sold for 3,25,000 in the month of January, 2025.

Find out the taxable income, if any, and if so under which head of income and for which Assessment Year?

Cost Inflation Index: F.Y. 2004-05:113; F.Y. 2023-24: 348; F.Y. 2024-25: 363.



Solution

Conversion of a capital asset into stock-in-trade is a transfer within the meaning of section 2(47) in the previous year in which the asset is so

Less: Indexed cost of acquisition $(80,000 \times \frac{348}{113})$	2,46,372	
Long-term capital gain		53,628
Taxable Income		78,628



Question 16

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2024

She started her real estate business on 21st March, 2024 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

Business Income

Sale price of flats [10× ₹ 30 lakhs]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [₹ 210 lacs × 2/3]	1,40,00,000
Cost of construction of flats (10 × ₹ 10 lakhs)	1,00,00,000
Business income chargeable to tax for A.Y.2025-26	60,00,000
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [₹ 35,00,000 × 348/113]	1,07,78,761

(4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date, which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.

In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2024-25, only proportionate capital gains (ie, 2/3rd) would be chargeable to tax in the A.Y.2025-26.

- (5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.
- (6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock in trade, the period of 6 months is to be reckoned from

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2024 (i.e., WDV as on 31.3.2024 after providing depreciation for P.Y. 2023-24) was ₹10,80,000.

During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000.

Mr. A received the following amounts from the insurance company:

(1) Towards loss of stock ₹ 4,80,000

year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short term capital loss.

Note - If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

(iii) **Compensation towards loss of gold chain and diamond ring:** Gold chain and diamond ring capital assets as envisaged by section. 2(14), They are not “personal effects”, which alone are to be excluded. If any profit or

(c) on 14.01.2025 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2025 and another in Delhi for ₹ 35,00,000 on 28.5.2025.

Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the Assessment Year 2025-26.

Cost Inflation Index for Financial Year(s): 2001-02-100; 2024-25-363

the consideration is paid by way of account payee cheque/ bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.

In this case, since 20% of 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]

Full value of sale consideration (Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration

Less: Cost of acquisition of residential house

1,70,00,000

can opt to pay tax @20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to him.



Question 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

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	Rs. (in lakhs)	Rs. (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 810 lakhs		

electronic modes on or before the date of agreement.

In this case, since advance of ₹ 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration]

immediately preceding the date of its transfer, the resultant gain is a long term capital gain]

Less: Exemption under section 54

Where long term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset.

130.00

only to the extent of ₹ 30 lakh out of ₹ 50 lakhs, even if the both the investments are made on or before 13.1.2025 (i.e., within six months after the date of transfer).

Long term capital gains chargeable to tax

67.47

Note: Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2024 was ₹ 39,00,000 and on 20th February, 2025 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2025-26. Also, compute the tax liability under section 112, assuming that the basic exemption limit has been fully exhausted against other income.

CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2024-25: 363

payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement.

In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)

Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]

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Long-term capital loss

(1,69,032)

Since the computation results in a long term capital loss, if indexation benefit is given, the tax u/s 112 would be Nil. However, this computation is only for determining tax liability, the said loss can neither be set-off nor carried forward.

Notes:

(1) Computation of cost of acquisition

Particulars	Amount (Rs.)	Amount (Rs.)
Cost of acquisition,		10,70,000

thereafter, the amount forfeited would be taxable under the head "Income from Other Sources and such amount will not be deducted from the cost of acquisition of such asset. while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head "Income from other sources" in the hands of Mr. Shiva in A.Y.2016 17.



Question 21

[DELETED]



Question 22

Mr. Gyaanchand purchased 1200 shares of "A" limited at ₹130 per share on 26.02.1979. "A" limited issued him 600 bonus shares on 20.02.2005. The fair market value of these shares at Mumbai Stock Exchange as on 1.04.2001

Sale consideration – ₹2,400 per share		
In respect of 1,200 original shares		
Full value of consideration [1,200 shares x ₹2,400]	28,80,000	
Less: Cost of acquisition [1,200 shares x ₹2,000]	24,00,000	4,80,000
Higher of (i) and (ii), below		
(i) ₹900, being original cost of acquisition (₹130) or FMV as on 1.4.2001 (₹900), at the option of the assessee		
(ii) ₹2,000 per share, being the lower of		
FMV as on 31.1.2018 - ₹2,000 per share		
Sale consideration – ₹2,400 per share		
Long term capital gain		7,20,000

If an immovable property is received by any person without consideration, the stamp duty value of such property would be taxed as the income of the recipient under section 56(2)(x), if it exceeds ₹50,000. However, it would not be taxable as income if the transfer is by way of a transfer, inter alia, on total or partial partition of a HUF.

In the give case, since Mr. Subhash Aggarwal received the house property on total partition of the HUF, it would not be taxable in his hand.



Question 24

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2024-25 from the following details provided by Mr. Naveen with respect to sale of certain securities during

- (iii) Sold 100 shares of C Ltd. on 27-09-2023 @ ₹ 200 per share. C Ltd. is an unlisted company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Market Value of these shares as on 01-04- 2001 was ₹ 50 per share.

Cost Inflation Index for various financial years are as under (MTP 7 Marks, April'21, PYP 6 Marks Nov 19)

2001-02	100
2016-17	264
2017-18	272
2020-21	301
2023-24	348

	₹ 50 per unit Sale consideration (1,000 x ₹ 50)	50,000
	Less: Cost of acquisition - Higher of -	50,000
	- Actual cost (1,000 x ₹ 10) 10,000 - Lower of: 50,000 • ₹ 55,000 (₹ 55 x 1,000), FMV, being Net Asset Value as on 31.1.2018; and • ₹ 50,000, being full value of consideration on transfer	Nil
	Long-term capital gain under section 112A [Since shares are held for more than 12 months and STT is paid at the time of sale]	

Mr. Yusuf bought a vacant land for ₹ 80 lakhs in March 2009. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2010-11. He entered into an agreement for sale of the above said residential house with Mr. John (not a relative) in July 2023. The sale consideration was fixed at ₹ 600 lakhs and on the date of agreement, Mr. Yusuf received ₹ 20 lakhs as advance in cash. The stamp duty value on that date was ₹ 620 lakhs. The sale deed was executed and registered on 10-2-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 650 lakhs. Mr. Yusuf paid 1% as brokerage on sale consideration received. Subsequent to sale, Mr. Yusuf made following investments:

value adopted by Stamp valuation Authority ₹ 650 lakhs		
Gross Sale consideration		600
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 105% (110%) of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. (In section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration)		

Net Sale consideration		594
Less: Indexed cost of acquisition		
- Cost of vacant land, ₹ Rs 80 lakhs, plus registration and other expenses i.e., ₹ Rs 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 348/137]	223.53	
- Construction cost of residential building (₹Rs 100 lakhs x 348/167)	208.38	431.91
Long-term capital gains before exemption		182.05
		162.09
Less: Exemption under section 54		80.00



Question 26

Mr. Suresh entered into an agreement with Mr. Mukesh to sell his residential house located at New Delhi on 25.05.2023 for ₹ 80,00,000. Mr. Mukesh was handed over the possession of the property on 15.12.2023 and the registration process was completed on 14.02.2024.

Mr. Mukesh had paid the sale proceeds in the following manner;

- (i) 25% through account payee bank draft on the date of agreement.
- (ii) 50% on the date of the possession of the property.
- (iii) Balance after the completion of the registration of the title of the property.

[As per Section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.

In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.

Long-term capital gains chargeable to tax	2,95,413
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Question 27

Mr. Kalyan has a residential house property which was acquired on 12-08-2005 for ₹ 2,00,000. The property is sold for ₹ 22,00,000 in December 2023. The sub-registrar refused to register the documents for the said value, as according to him, stamp duty value based on State Government guidelines was ₹ 28,00,000. Mr. Kalyan preferred an appeal to the revenue divisional officer who fixed the value of the house ₹ 25,00,000. He acquired another residential house on 31 -03-2024 for ₹ 17,00,000 for self- occupation. On 01-03-2025, he sold such new residential house for ₹ 30,00,000.

determined by the valuation Officer shall be deemed as the full value of consideration.]	
Less: Indexed cost of acquisition [₹ 2,00,000 x 348/117]	5,94,872
Long-term capital gain [Since the residential house is held for more than 24 months]	19,05,128
Less: Exemption under section 54	
Purchase of new residential house property on 31.3.2024 (i.e., within two years	
from the date of transfer of residential house)	17,00,000
Taxable long term capital gain	2,05,128

On that date is given below.

Liabilities	Amount (₹ In lacs)	Assets	Amount (₹ In lacs)
Own Capital	1,850	Fixed Assets:	
Accumulated P & L balance	870	Unit PT	250
Liabilities:		Unit QL	170
Unit PT	190	Unit RS	950
Unit QL	260	Other Assets:	
Unit RS	340	Unit PT	790
		Unit QL	860
		Unit RS	490
Total	3,510	Total	3,510

(The fair market value of capital asset would be higher of: FMV1- being the fair market value of capital assets transferred by way of slump sale&

FMV2- being the fair market value of the consideration (monetary or non- monetary) received or accruing as a result of transfer by way of slump sale)

Less: Deemed cost of acquisition (Net worth is deemed to be the cost of acquisition) [Refer Working Note below]	8,70,00,000
Long-term capital gain [Since the Unit is held for more than 36 months]	6,70,00,000

CAPITAL GAINS

division in case of slump sale in case of depreciable assets, the written down value of block of assets determined in accordance with the provisions contained in section 43(6) of Income-tax Act, 1961 is to be considered and for all other assets, book value is to be considered.

- (4) Since Unit RS is held by the assessee for more than 36 months, the capital gain arising from slump sale is a long-term capital gain.
- (5) Indexation benefit is not available in case of slump sale



Question 29

Determine the capital gains/loss and tax liability in the following scenarios for the A.Y. 2024-25 assuming the assessee does not have any other source of income:

	Particulars		Amount ₹
(i)	Long-term capital gain on transfer of 1,200 shares of X Ltd. [Taxable u/s 112A @10% on amount exceeding ₹ 1,00,000]		
	Full value of consideration [1,200 x ₹ 1,550]		18,60,000
	Less: Cost of acquisition		8,16,000
	Higher of		
(i)	Cost of acquisition [1,200 x ₹ 425]	5,10,000	
(ii)	Lower of fair market value of such shares as on 31.1.2018 and sale consideration [1,200 x 680]	8,16,000	

	of actual sale consideration]		
	Less: Indexed cost of acquisition [₹ 19,00,000 x 348/317]		20,85,804
	Long term capital gain/ Total Income		3,60,631
	Total Income (Rounded off)		3,64,196
	Long-term capital gain taxable u/s 112 @20% on ₹ 64,196 [₹ 3,64,196 – ₹ 3,00,000, being unexhausted basic exemption limit] (In the new scheme the basic limit is increased to ₹ 3,00,000)		12,839



Solution

Computation of total income of Mr. Govind for the A.Y.2024-25

	Particulars		Amount ₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,100 x 1000 shares) [See Note below]	21,00,000	3,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up- to the date of sale		

	900), at the option of the assessee		
	In case of bonus shares - FMV as on 1.4.2001 (Nil or ₹ 900, at the option of the assessee)		
(ii)	₹ 2,000 per share, being the lower of		
	FMV as on 31.1.2018 - ₹ 2,000 per share		
	Sale consideration – ₹ 2,400 per share		

Note – Explanation to section 55(2) (ac) defines “fair market value” as the highest price of capital asset quoted on the stock exchange only for the purpose of the said clause (ac) i.e., to arrive at the FMV as on 31.1.2018 for computing cost of acquisition of shares.

However, the question states two prices on 31.1.2023, being the date of conversion of capital asset into stock in trade for which we have to consider the

Capital Gains			
	In respect of 800 shares held as capital asset up to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Cost of acquisition [800 shares x ₹ 2,000] (See Working Note below)	16,00,000	3,20,000
	In respect of 1,000 shares converted into stock in trade on 31.1.2023 (Capital gains is taxable in the P.Y.2023-24, when the stock in trade is sold)		2,00,000

Note - It is possible to take a view that since no STT was paid on the date of conversion of capital asset, being listed shares into stock in trade, capital gains have to be computed u/s 112 and not 112A. If this view is taken, the total income of Mr. Govind would, accordingly, be computed in the following manner:

Computation of total income of Mr. Govind for the A.Y.2024-25

	Particulars		Amount ₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	

	2 below)]		
		(8,79,000)	
	Long-term capital loss to be carried forward = (5,85,600) + (8,79,000) =	(14,64,600)	
	Total Income		3,00,000
	Working Note –		
	1. Cost of acquisition (per share)		
	Higher of (I) and (ii), below i.e., ₹ 900 per share		
(I)	₹ 900 per share, being the FMV as on 1.4.2001		

conversion of capital asset into stock in trade for which we have to consider the definition of “fair r market value” as per section 2(22B). As per this definition, FMV refers to the price that. The capital asset would ordinarily fetch on sale in the open market on the relevant date. In the question, two prices are given on the relevant date i.e., the date of conversion of capital asset into stock in trade, namely, the highest price and the closing price. The above solution is given considering the closing price as the FMV as on 31.1.2023. Alternatively, highest price can also be considered as the FMV as on 31.1.2023. In such case, the total income of Mr. Govind would be computed in the following manner:

trade is sold)		
Full value of consideration [1000 shares x ₹ 21,000, being FMV on the date of conversion]	21,00,000	
Less: Cost of acquisition [1000 shares x ₹ 900 x 331/100] (See Working Notes 1 and 2 below)]	29,79,000	
	(8,79,000)	
Long-term capital loss to be carried forward = (5,85,600) + (8,79,000) =	(14,64,600)	
Total Income		2,00,000
Working Note –		
1. Cost of acquisition (per share)		

shopping mall on land owned by her in New Delhi. She purchased such land on 05.05.2012 for ₹ 15,00,000. In consideration, M/s CVM Build Limited will provide 20% share in shopping mall to Mishika. The certificate of completion of shopping mall was issued by authority as on 26.12.2023. On such date, Stamp duty value of shopping mall was ₹ 4,14,00,000. Subsequently on 18.03.2024, she sold her 15% share in shopping mall to Mr. Ketav in consideration of ₹ 65,00,000.

She has also purchased a house on 09.05.2023 in consideration of ₹ 46,00,000 and occupied for own residence. Punjab National Bank has sanctioned a loan of ₹ 35,50,000 (80% of stamp value) at the interest rate of 12% per annum on 01.05.2023 and disbursement was made on 01.06.2023. She does not own any other residential house on the date of sanction of loan. Principal amount

Since Ms. Mishika transferred her share in the project after issue of completion certificate, capital gains on transfer of land handed over to developer under specified agreement in the P.Y. 2020-21 would be taxable in the previous year 2023-24, being the year in which certificate of completion is issued as per section 45(5A). Accordingly, capital gain arising in respect of land would be- Full value of consideration, being 20% share in shopping mall [Stamp duty value on the date of issue of completion certificate (₹ 4,14,00,000 x 20%)]

82,80,000

rates, and she can claim deduction of ₹ 2,80,000 under Chapter VI-A against STCG of ₹ 2,90,000. Moreover, the remaining STCG would also not be taxable since it would be below the basic exemption limit]

	2,00,000	
		23,20,000
Short-term capital gains		
Sale of 15% share in shopping mall [short-term capital asset, since held for not more than 24 months]		
Net Sales consideration		65,00,000

Total Income (rounded off)		23,30,000
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Note -

As per section 45(5A), any capital gains arising from the transfer of a capital asset, being land or building or both, under a specified agreement, is chargeable to income-tax as income of the previous year in which the certificate of completion is issued by the competent authority. In the above solution, the CII of F.Y.2023-24 has been considered on the basis of parity, since, as per section 45(5A), it is the stamp duty value of the developed property (shopping mall, in this case) on the date of issue of certificate of completion (26.12.2023), which is deemed as the full value of consideration for transfer of land handed over to the developer.

major son Arjun and his minor daughter Aditi. Mr. Sarthak transferred his house property acquired through his personal income to the HUF without any consideration. On 01-10-2023, HUF is partitioned and such property being divided equally. Net annual value of the property for the Previous Year 2023-24 is ₹ 1,00,000. Determine the tax implications. (PYP 4 Marks May'22)

Juhi's Share [25% of ₹ 35,000] included in the total income of Sarthak	8,750
Income from house property includible in the income of Mr. Sarthak	52,500
25% share of Sarthak's minor daughter, Aditi, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in the total income of Mr. Sarthak or Juhi, whosoever's total income, before including Aditi's income, is higher. Such parent shall be entitled to an exemption of ₹ 1,500 under section 10(32).	
25% share of Sarthak's major son, Arjun, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in Arjun's total income.	
Distribution of house property on partition of HUF is not a transfer for levy of capital gains tax.	

- (i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- (ii) However, if the loan is taken from a private company (i.e. a company in which the public are not substantially interested), which is a manufacturing company and not a company where lending of money is a substantial part of the business of the company, then, the provisions of section 2(22)(e) would be attracted, since Rahul holds more than 10% of the equity shares in the company.
- The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be

duty value of the property as on 1st November, 2023 was Rs.32 lakh and on the date of booking was Rs.23 lakh. He had paid Rs.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 Rs.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	Rs.
(1)	Cash gift is taxable under section 56(2)(x), since it exceeds Rs.50,000	75,000

or Rs.50,000 and 10% of consideration

Income from Other Sources	9,35,000
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Computation of “Capital Gains” of Mr. A for the A.Y.2024-25

Particulars	Rs.
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.

(i)	Taxable	75,000	Sum of money exceeding Rs.50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non- taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).

On 1.1.2023, when the stamp duty value was Rs.150 lakh. The agreement was, however, entered into on 1.9.2024 when the stamp duty value was Rs.140 lakh. Mr. Hari had received a down payment of Rs.15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for Rs.75 lakh on 12th July, 2023.

Would your answer be different if Hari was a share broker instead of a property dealer?

debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of Rs.15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.

hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque / draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Thus, **Rs.75 lakh, being the difference between the stamp duty value on the date of registration (i.e., Rs.150 lakh) and the purchase price (i.e., Rs.75 lakh) would be chargeable as short-term capital gains.**

It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee

a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds Rs.9,00,000, being the higher of Rs.50,000 and 10% of consideration.

Therefore, Rs.60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., Rs.150 lakh) and the actual consideration (i.e., Rs.90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on

individual or his / her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-Tax Act, 1961



Solution

The statement is not correct. As per Section 10(10BC), any amount received or receivable as compensation by an individual or his / her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.



Question 7

Examine under which heads the following incomes are taxable:

- (i) Rental income in case property held as stock-in-trade for 3 years
- (ii) Dividend on shares in case of a dealer in shares
- (iii) Salary received by a partner from his partnership firm
- (iv) Rental income of machinery
- (v) Winnings from lotteries by a person having the same as business activity
- (vi) Salaries payable to a Member of Parliament
- (vii) Receipts without consideration
- (viii) In case of retirement, interest on employee's contribution if provident fund is unrecognized.

(vii)	Receipts without consideration	Income from other sources
(viii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(xi)	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

INCOME FROM OTHER SOURCES

			his hands under section 56(2)(x).
(ii)	Taxable	48,000	As per section 145B(1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of Rs.96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2024-23 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, ₹ 48,000 is chargeable to tax under the head "Income from other sources".

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income. Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y 2024-25:

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% x Rs.,00,000)	2,50,000
Taxable interest on enhanced compensation	2,50,000

on completion of 60 years of age.

The gift of Rs.51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds Rs.50,000.

- (ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister, being a relative, is not taxable under section 56(2)(x), even though jewellery falls within the definition of “property”.
- (iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual’s son or daughter. Therefore, this exemption provision

sources” of Mrs. Hemali would be Rs.1,03,000 (Rs.51,000 + Rs.52,000).



Question 11

Examine the following transactions in the context of Income-tax Act, 1961:

- (i) Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2024 for Rs.3,00,000 when the market price was Rs.5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at Rs.4,45,000. The transfer was not subjected to securities transaction tax.
Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.
- (ii) Mr. Chezian is employed in a company with taxable salary income of

acquisition (Rs.4,45,000) would result in a long term capital gains of Rs.55,000 in the hands of Mr. B.

- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the cash gift of Rs.1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.



Question 12

Mr. Amit furnishes the following particulars of his incomes for PY 2023-23. Compute his IFOS for AY 2024-25.

16	Income from undisclosed sources	Rs. 65,000
17	Amount received on account of winnings from lotteries	Rs. 25,000

Following deductions are claimed by him

(a) Allowable depreciation on Building & Machinery	Rs. 6,000
(b) Fire Insurance on Building & Machinery	Rs. 1,000
(c) Amount spent for buying lottery ticket	Rs. 5,000



Solution

Dividend on equity shares	Rs. 6,000
Dividend on preference shares	Rs. 5,000
Dividend from a foreign company	Rs. 10,000

INCOME FROM OTHER SOURCES

(b) Agricultural income from land situated in India is exempt u/s 10.



Question 13

Mr. Suraj sold a house to his friend Mr. Ganesh on 18th Sep 2021 for Rs. 42 Lacs.

On DOR, SDV of the said property is Rs. 45 Lacs. However, on the DOA SDV of the said property was Rs. 44 Lacs.

Mr. Ganesh had paid 10% of the value of the property by way of A/c payee cheque at the time of agreement. Assume value of land is 70% of total value of the property.

What are the tax implications in the hands of Mr. Suraj & Mr. Ganesh for AY

by way of A/c payee cheque on the DOA, the SDV of Rs. 44,00,000 on the DOA would be taken for the purpose of computing FVC.

- Further, since SDV of land & building of Rs. 44,00,000 does not exceed Rs. 46,20,000 i.e., 110% of Rs. 42,00,000, the consideration received i.e., Rs. 42,00,000 i.r.o. land & building would be deemed to be the full value of consideration.
- In the given problem, land has been held for a period exceeding 24 months & building for a period less than 24 months immediately preceding the date of transfer. So, Land is a long-term capital asset, while building is a short-term capital asset.
- Accordingly, capital gains would be determined in the following manner:

& SDV so considered is more than higher of Rs. 50,000 or 10% of actual consideration, then difference between such value & actual consideration of such property is chargeable to tax as income from other sources.

Where DOR & DOA are not the same & part or whole of the consideration is paid by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the DOA, then SDV on the DOA may be taken for the purpose of determining income taxable under the head "Income from other sources".

Since in the present case, Mr. Ganesh has paid 10% of the consideration by way of A/c payee cheque, the SDV on the DOA has to be taken. Further, since difference of Rs. 2,00,000 is not more than Rs. 4,20,000 being higher of Rs. 50,000 & Rs. 4,20,000 (10% of Rs. 42,00,000), no income would be chargeable to tax as income from other sources in hands of Mr. Ganesh.

deemed to be dividend in hands of the shareholder to the extent company possesses accumulated profits on date of loan. Hence, 2,00,000 shall be taxable as dividend in hands of Ms. Julie.

- (2) As per section 145B (1), any interest received by an assessee on compensation or enhanced compensation, as the case may be, shall be deemed to be income of year in which it is received. Further, as per section 56(2)(viii), income by way of interest received on compensation or on enhanced compensation referred to in section 145B(1) above shall be taxable u/h IFOS in PY in which such interest is received.

Further, as per section 57(iv), in case of above interest, a deduction of a sum equal to 50% of such income shall be allowed to assessee & no deduction shall be allowed under any other clause of section 57.

(±) Any payment by way of loan by a closely held company to its shareholder holding not less than 10% of voting power is deemed as dividend, to the extent of accumulated profits of the company. Accordingly, out of ₹ 5 lakhs given by ABC Pvt. Ltd. to Ms. Julie, loan to the extent of ₹ 2 lakhs would be treated as deemed dividend for the A.Y.2024-25. ~~Such dividend would, however, be taxable @ 30% in the hands of ABC Ltd. Consequently, it would be fully exempt in Julie's hands under section 10(34).~~

Dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/

purchased by way of account payee cheque.



Solution

Computation of depreciation and additional depreciation for AY 2025-26

Particulars	Plant & Machinery (15%)	Computer (40%)
Normal depreciation		
@ 15% on Rs.50,00,000 [See Working Notes 1 & 2]	7,50,000	-

Add: Plant & Machinery purchased on 08.6.2024	20,00,000	-
Add: Plant & Machinery acquired on 15.12.2024	8,00,000	-
Computer acquired and installed in the office premises	-	3,00,000
Written down value as on 31.03.2024	58,00,000	3,00,000

(2) Composition of plant and machinery included in the WDV

Particulars	Plant & Machinery (Rs.)	Computer (Rs.)

additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- (2) As per third proviso to section 32(1)(ii), the balance additional depreciation of Rs.80,000 being 50% of Rs.1,60,000 (20% of Rs.8,00,000) would be allowed as deduction in the A.Y.2026-27.
- (3) As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, @20% of the actual cost of such machinery or plant.

Therefore, amount of depreciation on car as per section 32 for the AY 2025-26 would be Rs.78,750, being Rs.5,25,000 x 15%.

Note: Explanation 5 to section 43(1) providing for reduction of notional depreciation from the date of acquisition of asset for personal use to determine actual cost of the asset is applicable only in case of building which is initially acquired for personal use and later brought into professional use. It is not applicable in respect of other assets.



Question 3

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during FY 2024-25 at the

Block 1 Furniture [See working note below]	10%	30,000
Block 2 Plant (Computer including computer software, Computer UPS, Laptop, Printers and Books) [See working note below]	40%	34,500
Total depreciation allowable		64,500

Working Note:

Computation of depreciation

Block of Assets	Rs.
Block 1: Furniture – [Rate of depreciation - 10%] Put to use for more than 180 days [Rs.3,00,000 @ 10%]	30,000
Block 2: Plant [Rate of depreciation- 40%]	

assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.



Question 4

Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2024. The manufacturing unit was set up on 1.5.2024. He commenced his manufacturing operations on 1.6.2024. The total cost of the plant and machinery installed in the unit is Rs.120 crore. The said plant and machinery included second hand plant and machinery bought for Rs.20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of Rs.15 crore.

Compute the amount of depreciation allowable under section 32 of the

the whole of the actual cost of which is allowable as deduction under section 35(1)(iv) read with section 35(2)(ia) (Note 2)	<u>15.00</u>	35.00	
		85.00	
Additional Depreciation at 20%			17.00
Depreciation allowable for AY 2025-26			32.75

1. As per section 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since deduction is allowable under section 35 in respect of such capital expenditure.
2. Mr. Gamma is entitled to additional depreciation since he has exercised

to assessee's business in respect of which the whole of the capital expenditure can be claimed as deduction under section 35(1)(iv) read with section 35(2)(ia) & (iv).



Question 5

Mr. A, furnishes the following particulars for the P.Y.2023-24. Compute the deduction allowable under section 35 for A.Y.2024-25, while computing his income under the head "Profits and gains of business or profession", if.

- (i) he is paying tax under default tax regime under section 115BAC
- (ii) he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Payment for scientific research				
Indian Institute of Science, Bangalore	1,00,000	35(1)(ii)	Not allowable under default tax regime	Nil
IIT, Delhi	2,50,000	35(2AA)		Nil
X Ltd.	4,00,000	35(1)(ia)		Nil
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	Allowable under default tax regime	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)		2,50,000
Deduction allowable under section 35				5,50,000

purchase of land and building during the period January, 2023 to March, 2023 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2023. The cost of land included in the above figures is Rs.50 lakh, Rs.40 lakh and Rs.30 lakh, respectively. During the FY 2023-24, he incurred capital expenditure of Rs.20 lakh, Rs.15 lakh & Rs.10 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses.

Compute the income under the head “Profits and gains of business or profession” for the A.Y.2024-25 and the loss to be carried forward, assuming that Mr. A is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and has fulfilled all the conditions specified under section 35AD and wants to claim deduction under section

income chargeable under "Profits and gains from business or profession"	28
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facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)
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Computation of income/loss from specified business under section 35AD

Notes:

- (i) Deduction of 100% of the capital expenditure is available under section 35AD for AY 2024-25 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012 or on or after 01.04.2009, respectively.
- (ii) However, since setting up and operating a warehousing facility for

	Particulars	Food Grains	Sugar	Total
		Rs. (in lakhs)		
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD)	16	14	30
	Less: Deduction under section 35AD			

expenditure of Rs.50 lakh during the period January, 2023 to March, 2023 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2023. Further, during the FY 2023-24, he incurred capital expenditure of Rs.2 crore (out of which Rs.1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head “Profits and gains of business or profession” for the A.Y.2024-25, assuming that he has fulfilled all the conditions specified under section 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading “C – Deductions in respect of certain incomes”. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Capitalized in the books of account as on 1.4.2023	50 lakh
Total deduction under section 35AD for AY 2024-25	100 lakh
Loss from the specified business of new hotel in Madurai	(75 lakh)
Profit from the existing business of running a hotel in Coimbatore	120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A	45 lakh



Question 8

Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of

Deemed income under section 55AD(7B)	45,00,000
--------------------------------------	-----------

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation under section 32 on the building in Unit B for AY 2024-25. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	Rs.
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2023-24 [10% of Rs.50 lacs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	45,00,000



Solution

Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source as per the provisions of Chapter XVII-B would attract disallowance u/s 40(a)(ia).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible under section 194J, would attract disallowance @30% u/s 40(a)(ia). Whereas in case of salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the FY

but is not deemed as assessee in default under the first proviso to section 201(1) by reason that such payee –

- (i) has furnished his return of income under section 139;
 - (ii) has taken into account such sum for computing income in such return of income; and
 - (iii) has paid the tax due on the income declared by him in such return of income, and the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed,
- it would be deemed that the assessee has deducted and paid the tax on such sum.

The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been furnished by the payee.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) of the Income-tax Act, 1961 assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja?



Solution

Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

- (i) The obligation to deduct tax at source from interest paid to a resident

previous year, i.e., FY 2022-23 exceeds Rs.1 crore. Thus, in present case, since the turnover of the assessee is less than Rs.1 crore, he is not liable to deduct tax at source u/s 194-H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed Rs.50 lakh during the FY 2024-25. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.



Question 11

A firm has paid ₹ 8,50,000 as remuneration to its partners for the P.Y.2024-25, in accordance with its partnership deed, and it has a book profit of 10 lakhs. What is the remuneration allowable as deduction?

- (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

- (i) As per Explanation 3 to section 40(b), “book profit” shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners

partners is allowed subject to the following limits -

On the first ₹ 6,00,000 of book profit or in case of loss	₹ 3,00,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

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

Particulars	₹
On the first 6,00,000 of book profit [(₹ 3,00,000 or 90% of ₹ 6,00,000) whichever is more]	10,00,000
On the balance of book profit [60% of (₹ 14,90,000 - ₹ 6,00,000)]	5,34,000
Maximum allowable partners' salary	10,74,000

DA)

Actual contribution (20% of basic salary i.e., 20% of Rs 10 lakh)	2,00,000
Less: Permissible deduction under section 36(1)(iva) (10% of basic salary plus dearness pay = 10% of Rs 14,00,000 = Rs 1,40,000)	1,40,000
Excess contribution disallowed under section 40A(9)	60,000



Question 14

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

PROFITS AND GAINS OF BUSINESS OR PROFESSION

financial institutions and any interest payable on any loans and advances to, inter alia, scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of Rs.15,00,000 due to APSFC and of Rs.30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari

The deduction in respect of above sum will be allowed to the assessee under section 36(1)(va) only if such sum is credited by the assessee to the employee's account in the relevant fund on or before the due date, being the date specified under the relevant Act, Rule, order or notification issued thereunder.

As per section 43B, any sum payable by the assessee as an employer by way of contribution to any provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees, would be allowable during any P.Y. if the same has been paid on or before the 'due date' applicable in his case for furnishing the return of income under section 139(1) in respect of that P.Y.

Explanation 5 clarifies that the provisions of section 43B regarding allowability

Financial year 2021-22 1,80,000

Financial year 2022-23 2,10,000

What is his obligation regarding maintenance of books of accounts for AY 2024-25 under section 44AA of Income-tax Act, 1961?



Solution

Section 44AA(1) requires every person carrying on any profession, notified by the Board in the Official Gazette (in addition to the professions already specified therein), to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 1961.

As per Rule 6F, a person carrying on a notified profession shall be required to

“Profits and gains from business or Profession” of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2024-25 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

- (i) Is Mr. Praveen also eligible to opt for presumptive determination of his income chargeable to tax for the AY 2025-26?
- (ii) If so, determine his income from retail trade as per the applicable presumptive provision assuming that whole of the turnover represents cash receipts.
- (iii) In case Mr. Praveen does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?

declares profits lower than the presumptive income in say P.Y. 2024-25 relevant to A.Y.2025-26, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2026-27 to A.Y. 2030-31. Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.

- (iv) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2023. In case he does not opt for presumptive taxation scheme, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2024.

previous year 2021-22, he is eligible to opt for presumptive taxation scheme under section 44AE. Rs.1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and Rs.7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

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

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]

**Question 18**

Miss Rashi, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2025:

S. No.	Particulars	Rs.
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000

	rubber plants grown in India.				
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000
(iii)	Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below)	2,50,000	100%	2,50,000	-
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India (See Note 2 below)	80,000		Nil	80,000
	Total			5,40,000	5,90,000

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Question 19

Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2025:

	(Rs. in lacs)
WDV of Plant and Machinery on 31.3.2024	30
Depreciation including additional depreciation for P.Y. 2023-24	4.75
New machinery purchased on 1-9-2024	10
New machinery purchased on 1-12-2024	8
Computer purchased on 3-1-2025	4

Solution

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2024

Particulars	Plant & Machinery (Rs. in lacs)	Computer (Rs. in lacs)
Written down value (as on 31.3.2024)	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2022-23	4.75	-
Opening balance as on 1.4.2024	25.25	

		(Rs. in lacs)	
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	Normal Depreciation		
	- WDV of plant and machinery (Rs.25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2023 (Rs.10 lacs x 15%)	1.50	-
	(A)	5.29	-
	Additional Depreciation		

(C)	0.60	0.80
Total Depreciation (A+B+C)	8.89	0.80

Notes:

- (1) As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2006, by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.
- However, additional depreciation shall not be allowed in respect of, inter alia,–
- (i) any office appliances or road transport vehicles;
 - (ii) any machinery or plant installed in, inter alia, office premises.

allowable as per the provisions of the Income-tax Act, 1961 for the AY 2025-26, assuming that he does not opt for section 115BAC:

		Machinery (Rs in lacs)	(Rs in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation		
	Normal Depreciation		
	- WDV of plant and machinery (Rs 25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2023 (Rs 10 lacs x 15%)	1.50	-

	(Rs. in lacs)
(i) WDV of block as on 31.3.2024 (15% rate)	50
(ii) Depreciation for P.Y. 2023-24	7.50
(iii) New machinery purchased on 12-10-2024	10
(iv) Machinery imported from Colombo on 12-4-2024. This machine had been used only in Colombo earlier and the assessee is the first user in India.	9
(v) New computer installed in generation wing unit on 15-7-2024 All assets were purchased by A/c payee cheque.	2

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

Note:-

Mr. Abhimanyu is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings.

Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the AY 2025-26.

- (i) Construction of school building in compliance with CSR activities amounting to Rs.5,60,000.
- (ii) Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to Rs.4,50,000.
- (iii) Interest on loan paid to Mr. X (a resident) Rs.50,000 on which tax has not been deducted. The sales for the FY 2023-24 was Rs.202 lakhs. Mr. X has not paid the tax, if any, on such interest.

PROFITS AND GAINS OF BUSINESS OR PROFESSION

(ii) Purchase of building for setting up and operating a warehousing facility for storage of food grains

Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD @100% in respect of amount of Rs.4,50,000 invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (FY 2024-25, in this case), if Mr. Manav does not opt for section 115BAC.

Therefore, the deduction under section 35AD while computing business income of such specified business would be Rs.4,50,000, if Mr. Manav opts for section 35AD.

under the head “Profits and gains of business or profession”.

Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of Rs.20,000 paid is allowable as deduction under section 36(1)(xvi).



Question 22

Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

- (i) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.

can claim additional depreciation under section 32(1)(iia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.



Solution

- (i) **True:** Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
- (ii) **True:** As per section 40A(3A), in the case of an assessee following

(v) **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.

- (vi) **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.

In this case, the assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the



Solution

- (i) **Not allowable as deduction:** As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:
- (1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund; or
 - (2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

Therefore, in the present case, the provision made on the basis of

deductible while computing business income.

- (iv) **Allowable as deduction:** Payment for fire insurance is allowable as deduction under section 36(1). Since payment is made by credit card, which is a prescribed electronic mode, disallowance under section 40A(3) is not attracted in this case.
- (v) **Not allowable as deduction:** Disallowance under section 40(a)(iii) is attracted in respect of salary payment of Rs.4,00,000 outside India by a company without deduction of tax at source.
- (vi) **Allowable as deduction:** The limit for attracting disallowance under

as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income.



Solution

- (a) **True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a crossed cheque will attract disallowance under section 40A(3).
- (b)
- (i) **True:** It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same

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		

(v) Rent and rates includes GST liability of Rs.3,400 paid on 7.4.2024.

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

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation u/s 44AD and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime provided 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.

	Income from UTI [Chargeable under the head "Income from Other Sources"]	2,400	11,400
	Business income before depreciation		1,96,900
Less:	Depreciation (See Note 1)		66,000
			1,30,900

Computation of business income as per section 44AD :

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

2024, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2024. This new vehicle could however be put to use only on 15th June, 2024.

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

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

goods carriages would be Rs.4,45,000 instead of Rs.13,72,500 and his total income would be Rs.5,15,000.

Notes:

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

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

PROFITS AND GAINS OF BUSINESS OR PROFESSION

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 31.03.2024

Particulars	Rs.	Particulars	Rs.
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

- year and this has not been recorded in the books of account.
- (iv) Bank term loan interest actually paid upto 31.03.2024 was Rs.20,000 and the balance was paid in November 2024.
 - (v) Housing loan principal repaid during the year was Rs.50,000 and it relates to residential property acquired by him in P.Y. 2022-23 for self-occupation. Interest on housing loan was Rs.23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.
 - (vi) Depreciation allowable under the Act is to be computed on the basis of following information:

payment is Rs.35,000 in respect of payment to transport operators. Therefore, amount of Rs.33,000 paid in cash to a transport carrier is allowable as deduction.

Salary paid to staff not recorded in the books (Assuming that the expenditure is in the nature of unexplained expenditure and hence, is deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE – no deduction allowable in respect of such expenditure) [See Note 1 below]

48,000

Annual value of self-occupied property	Nil	Nil
Less: Deduction u/s 24(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]	Nil	Nil
Income from Other Sources		
Dividend from domestic companies		15,000
Gross Total Income		3,99,500
Less: Deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime].		
Total Income		3,99,500

or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible.

However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.

Since the question only mentions “GST penalty paid” and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be Rs.3,94,500.

coffee curing business operations.

Compute the income arising from the above activities for the AY 2025-26.



Solution

Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962.

As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

Opening balance as on 1.4.2024 (i.e., WDV as on 31.3.2022 (-) depreciation for P.Y.2022-23)		3,00,000
Depreciation thereon at 15%	45,000	
Less: Disallowance @20% for personal use	9,000	
Depreciation actually allowed		36,000
Machinery		
Opening balance as on 1.4.2024 (i.e., WDV as on 31.3.2024 (-) depreciation for P.Y.2022-23)		15,00,000
Depreciation @ 15% for FY 2024-25		2,25,000

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

- He contributed the following amounts by cheque.
 - Rs. 20,000 to the Swachh Bharat Kosh set up by the Central Government.
 - Rs. 28,000 towards Premium for Health Insurance & Rs. 2,500 for Preventive Health Check up for Self & his wife.
 - Rs. 35,000 on Medical Expenses of his father (Age 82 yrs) [No Insurance had been taken on health of his father] You are required to compute the Total Income of Mr. Raghu for AY 2024-25

	2. Dividend from Foreign Company (Taxable since received from foregin company)	50,000		
	3. Gold Coin from Father (not taxable since received from Relative)	Nil		
	Gross Total Income			6,63,000
	Section 80D: Health Insurance Premium for Assessee & Spouse [Max. of Rs. 25,000]	(25,000)		(80,000)
	Section 80D: Medical Expense of his Father (82 Yr) [Senior & Max. Limit is Rs. 50,000]	(35,000)		
	Section 80G: Swach Bharat Kosh [100% deduction allowed without restriction]	(20,000)		
	Total (taxable) Income			5,83,000



Question 31

– May 2020 RTP

Dr. Arjun runs a clinic in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 25.09.2022, for the purpose of his medical profession, as per following details:

Cost of car (excluding GST)	15,00,000
Add: Delhi GST at 14%	2,10,000
Add: Central GST at 14%	2,10,000
Total price of car	19,20,000

He put his car to use from 25.9.2022 itself. He estimates the usage of the car for personal purposes will be 25%. He is advised by his friends that since the

PROFITS AND GAINS OF BUSINESS OR PROFESSION

Depreciation for PY 2022-23 = $30\% \times \text{Rs. } 14,88,000 \times 75\% = \text{Rs. } 3,34,800$.



Question 32

– November 2019

Mr. Prakash is in the business of operating goods vehicles. As on 1.4.2022, he had following

Vehicle	Gross Vehicle Weight (Kgs)	Date of Purchase	Put to use during FY 22-23
A	8500	2.4.2020	Yes
B	13000	15.5.2020	Yes
C	12000	4.8.2020	No (as under repairs)

Vehicles	purchase	m o n t h s for which vehicle is owned	weight (Kgs)	income	presumptive income
For Heavy goods vehicle:					
B	15.5.2021	12	13,000	1,56,000 (13 x 1,000 x 12)	1,56,000
E	15.5.2022	11	15,000	1,65,000 (15 x 1,000 x 11)	1,65,000
For goods vehicle other than heavy goods vehicle:					

(5)	15,000	2	29.08.2022
(6)	15,000	1	23.02.2023

Would your Answer change if the goods vehicles purchased in April, 2024 were put to use only in July, 2024?

(Old & New SM)(Same concept different figures RTP May'19)



Solution

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2023-24, he is eligible to opt for presumptive taxation scheme under section 44AE. Rs. 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and Rs. 7,500 per month or part of month for each goods carriage other than heavy

The presumptive income of Mr. X under section 44AE for A.Y.2025-26 would be -Rs. 6,82,500, i.e., $55 \times \text{Rs. } 7,500$, being for other than heavy goods vehicle + $18 \times \text{Rs. } 1,000 \times 15$ ton being for heavy goods vehicle.

The Answer would remain the same even if the two vehicles purchased in April, 2024 were put to use only in July, 2023, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.



Solution

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2018-19, full depreciation@15% is allowable on the actual cost of ₹15,36,000, which is the total price (inclusive of GST). However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	
Depreciation for P.Y.2024-25 = $15\% \times ₹15,36,000 \times 75\% =$	1,72,800

that the car is used in making the above taxable supplies or in transportation of goods, the answer would be as follows –

Alternative Answer

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2024-25, full depreciation@15% is allowable on the actual cost of ₹ 12 lakh (exclusive of GST of ₹ 3,36,000), assuming that input tax credit is available in respect of GST.	
Further, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	

Fees received during the year	10,25,000	Interest on loan for repairs to property	65,000
Gifts received from relatives of patients	45,000	Personal medical expenses	70,000
Honorarium for painting services in Jai Hind Art School (net)	22,500	Deposits in PPF A/c	55,000
Income-tax Refund (Including interest ₹ 1,500)	12,100	Nursing Home expenses	3,75,000
		Prof. fees paid for consulting services	1,20,000

publications ₹ 10,000) ₹ 35,000, Laptop ₹ 40,000.

VII. Television purchased for nursing home purpose on 21.09.2024 is put to use on 03.10.2024.

VIII. He has donated ₹ 10,000 towards PM CARES Fund on 15.08.2024.

You are required to

- I. Compute the total income and tax payable by him for AY 2025 -26 as per the regular provisions of the Income-tax Act, 1961. Assume that he has not opted for section 115BAC.
- II. What will be his total income and tax payable, if he opts for the provisions of section 44ADA? Will it be more beneficial for him to adopt 44ADA?

(PYP 14 Marks Nov '22)

[Fees for March 2024 is chargeable to tax during P.Y. 2024-25, since Dr. Rohan is following cash system of accounting] [40,000 + 45,000]			
Fees received during the year	10,25,000		
Gifts received from relatives of patients [taxable as business income]	45,000	18,05,000	
Less: Permissible deductions			
Salary to staff [Salary paid to his sister who is a qualified nurse in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000] [₹ 3,50,000 – ₹ 60,000]	2,90,000		

applying 15%. However, if such equipment are in the nature of life saving medical equipment, they would be eligible for higher depreciation @40%. If 40% rate is applied, depreciation would be ₹ 88,000			
Medical books [35,000 x 40%]	14,000		
Laptop [40,000 x 40%]	16,000		

PROFITS AND GAINS OF BUSINESS OR PROFESSION

Note – In the question, it is mentioned that Dr. Rohan has received Honorarium for painting services in Jai Hind Art School (Net) of ₹ 22,500. Since the threshold limit for deducting tax at source under section 194J is ₹ 30,000, there is no requirement to deduct tax at source on such income. Accordingly, question can be answered without grossing up the amount of honorarium of ₹ 22,500.			
Interest on income-tax refund		1,500	

			40,260
Add: HEC@4%			1,610
Tax liability			41,870
Less: TDS on fees from visits to other hospitals		65,000	
TDS on dividend from shares		2,100	
TDS on honorarium for painting services in Jai Hind art School		2,500	69,600
Tax Refundable			27,730

Less: TDS		69,600
Tax Refundable		4,080
Since tax refundable in case Dr. Rohan opts for the provisions of section 44ADA is lower than the regular provisions of the Act, it would be beneficial for him not to opt for section 44ADA and get his books of account audited and declare income under the regular provisions.		



Question 36

Ms. Soha (aged 35 years), a resident individual, is a dealer of scooters. During the previous year 2024- 25, total turnover of her business was Rs. 110 lakhs (out of which Rs. 25 lakhs were received by way of account payee cheques and balance in cash). Ms. Soha does not opt to pay tax as per the provisions

An eligible assessee opting for computation of profits and gains of business on presumptive basis under section 44AD in respect of eligible business is required to pay advance tax of the whole amount on or before 15th March of the financial year.

Computation of tax liability of Ms. Soha as per normal provisions of Income-tax Act, 1961

Particulars	Amount in Rs.	
Total Income	8,30,000	
Tax on 8,30,000		
Upto Rs. 2,50,000	Nil	
₹ 2,50,001 – Rs. 5,00,000@5%	12,500	

PROFITS AND GAINS OF BUSINESS OR PROFESSION

New machinery purchased on 1-12-2024	8.00
Computer purchased on 3-1-2025	4.00

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2024 and computer have been installed in the office.
- During the year ended 31-3-2024, a new machinery had been purchased on 31-10- 2023, for ₹ 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.

Opening balance as on 1.4.2024	25.25	-
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2024	10.00	-
New machinery purchased on 1.12.2024	8.00	
Computer Purchase on 3.1-2025	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2025)	43.25	4.00

Additional Depreciation

New Machinery purchased on 1.9.2024 (₹ 10 lakhs x 20%)

2.00

-

Balance additional depreciation in respect of new machinery purchased on 31.10.2023 and put to use for less than 180 days in the P.Y. 2023-24 (10 lakhs x 20% x 50%)

1.00

(B)

3.00

and,-

(i) any office appliances or road transport vehicles;

(ii) any machinery or plant installed in, inter alia, office premises.

In view of the above provisions, additional depreciation cannot be claimed in respect of -

(i) Machinery purchased on 1.12.2024, installed in office and

(ii) Computer purchased on 3.1.2025, installed in office.

- (2) Balance additional depreciation@10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year.

II	Normal Depreciation		
	• WDV of plant and machinery (25.25 lacs x 15%)	3.79	-
	• New Machinery purchased on 1.9.2024 (10 lacs x 15%)	1.50	-
	(A)	5.29	-
	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation		
	Normal Depreciation		



Solution

Mr. A holds shares carrying 25% voting power in X (P) Ltd i.e., a substantial interest in the company. His wife is working in the same company without any professional qualifications for the same. Thus, by virtue of the clubbing provisions of the Act, the salary received by Mrs. A from X (P) Ltd. will be clubbed in the hands of Mr. A.

Computation of Gross total income of Mr. A

Particulars	Rs.	Rs.
Salary received by Mrs. A (Rs.30,000 × 12)	3,60,000	
Less: Standard deduction under section 16(ia)	50,000	3,10,000

as accountant in Y (P) Ltd. getting income under the head salary (computed) of Rs.3,44,000 without any qualification in accountancy. Mr. B also receives Rs.30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is Rs.6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the A.Y.2025-26.



Solution

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

Gross total income		
		50,400

on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2024 (3:5)		
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Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2025-26 is Rs.2,50,000.

In case Mrs. Vaishaly gave the said amount of Rs.5,00,000 as a bona fide loan, then, clubbing provisions would not be attracted.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mr. Vaibhav, since he has received a sum of money exceeding Rs.50,000 without consideration from a relative i.e., his wife.



Question 5

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

CLUBBING OF INCOME

**Question 7**

Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is Rs.2,000 p.a. each and that of the son is Rs.1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2023 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is Rs.10,000 p.m. Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s 64(1A) (assuming that Mr. A's total income is higher than Mrs. A's total income, before including the income of minor children and both Mr A and Mrs A exercise the option of shifting out of the default tax regime provided under section 115BAC(1A)).

**Question 8**

Compute the gross total income of Mr. & Mrs. A from the following information:

	Particulars	Rs.
(a)	Salary income (computed) of Mrs. A	2,30,000
(b)	Income from profession of Mr. A	3,90,000
(c)	Income of minor son B from company deposit	15,000
(d)	Income of minor daughter C from special talent	32,000
(e)	Interest from bank received by C on deposit made out of her special talent	3,000
(f)	Gift received by C on 30.09.2024 from friend of Mrs. A	2,500

The Gross Total Income of Mrs. A is Rs.2,30,000. The total income of Mr. A giving effect to the provisions of section 64(1A) is as follows:

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

Particulars	Rs.	Rs.
Income from profession		3,90,000
Income of minor son B from company deposit	15,000	
Less: Exemption under section 10(32)	1,500	13,500
Income of minor daughter C		
From special talent – not to be clubbed	-	
Interest from bank	3,000	

Rs.5 lakhs to Mr. Vasudevan's wife on 12.07.2024. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142.

income of 2 daughters were Rs.9,000 and Rs.4,500 and of sons were Rs.6,200 and Rs.4,300, respectively. The daughter who has income of Rs.4,500 was suffering from a disability specified under section 80U.

Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma.



Solution

As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter

Note: It has been assumed that:

- (1) All the four children are minor children;
- (2) The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience;
- (3) The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and
- (4) This is the first year in which clubbing provisions are attracted.

income. Mrs. A received salary of Rs.20,000 per month from a part time job. Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child assuming they do not wish to opt for section 115BAC.



Solution

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

Particulars	Mr. A (Rs.)		Mrs. A (Rs.)	Minor Son (Rs.)
Income under the head "Salaries"				

section 64(1A)

Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [See Note (4) below]		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below]		-	-	20,000
Total Income		2,10,500	1,90,000	20,000

for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% profit share in the firm.

- (3) According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mrs. A, since she has received immovable property without consideration from a relative i.e., her husband.

the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

Therefore, the income of Rs.20,000 derived by Mr. A's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.



Question 12

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

under section 24@30% of Rs.3,00,000]

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

In case the property was gifted to Mr. A's son, the clubbing provisions under section 64 would not apply, since the son is not a minor child. Therefore, the income of Rs.2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.

1.4.2023 her capital in business was Rs.3,00,000.

Her husband gifted Rs.2,00,000 on 10.4.2023 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial year 2023-24, Rs.1,50,000 and Financial year 2024-25 Rs.3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2025-26 with reasons.



Solution

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise

capital employed on the first day of the previous year i.e., on 1.4.2023	1,50,000		1,50,000
Capital employed as at 1.4.2024	4,50,000	2,00,000	6,50,000
Profit for F.Y.2024-25 to be apportioned on the basis of capital employed as at 1.4.2023 (i.e., 45 : 20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y.2025-26 is Rs.1,20,000.

Further, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

Tax implications

- (i) Income of Rs.45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".
- (ii) Salary of Rs.26,000 (Rs.76,000 less standard deduction under section 16(ia) of Rs.50,000) shall be taxable as "Salaries" in the hands of Mrs. B.
- (iii) Income from fixed deposit of Rs.10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as "Income from other sources", since Mr. B's income is greater than income of Mrs. B before

6 months on which she received interest of Rs. 50,000. The said sum of Rs. 50,000 was invested in shares of a listed company on 15.10.2022 which were sold for Rs. 75,000 on 30.12.2022. STT was paid on such sale. Balance amount of gift was invested as capital by Sulochana in a business. She suffered loss of Rs. 15,000 in the business in PY 2021-22. In whose hands the above income & loss shall be included in AY 2023-24.



Solution

As per section 64(1),

- If any person has transferred any asset to his or her spouse without adequate consideration in such case Income shall be clubbed in the income of transferor, hence Interest income of Rs. 50,000 shall be

(d) Minor daughter P's earnings from sports	95,000
(e) D's winnings from lottery (gross)	1,95,000



Solution

- Income of Rs. 4,50,000 from Mr. B's profession shall be taxable in the hands of Mr. B u/h PGBP.
- Salary of Rs. 7,60,000 received by Mrs. B as a fashion designer shall be taxable as salaries in hands of Mrs. B.
- Income from FD of Rs. 10,000 arising to the minor son D, shall be clubbed in the hands of mother, Mrs. B as Income u/h IFOS, since her income is greater than income of Mr. B before including the income of the minor child. As per Section 10(32), income of a minor child is exempt upto Rs. 1,500 per child (if clubbed).

Total	4,50,000	9,63,500
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Question 17

Mr. X has 4 minor children consisting of three daughters & a son. Their annual income for AY 2023-24 are:

First daughter (including Scholarship received Rs. 5,000)	Rs. 10,000
Second Daughter	Rs. 8,500
Third Daughter (Suffering from disability specified U/s 80U)	Rs. 4,500
Minor Son	Rs. 40,000

Mr. X gifted 2 lacs to his minor Son who invested them in the business & derived income of 20,000 which is included above. Compute the Income earned by Minor Children to be clubbed in the hands of Mr. X.

Ram owns 500, 15% debentures of Reliance Industries Ltd. of Rs. 500 each. Annual interest of Rs. 37,500 was declared on these debentures for PY 2022-23. He transfers interest income to his friend Shyam, without transferring the ownership of these debentures. While filing return of income for AY 2023-24, Shyam showed Rs. 37,500 as his income from debentures. As tax advisor of Shyam, do you agree with the tax treatment done by Shyam in his return of income?

- Yes, since interest income was transferred to Shyam therefore, after transfer it becomes his income.
- No, since Ram has not transferred debentures to Shyam, interest income on the debentures is not taxable income of Shyam.**
- Yes, if debentures are not transferred, interest income on debentures can be declared by anyone, Ram or Shyam, as taxable income depending

the total income of Mr. Rayaana, since such loan was given out of the sum of money received by her as gift from her husband.

Loss from business: As per Explanation 2 to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss & not income. Thus, the entire loss of Rs. 52,000 from the business carried on by Mrs. Sargam would also be includible in the total income of Mr. Rayaana, since as on 1.4.2022, capital invested was entirely out of the funds gifted by her husband.

STCG: Income from the accretion of transferred asset shall not be clubbed & therefore, STCG of Rs. 16,000 [Rs. 96,000 - Rs. 80,000 (COA)] arising in hands of Mrs. Sargam from sale of shares acquired by investing the interest income of Rs. 80,000 earned by her (from the loan given out of the sum gifted by her

As per section 64(1A), if any income accrues/arises to a minor child, such income shall be clubbed in income of mother/father whosoever has higher income before taking into consideration income to be clubbed. However, if any minor child has income through manual labour or has income through activity involving application of his skill, talent or specialized knowledge & experience, provisions of clubbing shall not apply. Such income will be considered to be the income of minor child & his tax liability shall be computed separately. Further, if the income of minor child is to be clubbed, exemption shall be allowed u/s 10(32) up to 1,500 p.a. per child, provided father does not opt to be taxed u/s 115BAC.

In the given case, income of father is higher than mother. Hence, income of both minor children i.e. M & N shall be clubbed with the income of father.

for the A.Y. 2025-26. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed? (Old & New SM, RTP May'23)



Solution

Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case, Mr. Vaibhav received a gift of ₹ 5,00,000 on 1.4.2024 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2025-26 is computed as under:

In case Mrs. Vaishaly gave the said amount of ₹ 5,00,000 as a bona fide loan, then, clubbing provisions would not be attracted.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mr. Vaibhav, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his wife.



Question 22

Suresh gifted ₹10 lakhs to his wife, Shagun on her birthday on, 29th February, 2024. Shagun lent such amount to Kinjal on 1st April, 2024 for six months on which she received interest of ₹ 75,000. The said sum of ₹ 75,000 was invested in shares of a listed company on 5th October, 2024, which were sold

sale of shares acquired by investing the interest income of ₹75,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in the hands of Mr. Suresh. Thus, such income is taxable in the hands of Mrs. Shagun.



Question 23

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

entire loss of ₹ 15,000 from the business carried on by Ms. Nisha would also be includible in the total income of Mr. Nishant.

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

Capital Gain on sale of shares of listed company

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

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the

so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in CIT vs. Keshavji Morori (1967) 66 ITR 142.

Accordingly, the interest income arising to Mr. Vijay in the form of interest on fixed deposits would be included in the total income of Mr. Vijay and interest income arising in the hands of his brother's wife would be taxable in the

This was invested in debentures of a company, from which interest of ₹ 25,000 (gross) accrued during the year.

Mr. Marsh's income before considering clubbing provisions is higher than that of his wife. Explain how these items will be considered for taxation under the provisions of the Income Tax Act, 1961. Detailed computation of income is not required. (MTP 5 Marks, Oct'19)

However, interest of ₹ 25,000 on debentures has to be included in the hands of her father, Mr. Naresh Yadav, even if the investment is made out of income arising from application of special talent.
Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor son Nonu so included in the hands of Mr. Naresh Yadav under section 10(32).



Question 26

Mr. Shashank is an employee of KML (P) Ltd. drawing a monthly salary of ₹ 30,000. He provides you the following information for the previous year 2024-25:

(i) He had a fixed deposit of ₹ 4,00,000 with State Bank of India with

Particulars	Mr. Shashank (₹)	Mrs. Kajal (₹)
Salary income (₹ 30,000 x 12) Less standard deduction ₹ 50,000 (As per amendment)	3,10,000	
Income from house property [₹ 2,40,000 (₹ 20,000 x 12) less standard deduction of 30%] (Note 1)	1,68,000	
Income from other sources		
Interest on fixed deposit with State bank of India (₹ 4,00,000 x 10%) (Note 2)	40,000	
Profits and gains from business or profession		

CLUBBING OF INCOME

- (2) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 40,000 transferred by Mr. Shashank to Mr. Ram shall be included in the total income of Mr. Shashank.
- (3) Section 64(1)(iv) provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case Mrs Kajal received a gift of ₹ 10,00,000 on 1.4.2024 from her husband which she invested in her business on the same day. The income to be clubbed in the hands of Mr. Shashank for the A.Y. 2025-26 is computed as under:

of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.

Therefore, the income of ₹ 1,50,000 received by minor son Sandeep from company deposit shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. Shashank, since Mr. Shashank's income of ₹ 8,68,000 (before including the income of the minor child) is greater than Mr. Kajal's income of ₹ 6,00,000. Therefore, ₹ 1,48,500 (i.e., ₹ 1,50,000 – ₹ 1,500) shall be included in Mr. Shashank's income. It is assumed that this is the first year in which clubbing provisions are attracted.

individual.

Income from let-out property is ₹ 2,10,000 [i.e., ₹ 3,00,000, being the actual rent calculated at ₹ 25,000 per month less ₹ 90,000, being deduction under section 24@30% of ₹ 3,00,000]

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

In case the property was gifted to Mr. Om's son, the clubbing provisions under section 64 would not apply, since the son is not a minor child. Therefore, the

Question 28

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

1	Income of Mr. Manoj - Professional bhajan singer (computed)	5,65,000
2	Salary income of Mrs. Daya (Computed)	3,80,000
3	Loan received by Mrs. Daya from Ramu & Jay (P) Ltd. (Mrs. Daya holds 35% shares of the Co. The Co. has incurred losses since its inception 2 years back)	2,50,000

involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of parent. Hence, ₹ 2,50,000 earned by minor son Ganesh from reality show on TV would not be included in the income of either parent.	
- Cash gift received by Ganesh from friend of Mr. Manoj on winning the show The cash gift received by his minor son Ganesh (not on account of her skill) from his friends would not be taxable, since its value does not exceed ₹ 50,000.	Nil
Income of minor married daughter – Gudia	
Interest income on deposit with Ramu & Jay Pvt. Ltd.	40,000

Taxable Income	3,80,000
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Question 29

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

S. No.	Particulars	Amount (₹)
(i)	Salary income (computed) of Mrs. Anandi	9,60,000
(ii)	Income of minor son “A” who suffers from disability specified in section 80U	3,08,000
(iii)	Income of minor daughter “C” from script writing for Television Serials	1,86,000

CLUBBING OF INCOME

		Dharmesh	Anandi
		Amount (₹)	
Salary income (computed)			9,60,000
Income from garment trading business		17,50,000	
Total Income before including income of minor children		17,50,000	9,60,000
Income of minor son "A"			

in the hands of Mr. Dharmesh.
Interest from bank deposit has to be included in Mr. Dharmesh's income, even if deposit is made out of income earned from scholarship]

Less: Exemption under section 10(32)

Income of minor daughter "C"

1,500

3,500

adjustment is required.

Gross Total Income/ Total Income		17,53,500	9,60,000
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Note - As per section 10(16), scholarships granted to meet the cost of education is exempt from tax. The purpose of scholarship received by minor son B is explicitly not mentioned in the question. However, scholarships given by schools are generally in the form of financial assistance for meeting the cost of education. Hence, it is logical to assume that the scholarship to B has been granted to him to meet his cost of education. Based on this assumption, the same has been treated as exempt from tax u/s 10(16). Alternate view - However, in absence of specific information, it is possible to assume that such scholarship has been granted on account of B's exceptional academic achievements i.e., involving application of his skill, talent, specialised

(vi) Master Neelabh, their minor son earned ₹ 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned under section 80U. The medical certificate shows a disability of upto 75%.

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



Solution

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

in the income of Mrs. Chaman, since the shares are purchased by Mr. Chaman from the amount of ₹ 2 lakhs gifted by Mrs. Chaman out of her Stridhan. Clubbing provisions would be attracted even if it is a loss and not income] [Refer Note 1 and 2 below]					being exempt under section 10(32)] is to be included in the hands of Mr. Chaman, since his income is higher than that of his wife [₹ 15,000 - ₹ 1,500]5				
					Income of Neelabh, minor son suffering from disability u/s 80U, from fixed deposits would not be included in the income of parent but would be taxable in his hands.				35,000

entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000. It is not possible to invest ₹ 2 lakhs and incur short-term capital loss of ₹ 5.10 lakhs. Accordingly, in the above solution, it has been assumed that the remaining ₹ 3,10,000 is invested by Mr. Chaman and hence the same would be a short-term capital loss to be carried forward by him.

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

Mr. Mayur has a taxable income of ₹ 4,50,000 from his profession during the financial year 2024-25. Compute his Gross Total Income for the A.Y. 2025-26. (RTP May '19)



Solution

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

Particulars	₹	₹	₹
Income from profession			4,50,000
Income of minor son Tejas			
Capital gains			
Full value of consideration	4,80,000		

income of minor child			
Gross Total Income			8,14,785

Notes:

- (1) As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, interest income of ₹ 42,500 arising to handicapped son, Master Tanmay, would not be clubbed with the income of Mr. Mayur.
- (2) Income of the other minor child, Master Tejas, is includible in the hands of Mr. Mayur, assuming that Mr. Mayur's income is higher than that of his wife.

Income from Other Sources			
Dividend on equity shares [Exempt u/s 10(34)]	-		
Dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished)	10,000		

- (b) **The statement is correct.** As per section 80AC, the assessee has to furnish his return of income on or before the due date specified under section 139(1), to be eligible to claim deduction under, inter alia, section 80QQB.



Question 2

Compute the eligible deduction under section 80C for A.Y.2025-26 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2024-25, the details of which are given hereunder, if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(ii)	1/5/2019	Spouse	1,50,000	20,000	15,000	10%
(iii)	1/6/2022	Handicapped son (section 80U disability)	4,00,000	80,000	60,000	15%
Total					1,23,000	



Question 3

An individual assessee, resident in India, has made the following deposit / payment during the previous year 2024-25:



Question 4

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



Solution

Tax treatment in the hands of Mr. A in respect of employer's and own

10% of Rs.14,40,000 (as against actual contribution of Rs.1,80,000, being 15% of basic salary of Rs.12,00,000)
As per section 80CCD(1B), a further deduction of upto Rs.50,000 is allowable. Therefore, deduction under section 80CCD(1B) is Rs.36,000 (Rs.1,80,000 - Rs.1,44,000).

36,000

Rs.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 Rs.1,50,000 under section 80CCE. Rs.36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of Rs.1,50,000 under section 80CCE.

In the alternative, Rs.50,000 can be claimed as deduction under section

	Demt, for education of his son studying in class XI	
(3)	Repayment of housing loan taken from Standard Chartered Bank	25,000
(4)	Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deduction under Chapter VI-A for the A.Y.2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).



Solution

Computation of deduction under Chapter VI-A for the A.Y.2025-26

Particulars	Rs.
Deduction under section 80C	

the health of his father, aged 63 years, who is not dependent on him. He contributed Rs.3,600 to Central Government Health Scheme during the year. He has incurred Rs.3,000 in cash on preventive health check-up of himself and his spouse and Rs.4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

DEDUCTIONS FROM GROSS TOTAL INCOME

(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction under section 80D (Rs.25,000 + Rs.50,000)		75,000

Notes:

- (1) The total deduction under A. (i), (ii) and (iii) above should not exceed Rs.25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to Rs.1,400, being (Rs.25,000 – Rs.20,000 – Rs.3,600).
- (2) The total deduction under B. (i) and (ii) above should not exceed Rs.50,000. Therefore, the expenditure on preventive health check-up for

Deduction allowable under section 80D for the A.Y.2024-25

	Particulars	Rs.	Rs.
(i)	Medical insurance premium paid for self, spouse and dependent children	22,000	
(ii)	Contribution to CGHS	6,000	
		28,000	
	restricted to		25,000
(iii)	Mediclaime premium paid for mother, who is over 60 years of age	33,000	

DEDUCTIONS FROM GROSS TOTAL INCOME

Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a “dependant” disabled person. Grandfather does not come within the meaning of “dependant” as defined under section 80DD.



Question 9

What will be the deduction if Mr. X had made this deposit for his dependant father?



Solution

Since the expense was incurred for a dependant disabled person, Mr. X will be

Deduction under section 80E is available to an individual assessee in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction under section 80E = Rs.20,000 + Rs.10,000 + Rs.18,000 = Rs.48,000.

Deduction under section 80EE Rs.1,85,000 (Rs.3,85,000
– Rs.2,00,000) Restricted to

50,000



Question 12

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2025-26.

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	Rs.43 lakhs	Rs.45 lakhs	Rs.20 lakhs	Rs.15 lakhs



Solution

Particulars	Rs.
Mr. A	
Interest deduction for A.Y.2025-26	

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2025-26 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2025.

to either violation listed above.

Mr. C

Deduction under Chapter VI-A

Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [Rs.20 lakhs x 10% = Rs.2,00,000, restricted to Rs.1,50,000, being the maximum permissible deduction]

1,50,000

Mr. D

Deduction under Chapter VI-A

Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2020.

Nil



Solution

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

Particulars	Rs.	Rs.
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 Rs.1,80,000, as the policy is taken after 31.3.2013)	18,000	

DEDUCTIONS FROM GROSS TOTAL INCOME

(i)	National Children's Fund	25,000	100%	25,000
(ii)	Jawaharlal Nehru Memorial Fund	25,000	50%	12,500
(iii)	Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
(iv)	Public Charitable Trust	50,000	50% subject to qualifying limit (See Note below)	10,000
				87,500

default tax regime provided under section 115BAC(1A).



Solution

The deduction under section 80GG will be computed as follows:

(i) Actual rent paid less 10% of total income

$$\text{Rs.1,44,000 (-)} \frac{(10 \times 4,60,000)}{100} = \text{Rs.98,000 (A)}$$

(ii) 25% of total income = $\frac{(25 \times 4,60,000)}{100} = \text{Rs.1,15,000 (B)}$

(iii) Amount calculated at Rs.5,000 p.m. = Rs.60,000 (C)

Deduction allowable u/s 80GG [least of (i), (ii) and (iii)] = Rs.60,000

DEDUCTIONS FROM GROSS TOTAL INCOME

Therefore, ABC Ltd. is eligible for a deduction of Rs.2,25,000 under section 80GGB in respect of sum of Rs.2 lakh contributed to an electoral trust and Rs.25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of Rs.25,000 would be disallowed while computing business income / gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.



Solution

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2025-26 and he has employed “additional employees” during the P.Y. 2024-25.

I **If Mr. A is engaged in the business of manufacture of computers**

Additional employee cost = Rs.24,000 × 12 × 75 [See Working Note below] = **Rs.2,16,00,000**

Deduction under section 80JJAA = 30% of Rs.2,16,00,000 = Rs.64,80,000.

Working Note:

Number of additional employees

not qualify as additional employees for the P.Y.2025-26, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1.4.2024 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2024-25 is deemed to be the additional employee cost.

(ii) As regards 100 regular employees employed on 1.9.2024, they would be treated as additional employees for previous year 2025-26, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2026-27.



Solution

The net royalty of Rs.2,48,000 (i.e., royalty of Rs.2,88,000 less Rs.40,000, being expenditure to earn such income) is includible in gross total income.

Deduction u/s 80QQB:	Rs.
Royalty Rs.2,88,000 x 15/18 = Rs.2,40,000	
Restricted to	
Amount brought into India in convertible foreign exchange within the prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	<u>40,000</u>
Deduction u/s 80QQB	<u>1,90,000</u>

DEDUCTIONS FROM GROSS TOTAL INCOME

below]		
Under section 80C		
- Deposit in Public Provident Fund	1,50,000	
Under section 80TTB		
- Interest on fixed deposits with banks	30,000	
	1,80,000	
Restricted to		1,65,000
Total Income		1,20,000

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

- major son who is not dependent on him. The sum assured on life of his son is Rs.3,50,000 and the life insurance policy was taken on 30.3.2013.
- (iii) Life insurance premium paid by cheque of Rs.22,500 for insurance of his life. The insurance policy was taken on 08.09.2020 and the sum assured is Rs.2,00,000.
- (iv) Premium of Rs.26,000 paid by cheque for health insurance of self and his wife.
- (v) Rs.1,500 paid in cash for his health check-up and Rs.4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
- (vi) Paid interest of Rs.6,500 on loan taken from bank for MBA course pursued by his daughter.
- (vii) A sum of Rs.5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

DEDUCTIONS FROM GROSS TOTAL INCOME

restricted to	25,000		
Payment made for health check-up for parents	4,500	29,500	
Under section 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
Under section 80TTA (See Note 4)			
Interest on savings bank account Rs.14,500 restricted to		10,000	91,500
Total Income			4,73,000

deduction shall be allowed up to Rs.25,000. Further, deduction up to Rs.5,000 in aggregate 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-checkup can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, in respect of premium of Rs.26,000 paid for health insurance of self and wife, deduction would be restricted to Rs.25,000. Since the limit of Rs.25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check- up for self and wife. However, deduction of Rs.4,500 is allowable in respect of health check-up of his parents, since it falls within

DEDUCTIONS FROM GROSS TOTAL INCOME

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

- (i) During the financial year 2024-25, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.
- (ii) Subscription to notified bonds of NABARD would qualify for deduction under section 80C.
- (iii) In order to be eligible to claim deduction under section 80C, investment / contribution / subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
- (iv) Where an individual repays a sum of Rs.30,000 towards principal and Rs.14,000 as interest in respect of loan taken from a bank for pursuing

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

- (ii) **The statement is correct.** Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C.
- (iii) **The statement is not correct.** There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
- (iv) **The statement is not correct.** Deduction under section 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to Rs.14,000.
- (v) **The statement is not correct.** The proviso to section 80CCD(3) provides

DEDUCTIONS FROM GROSS TOTAL INCOME

company.



Solution

- (i) The deduction of Rs.75,000 under section 80DD is allowed, irrespective of the amount of expenditure incurred or paid by the assessee. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is Rs.1,25,000.
- (ii) The assessee Rajan has deposited Rs.25,000 for maintenance of dependent disabled. The assessee is, however, eligible to claim Rs.75,000 since the deduction of Rs.75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is Rs.1,25,000.

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



Solution

Computation of total income and tax payable by Mr. Chaturvedi for the A.Y. 2025-26 under default tax regime

Particulars	Rs.	Rs.
Gross total income including long term capital gain		8,18,240
Less: Long term capital gain		-
		8,18,240

DEDUCTIONS FROM GROSS TOTAL INCOME

Less: Long term capital gain		2,45,000
		5,73,240
Less: Deductions under Chapter VI-A:		
Under section 80C in respect of PPF deposit	1,20,000	
Under section 80D (it is assumed that premium of Rs.51,000 is paid by otherwise than by cash. The deduction would be restricted to Rs.50,000, since Mr. Chaturvedi is a senior citizen)	50,000	
Under section 80G (See Notes 1 & 2 below)	17,662	
Under section 80TTB (See Note 3 below)	50,000	
		2,37,662

Contribution made	50,000
Lower of the two eligible for deduction under section 80G	35,324
Deduction under section 80G – 50% of Rs.35,324	17,662

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

DEDUCTIONS FROM GROSS TOTAL INCOME

Particulars	RS.	RS.
Gross Total Income		6,40,000
Less: Deduction under Chapter VI-A		
Under section 80C		
Stamp duty paid on acquisition of residential house	50,000	
Five year time deposit with Post Office	20,000	
	70,000	
Under section 80E		
Interest on loan taken for higher education of	10,000	92,500
Section 80U		12,500
Total Income		5,47,500

2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaime Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

DEDUCTIONS FROM GROSS TOTAL INCOME

Computation of Total Income of Mr. Arihant for AY 2025-26

As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to	2,90,000	1,50,000
Deduction under section 80D		
Payment of medical insurance premium of Rs.30,000 towards medical policy taken for self, wife and dependent children restricted to		
Medical insurance premium paid Rs.52,000 for parents, being senior citizens, restricted to	50,000	75,000
Eligible deduction under Chapter VI-A		2,25,000

Particulars	Rs.	Rs.	Rs.
GTI			7,50,000
Less: Deduction under Chapter VI-A			
Section 80C			
❖ Life insurance premium of Rs. 70,000 (restricted to Rs. 60,000 i.e., 15% of Rs. 4,00,000 (sum assured), since policy has been taken on/ after 1.4.2014, i.r.o. his handicapped son suffering from disability u/s 80U)	60,000		

DEDUCTIONS FROM GROSS TOTAL INCOME

❖ Contribution by a resident towards Clean Ganga Fund is for 100% deduction without any qualifying limit.	25,000	25,000	
Total Income			5,90,000



Question 26

Mr. Srivastava, aged 40 years, a salaried employee of Nirja Ltd. was contributing to NPS Rs. 50,000 every year since 2019 & was claiming deduction u/s 80CCD. In December 2022, he opted out of the pension scheme & withdrew a lump sum amount of 2,00,000. Is the amount so withdrawn taxable? If yes, how much is taxable?

dearness allowance, which forms part of retirement benefits) to the NPS of the Central Government. A matching contribution was made by ABC Ltd.

- On 1.4.2024, mediclaim premium of ₹ 1,08,000 and ₹ 80,000 paid as lumpsum to insure his and his wife (aged 58 years) health, respectively for four years
- Incurred ₹ 46,000 towards medical expenditure of his father, aged 85 years, not dependent on him. No insurance policy taken for his father.
- He spent ₹ 6,000 for the preventive health-check up of his wife.
- He has incurred an expenditure of ₹ 90,000 for the medical treatment of his mother, being a person with severe disability. (MTP 7 Marks, Mar 21, RTP May '19)

			1,40,000
			2,90,000
80CCE	Aggregate deduction under section 80C and 80CCD(1), ₹ 2,90,000, but restricted to		1,50,000
80CCD(1B)	₹ 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary [See Note 2]		1,40,000

	Total of (i) and (ii)		96,000
80DD	Deduction of ₹ 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is ₹ 90,000		1,25,000
80TTB	Interest on fixed deposits with bank of ₹ 75,000, deduction restricted to		50,000
	Deduction under Chapter VI-A		6,11,000

DEDUCTIONS FROM GROSS TOTAL INCOME

increase in demand of his products, he employed 140 additional employees during the previous year 2024-25 comprises of:

- (a) 15 casual employees employed on 15th April 2024 till 31st January 2025 on monthly emolument of ₹ 22,000 per month
- (b) 40 regular employees employed on 1st May, 2024 on monthly emolument of ₹ 22,000 per month
- (c) 25 contractual employees employed on 1st July 2024 for 2 years on monthly emolument of ₹ 15,000 per month
- (d) 35 regular employees employed on 1st August, 2024 on monthly emolument of ₹ 30,000 per month
- (e) 25 regular employees employed on 1st October, 2024 on monthly emolument of ₹ 22,000 per month

= ₹ 96,80,000 + ₹ 33,75,000 = ₹ 1,30,55,000

Deduction under section 80JJAA = 30% of ₹ 1,30,55,000 = ₹ 39,16,500.

Working Note: Number of Additional employees employed during the P.Y.2024 -25

Particulars		No. of additional employees	
Total number of additional employees employed during the year			140
Less:	Casual workmen employed on 15th April 2024, who do not participate in the recognised provident fund	15	

DEDUCTIONS FROM GROSS TOTAL INCOME

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

- (i) He has paid life insurance premium by cheque ₹ 27,000 to insure his life. The insurance policy was taken on 27.8.2019 and the sum assured is ₹ 2,20,000.
- (ii) He had written a literary book for Rochak Publication. A lump sum amount of royalty income earned in the previous year 2023-24 amounted to ₹ 9,00,000. Expenses incurred for writing the book amounted to ₹ 40,000.
- (iii) His friends gifted a statue of Goddess Saraswati to his daughter Ms. Diya (aged 14 years) on the successful completion of her secondary school. Fair market value of the statue is ₹ 65,000.

Less: Interest on loan	75,000	
Income from Other Sources		(75,000)
Royalty	9,00,000	
Less: Expenses incurred for writing book	40,000	8,60,000
Value of statue of Goddess Saraswati	65,000	
[The fair market value of the statue (sculpture) received by his minor daughter as gift (not on account of her skill) from his friends would be taxable, since its value exceeds ₹ 50,000. It would be included in the hands of Mr. Jain, assuming his income before considering clubbing provisions is higher than his wife].	1,500	

DEDUCTIONS FROM GROSS TOTAL INCOME

Repayment of principal amount for housing loan	1,05,000	1,32,000
Deduction under section 80G		
Donation to an NGO registered under section 80G [Not allowable since the donation is made in cash of a sum exceeding ₹ 2,000]		-
Deduction under section 80QQB		
Royalty income of a resident from literary book*		3,00,000
Deduction under section 80U [Since Mr. Jain suffers from severe disability]		1,25,000
Total income		2,95,500

Note - Expenses on royalty should have been deducted from the deduction under Section 80QQB - Institute had not deducted it.

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



Solution

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

		Amount (₹)	
(i)	Deduction allowable while computing income under the head "Income from house property"		

DEDUCTIONS FROM GROSS TOTAL INCOME

	or electric vehicle of ₹ 1,90,000 restricted to ₹ 1,50,000, being the maximum permissible deduction, since loan is sanctioned between 1.4.2020 and 31.3.2024. No deduction in respect of principal repayment of loan for purchase of electric vehicle is allowable		
	Deduction under section 80GGC	Nil	
	Contribution of ₹ 15,000 to political party not allowable since the sum is paid in cash Deduction under Chapter VI-A from Gross Total Income		4,25,000

6,25,000

DEDUCTIONS FROM GROSS TOTAL INCOME

Particulars	Amount (Rs.)	Amount (Rs.)
Income from salary	4,00,000	
Less: Loss from house property of Rs.2,20,000 to be restricted to Rs.2 lakhs by virtue of section 71(3A)	(-) 2,00,000	2,00,000
Balance loss of Rs.20,000 from house property to be carried forward to next assessment year		
Income from other sources (interest on fixed deposit with bank)	80,000	
Business loss of Rs.1,00,000 set-off to the extent of Rs.80,000	(-) 80,000	-

Particulars	Amount (Rs.)	Amount (Rs.)
Income from Salary		4,00,000
Income from Other Sources (Interest on FD)	80,000	
Less: Business Loss of Rs 1,00,000 set off to the extent of Rs 80,000	(-) 80,000	-
Business loss of Rs 20,000 to be carried forward for set off against business income of the next AY		
Gross Total Income / Total Income		4,00,000

- (i) Under the default tax regime, loss from house property cannot be set off against income under any other head. Therefore, the loss of Rs 2,20,000

SET-OFF AND CARRY FORWARD OF LOSSES



Solution

Total income of Mr. B for the A.Y. 2023-24

Particulars	Amount (Rs.)	Amount (Rs.)
Income from salaries	45,000	
Income from house property to be carried forward (Note 1)	(24,000)	
Profits and gains of business and profession		
Business loss to be carried forward [Note (i)]	(22,000)	
Speculative loss to be carried forward [Note (ii)]	(4,000)	
Capital Gains		

(iii) Loss of Rs.4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.

(iv) Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short term capital loss of Rs.25,000 can be set-off against long-term capital gains to the extent of Rs.19,000. The balance short term capital loss of Rs.6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.



Question 3

During the P.Y. 2024-25, Mr. C has the following income and the brought

SET-OFF AND CARRY FORWARD OF LOSSES

Rs.96,000 set off to the extent of Rs.75,000 [See Note below]	(75,000)	Nil
Taxable short-term capital gains		1,13,000

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of A.Y.2021-22 of Rs.21,000 (i.e. Rs.96,000 – Rs.75,000) can be carried forward to the next year to be set-off against long-term capital gains of that year.



Question 4

Mr. D has the following income for the P.Y.2024-25:

Balance loss of Rs.21,000 (Rs.96,000 – Rs.75,000) from the activity of owning and maintaining race horses to be carried forward to A.Y.2025-26		
Income from textile business	85,000	
Less: Brought forward business loss from textile business.	50,000	35,000
Total income		35,000

Note: Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.



Question 5

Mr. E has furnished his details for the A.Y.2025-26 as under:

SET-OFF AND CARRY FORWARD OF LOSSES

Taxable income

2,70,000

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of Rs 30,000 has to be carried forward to the next assessment year.

Additional Questions



Question 6

Compute the gross total income of Mr. F for the A.Y. 2025-26 from the information given below –

Less: Current year depreciation	26,000	
Less: Brought forward business loss	45,000	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short term capital gains		56,000
Income from Other Sources		
Dividend income (taxable in the hands of shareholders)		80,000
Gross Total Income		3,73,000

SET-OFF AND CARRY FORWARD OF LOSSES

Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss under section 111A	(-) 10,000
Bank interest on Fixed deposit	5,000

Calculate gross total income and losses to be carried forward, assuming that he exercised the option of shifting out of the default tax regime provided under Sec 115BAC(1A).

Less: Short term capital loss of Rs.60,000 set off to the extent of Rs.40,000	(40,000)	Nil
Balance short-term capital loss of Rs.20,000 to be carried forward		
Short-term capital loss of Rs.10,000 u/s 111A also to be carried forward		
Income from other sources		
Dividend (fully taxable in the hands of shareholders)	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank FD interest	5,000	66,000

SET-OFF AND CARRY FORWARD OF LOSSES

depreciation)	
Income from activity of owning and maintaining race horses	15,000
Income from salary (computed)	1,00,000
Loss from house property	40,000

Following are the brought forward losses:

- (i) Losses from activity of owning and maintaining race horses-pertaining to A.Y.2022-23 Rs.25,000.
- (ii) Brought forward loss from business of textile Rs.60,000 - Loss pertains to A.Y. 2017-18.

Compute gross total income of Mr. Batra for the Assessment Year 2025-26, assuming that he exercised the option of shifting out of the default tax regime

Balance loss of Rs.10,000 to be carried forward to A.Y. 2024-25 [See Note 2]		
Capital Gain		
Short term capital gain		1,40,000
Long term capital gain on sale of land	30,000	
Less: Long term capital loss of Rs.1,00,000 on sale of unlisted shares set-off to the extent of Rs.30,000	30,000	NIL
Balance loss of Rs.70,000 to be carried forward to A.Y. 2024-25 [See Note 3]		
Gross Total Income		2,00,000

SET-OFF AND CARRY FORWARD OF LOSSES

(3) Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of Rs.70,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.

(4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

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



Solution

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

Particulars	Rs.
Income from retail trade – as per books (See Note 1 below)	7,50,000
Income from plying of vehicles – as per books (See Note 2 below)	3,20,000
	10,70,000
Less : Set off of b/f depreciation relating to A.Y. 2020-21	1,00,000
Total income	9,70,000

SET-OFF AND CARRY FORWARD OF LOSSES

tax audit is mandatory. It may further be noted that he cannot opt for section 44AD for next five A.Ys, if he does not opt for section 44AD this year.

2. **Income from plying of light goods vehicles:** Income calculated under section 44AE(1) would be Rs.7,500 x 12 x 5 which is equal to Rs.4,50,000. However, the income from plying of vehicles as per books is Rs.3,20,000, which is lower than the presumptive income of Rs.4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. Rs.3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

Total tax liability	2,07,898
Total tax liability (rounded off)	2,07,900



Question 10

Mr. Aditya furnishes the following details for the year ended 31-03-2023:

Particulars	Rs.
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered under section 35AD	20,000
Income from salary (computed)	3,00,000
Loss from let out house property	2,50,000

Particulars	Rs.	Rs.
Salaries		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71(3A)	<u>2,00,000</u>	1,00,000
Loss from house property to the extent not set off i.e. Rs.50,000 (Rs.2,50,000 – Rs.2,00,000) to be carried forward to A.Y. 2024-25		
Profits and gains of business or profession		
Income from trading business	45,000	

Capital Gains		
Long term capital gain on sale of urban land	2,00,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)]	75,000	
Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A	1,02,000	23,000
Total Income		1,63,000

SET-OFF AND CARRY FORWARD OF LOSSES

only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business.

(5)	Loss from gambling	9,100
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The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2024-25 are as follows:

	Particulars	Rs.
(1)	Unabsorbed depreciation	11,000
(2)	Loss from Speculative business	22,000
(3)	Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the Assessment Year 2025-26 and the amount of loss, if any that can be carried forward or not.

Amount of loss to be carried forward to A.Y. 2026-27

	Particulars	Rs.
(1)	Loss from speculative business [to be carried forward as per section 73]	22,000
	[Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of Rs.22,000 brought forward from A.Y.2024-25 has to be carried forward to A.Y. 2026-27 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y. 2028-29]	

Income from speculation business	30,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	45,000

Compute the total income and show the items eligible for carry forward, assuming that he exercised the option of shifting out of the default tax regime provided under Sec 115BAC(1A).

SET-OFF AND CARRY FORWARD OF LOSSES

Less: Deduction under section 80C (life insurance premium paid) [See Note (iv) below]

30,000

Total income

85,000

Losses to be carried forward:

Particulars	Rs.
(1) Loss from cloth business (Rs.2,40,000 – Rs.30,000 – Rs.2,10,000)	Nil
(2) Loss from specified business covered by section 35AD	20,000

Notes:

(i) Loss from specified business covered by section 35AD can be set-off only

from such income, nor can any loss be set-off against such income.



Question 13

Mr. Rajat submits the following information for the financial year ending 31st March, 2025. He desires that you should:

- Compute the total income and
- Ascertain the amount of losses that can be carried forward.

	Particulars	Rs.
(i)	He has two houses:	
	(a) House No. I – Income after all statutory deductions	72,000
	(b) House No. II – Current year loss	(30,000)

SET-OFF AND CARRY FORWARD OF LOSSES

**Solution****Computation of total income of Mr. Rajat for the A.Y. 2025-26**

	Particulars	Rs.	Rs.
1.	Income from house property		
	House No.1	72,000	
	House No.2	(-) 30,000	42,000
2.	Profits and gains of business or profession		
	Profit from leather business	1,00,000	
	Bad debts recovered taxable under section 41(4)	35,000	
		1,35,000	

Notes:

- (1) Share of profit from firm of Rs.16,550 is exempt under section 10(2A).
- (2) Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year.

**Question 14**

Ms. Geeta, a resident individual, provides the following details of her income / losses for the year ended 31.3.2025:

- (i) Salary received as a partner from a partnership firm Rs.7,50,000. The same was allowed to the firm.

SET-OFF AND CARRY FORWARD OF LOSSES

business and profession

Less: B/f business loss of A.Y. 2023-24 Rs.12,50,000
to be set-off to the extent of Rs.7,50,000

(Balance b/f business loss of Rs.5,00,000 can be
carried forward to the next year)

Capital Gains

Long term capital gain on sale of land

Less: Long-term capital loss on shares on STT paid
(See Note 2 below)

Income from other sources

7,50,000

Nil

5,00,000

3,00,000

2,00,000

Sl. No.	Particulars	Rs.
(i)	Income from salary (computed)	18,000
(ii)	Net annual value of house property	70,000
(iii)	Income from business	80,000
(iv)	Income from speculative business	12,000
(v)	Long term capital gain on sale of land	15,800
(vi)	Loss on maintenance of race horse	9,000
(vii)	Loss on gambling	8,000

Depreciation allowable under the Income-tax Act, 1961, comes to Rs.8,000,
for which no treatment is given above.

The other details of unabsorbed depreciation and brought forward losses

SET-OFF AND CARRY FORWARD OF LOSSES

(iii)	Income from business and profession		
	(a) Income from business	80,000	
	Less : Current year depreciation	8,000	
		72,000	
	Less : Unabsorbed depreciation	9,000	63,000
(b)	Income from speculative business	12,000	
	Less : B/f loss of Rs.16,000 from speculative business s/o to the extent of Rs.12,000	12,000	Nil
	(Balance loss of Rs.4,000 (i.e. Rs.16,000 – Rs.12,000) can be carried forward to the next year)		
(iv)	Income from capital gain		

(iii) Brought forward speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2026-27. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4).

 **Question 16** – November 2018 RTP

From the following information for PY 2021-22, compute the total income of Mr. Arihant for AY 2023-24 & show eligible items for c/f & upto which AY:

Particulars	Amount
LTCG from sale of urban land	2,30,000
LTCG on sale of shares (STT not paid)	85,000

SET-OFF AND CARRY FORWARD OF LOSSES

Computation of total income of Mr. Arihant for AY 2023-24

Particulars	Rs.	Rs.
Income from Salary	3,50,000	1,93,000
Less: Loss from HP set-off against salary income	1,57,000	
House Property (Loss)	2,20,000	Nil
Less: Adjusted against Capital gains u/s 112	43,000	
Less: Adjusted against salary income	1,57,000	
[Loss of Rs. 20,000 shall be c/f to next year]		
Profits & gains of business or profession		
Income from trading business	75,000	

Loss from the activity of owning & maintaining race horses: Rs. 5,000.

**Question 17**

– May 2019 RTP

Compute GTI of Mr. Avinash & show the items eligible for carry forward & AYs upto which such losses can be carry forward from following the information for PY 2022-23:

Particulars	Amount
Loss from speculative business MNO	12,000
Income from speculative business BPO	25,000
Loss from specified business covered u/s 35AD	45,000
Income from salary (computed)	4,18,000
Loss from HP	2,20,000

SET-OFF AND CARRY FORWARD OF LOSSES

Particulars	Rs.	Rs.
Income from Salary	4,18,000	2,28,000
Less: Loss from HP set-off against salary	1,90,000	
House Property (Loss)	2,20,000	Nil
Less: Adjusted against LTCG u/s 112	10,000	
Less: Adjusted against salary income [Note 1]	1,90,000	
[Loss of Rs. 20,000 shall be c/f to next year]		
PGBP		
Income from trading business	2,80,000	
Less: B/f loss from trading business of AY 2019-20 [8 year time limit		

- Loss from the activity of owning & maintaining race horses: Rs. 4,000



Question 18

Compute the total income of Mr. Praveen (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2025. Also, show the items eligible for carry forward.

Particulars	₹
Income from salaries	2,20,000
Loss from house property	2,50,000
Loss from toy business	1,30,000
Income from speculation business	40,000

Income from speculation business	40,000	
Less: Loss from toy business set off	40,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Long term capital loss on sale of listed shares on which STT is	1,10,000	
paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	1,40,000	
Less: Loss from toy business set off	90,000	50,000
Income from other sources		

to A.Y. 2033-34, in this case.

- (ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set-off against profits and gains of any specified business, if any, in that year. As per section 73A (2), such loss can be carried forward indefinitely for set-off against profits of any specified business.
- (iii) Business loss cannot be set off against salary income. However, business loss of ₹ 90,000 (₹1,30,000 – ₹40,000 set-off against income from

SET-OFF AND CARRY FORWARD OF LOSSES

carry forward and the assessment years up to which such losses can be carry forward from the following information furnished by him for the year ended 31-03-2025:

Particulars	Amount ₹
Loss from speculative business MNO	12,000
Income from speculative business BPO	25,000
Loss from specified business covered under section 35AD	45,000
Income from salary (computed)	4,18,000
Loss from house property	2,20,000
Income from trading business	2,80,000
Long-term capital gain from sale of urban land	2,05,000

Salaries

Income from Salary	4,18,000	
Less: Loss from house property set-off against salary	(2,00,000)	2,18,000
[As per section 71(3A), loss from house property to the extent of ₹ 2,00,000 can be set-off against any other head of income.]		
Profits and gains of business or profession		
Income from trading business	2,80,000	

SET-OFF AND CARRY FORWARD OF LOSSES

not paid) set-off as per section 71(3)	(85,000)	
Less: Long-term capital loss on sale of listed equity shares on which STT is paid can also be set-off as per section 71(3), since long-term capital arising on sale of such shares is taxable under section 112A	(1,10,000)	
Less: Short-term capital loss under section 111A as per section 71(2)	(10,000)	
Gross Total Income		3,86,000

so set-off, it has to be carried forward to the next year for set-off against capital gains, if any, in that year. It can be carried forward for a maximum of eight assessment years, i.e., up to A.Y.2033-34, in this case, as specified under section 74(1).



Question 20

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

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

Particulars	₹	₹	₹
Profits and gains from business and profession			
Income from profession		10,00,000	8,00,000
Less: Loss from house property (can be set-off to the extent of ₹ 2,00,000, as per section 71(3A).		2,00,000	
Capital gains			

parent, since such income is earned on account of her special skills

Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible as per section 64(1A),

since interest income arises out of deposit made and not on account of her special skills

15,000

Nil

SET-OFF AND CARRY FORWARD OF LOSSES

**Question 21**

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

S. No.	Particulars	(₹)
1.	Income from salary (Computed)	8,20,000
2.	Income from house property (let out) (Net Annual Value)	1,20,000
3.	Share of profit from firm in which she is partner	48,000
4.	Loss from specified business covered under section 35AD	67,000

that can be carried forward. Ms. Aarti has always filed her return within the due date specified under section 139(1) of the Income-tax Act, 1961. She does not want to opt for 115BAC. (MTP 7 Marks April '23, RTP Nov'21)

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

Particulars	₹	₹	₹
Salary Income (computed)		8,20,000	
Less: As per section 71(3A), loss from house property of ₹ 2,44,000 can be set-off, to the extent of		2,00,000	6,20,000
Income from House Property			

SET-OFF AND CARRY FORWARD OF LOSSES

A.Y.2026-27]			
Income from textile business		3,30,000	
Less: Current year depreciation		53,000	
		2,77,000	
Less: Brought forward loss of textile business		1,90,000	
Less: Set-off of unabsorbed depreciation to the extent of ₹ 87,000 against business income		87,000	Nil
Capital Gains			
Long-term capital gains on sale of listed equity shares (STT paid)		2,50,000	

hands of the unitholders]			
Gross Total Income			8,87,000

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

SET-OFF AND CARRY FORWARD OF LOSSES

Brought forward business loss from manufacturing business	(35,000)
Unabsorbed normal depreciation	(10,000)
Brought forward loss from the activity of owning and maintaining the race horses	(50,000)

Compute the Gross total income of Mr. Rajesh for the Assessment Year 2025-26 and the amount of loss, if any, that can be carried forward if he wants to opt for the provisions of section 115BAC for the first time.

(RTP May '22)

case of section 115BAC		
	1,00,000	
Less: Brought forward loss from manufacturing business	35,000	
Less: Unabsorbed normal depreciation	10,000	55,000
Capital Gains		
Long term capital gains on sale of house property	1,40,000	
Less: long term capital loss on sale of shares on which STT is paid can also be set-off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	(1,15,000)	25,000

SET-OFF AND CARRY FORWARD OF LOSSES

		(₹)
(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 01.01.2000 for purchase of this property.	1,57,000

Compute total income of Ms. Geeta for the assessment year 2025-26 and the amount of loss that can be carried forward. For the above solution, you may assume principal repayment of loan as under:

- (1) Loan taken for purchase of house property in Delhi ₹ 2,50,000
- (2) Loan taken for purchase of house property in Mumbai ₹ 50,000
- (3) Loan taken for repair of house properties in Delhi and Mumbai ₹75,000

Working notes should form part of your answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note.

(PYP 10 Marks, May'19)

Less: Deduction u/s 24				
30% of Annual Value = 30% of ₹ 3,20,000		96,000		
			2,24,000	
(iii) House property at Mumbai (Self-occupied)				
Annual value of self-occupied property		Nil		
Less: Deduction u/s 24(b)				
Interest on loan for purchase and repairs (to be restricted to ₹ 30,000, since loan for purchase was taken prior to 1.4.1999)		30,000	(30,000)	
Loss from house property [(i) + (ii) + (iii)]			(2,81,000)	

off against profit from a taxable source.				
Capital Gains				
Long-term capital gains on sale of equity shares computed in accordance with section 112A			8,95,000	
Less: Set-off of brought forward short- term capital loss as per section 744				
B/f Short-term capital loss on sale of gold		2,75,000		
B/f Short-term capital loss u/s 111A		25,000	3,00,000	
			5,95,000	

SET-OFF AND CARRY FORWARD OF LOSSES

Life insurance premium paid to insure the life of her son allowable as deduction even if he is major, resides abroad and is not dependent on her	15,000	
Repayment of housing loan		
₹ 2,50,000, for house property in Delhi, not allowable since loan is taken from a friend	Nil	
₹ 50,000 for house property in Mumbai, allowable since loan is taken from a bank for purchase of property	50,000	
₹ 75,000, for house properties in Mumbai and Delhi, not allowable since loan is taken for repairs of properties	Nil	

SET-OFF AND CARRY FORWARD OF LOSSES

- (i) ABC Co-operative Bank has to deduct tax at source @10% on the interest of Rs.45,000 ($9\% \times \text{Rs.10 lakh} \times \frac{1}{2}$) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, Rs.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 Rs.60,750 [$3,00,000 \times 3 \times 9\% \times 9/12$], which exceeds the threshold limit of Rs.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 Rs.60,750 exceeds the threshold limit of Rs.40,000, tax has to be deducted @10% u/s 194A.

Solution

In this case, the individual contract payments made to Mr. X does not exceed Rs.30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2024-25 exceeds Rs.1,00,000 (on account of the last payment of Rs.30,000, due on 1.3.2024, taking the total from Rs.73,000 to Rs.1,03,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted @1% on the entire amount of Rs.1,03,000 from the last payment of Rs.30,000 and the balance of Rs 28,970 (i.e., Rs.30,000 – Rs.1,030) has to be paid to Mr. X.



Question 3

Certain concessions are granted to transport operators in the context of cash payments u/s 40A(3) and deduction of tax at source u/s 194-C. Elucidate.

Hindu Undivided Family or at the rate of 2%, in any other case.

However, no deduction is required to be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled:-

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

due on 30.6.2024 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @2% under section 194DA on the amount of income comprised therein i.e., on Rs.75,000 (Rs.4,50,000, being maturity proceeds - Rs.3,75,000, being the aggregate amount of insurance premium paid).

- (ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of Rs.3.95 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.

Therefore, tax to be deducted = Rs.25,000 x 20.8% = Rs.5,200.



Question 6

Moon TV, a television channel, made payment of Rs.50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss.

Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of Rs.60 lakh and Rs.15 lakh, respectively, to Mr. Y on 1.8.2023. He has purchased the house property and the land in the year 2022 for Rs.40 lakh and Rs.10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2023, is Rs.85 lakh and Rs.20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of “property” under section 56(2)(x) includes only capital assets specified thereunder.

(iii) TDS implications in the hands of Mr. Y

Since the sale consideration of house property exceeds Rs.50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be Rs.60,000, being 1% of Rs.60 lakh.

TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @20%, instead of 5%.

In case 1 above, this would amount to Rs.1,10,000 [Rs.55,000 x 20% x 10], but the same has to be restricted to Rs.55,000, being rent for March, 2025.

In case 2 above, this would amount to Rs.77,000 [Rs.55,000 x 20% x 7], but the same has to be restricted to Rs.55,000, being rent for December, 2024.

	payer		payments made in the F.Y.2024-25
1.	Mr. Ganesh, an individual carrying on retail business with turnover of Rs.2.5 crores in the P.Y.2023-24.	Contract Payment for repair of residential house	Rs.5 lakhs
		Payment of commission to Mr. Vallish for business purposes	Rs.80,000

2.	Mr. Rajesh, a wholesale trader whose turnover was Rs.95 lakhs in P.Y.2023-24	Contract Payment for reconstruction of residential house	Rs.55 lakhs	Yes, u/s 194M, since the aggregate of payments (i.e., Rs.55 lakhs) exceed Rs.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.
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Question 11

Mr. Sharma, a resident Indian aged 77 years, gets pension of Rs.52,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest@8% on fixed deposit of Rs.20 lakh with the said bank. Out of the deposit of Rs.20 lakh, Rs.2 lakh represents five year term deposit made by him on 1.4.2024. Interest on savings bank credited to his SBI savings account for the P.Y.2023-24 is Rs.9,500.

- (1) From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2025-26, assuming that he has not opted for section 115BAC.

Gross total income		7,43,500
Less: Deductions under Chapter VI-A		
Under Section 80C		
Five year term deposit (Rs.2 lakh, restricted to Rs.1.5 lakh)	1,50,000	
Under section 80TTB		
Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years.	50,000	2,00,000
Total Income		5,43,500
Computation of tax liability for A.Y.2025-26		

case, be attracted in respect of pension income. Further, Canara Bank would, be liable to deduct tax @10% under section 194-A on interest on fixed deposit, since the same exceeds Rs.50,000.



Question 12

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2022-23 was Rs.12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2023-24 was Rs.95 lakh (Rs.20 lakh on 1.6.2023, Rs.25 lakh on 12.8.2023, Rs.22 lakh on 23.11.2023 and Rs.28 lakh on 25.3.2024). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2021-22 was Rs.15 crores.

Tax of Rs.1,700 (i.e., 0.1% of Rs.17 lakhs) has to be deducted u/s 194Q from the payment/ credit of Rs.22 lakh on 23.11.2023 [Rs.22 lakh – Rs.5 lakhs, being the balance unexhausted threshold limit].

Tax of Rs.2,800 (i.e., 0.1% of Rs.28 lakhs) has to be deducted u/s 194Q from the payment/ credit of Rs.28 lakhs on 25.3.2024.

Note – In this case, since both section 194Q and 206C(1H) applies, tax has to be deducted u/s 194Q.

- (2) If Mr. Gupta's turnover for the FY.2022-23 was only Rs.8 crores, TDS provisions under section 194Q would not be attracted. However, TCS

respectively.

In case (2), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect tax@1% instead of 0.1%. Accordingly, tax of Rs.17,000 (i.e., 1% of Rs.17 lakhs) and Rs.28,000 (1% of Rs.28 lakhs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2023 and 25.3.2024, respectively.



Question 13

An amount of Rs.40,000 was paid to Mr. X on 1.7.2023 towards fees for professional services without deduction of tax at source. Subsequently, another payment of Rs.50,000 was due to Mr. X on 28.2.2024, from which

taxes by such payee, interest under section 201(1A)(i) i.e., @ 1% p.m. or part of month, shall be payable by the payer from the date on which such tax was deductible to the date of furnishing of return of income by such payee. The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been furnished by the payee.

- (iii) Where the tax has not been paid after it is deducted, the amount of the tax together with the amount of simple interest thereon shall be a charge upon all the assets of the person or the company, as the case may be.

Alternatively, Mr. A can pay tax on non-monetary perquisites as under-
Tax on non-monetary perquisites = 9.425% of $1,20,000 = 11,310$
Balance to be deducted from salary Rs 64,090

If Mr. A pays tax of Rs 11,310 on non-monetary perquisites, the same is not a deductible expenditure as per section 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per section 10(10CC).



Question 15

Ashwin doing manufacture and wholesale trade furnishes you the following information:

Interest paid to UCO Bank

TDS under section 194A is not attracted in respect of interest paid to a banking company.

Contract payment of Rs.24,000 to Raj for 2 contracts of Rs.12,000 each

TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed Rs.30,000 in a single payment or Rs.1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

Shop Rent paid to one payee – Tax has to be deducted @10% under section 194-I as the annual rental payment exceeds Rs.2,40,000.

		of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates.
(v)	01-01-2025	Payment of Rs.2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(vi)	01-02-2025	Payment of commission of Rs.14,000 to Mr. Y.

**Solution**

- (i) No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:

customer in case the material is purchased from a person other than the customer or associate of such customer.

Therefore, there is no liability to deduct tax at source in respect of payment of Rs.2,00,000 to Mr. A, since the contract is a contract for 'sale'.

- (v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds Rs.2,50,000.



Solution

- (a) Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds Rs.2,40,000, the provisions of section 194-I for deduction of tax at source are attracted.

The rate applicable for deduction of tax at source under section 194-I on rent paid for hire of plant and machinery is 2%, assuming that Mr. Raman had furnished his permanent account number to B Ltd.

Therefore, the amount of tax to be deducted at source:
= Rs.2,60,000 x 2% = Rs.5,200.

attracted. Section 194M would have been attracted, if the payment or aggregate of payments exceeded Rs.50 lakhs in the P.Y.2024-25. However, since the payment does not exceed Rs.50 lakh in this case, there is no liability to deduct tax at source under section 194M also.

- (c) 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 Rs.30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

- (4) Rs.2,00,000 paid to Mr. A, a resident individual, on 22-02-2025 by the State of Uttar Pradesh on compulsory acquisition of his urban land.



Solution

- (1) Section 194E provides that the person responsible for payment of any amount to a non-resident sportsman who is not a citizen of India for contribution of articles relating to any game or sport in India in a newspaper has to deduct tax at source@20%. Further, since Jacques Kallis, a South African cricketer, is a non-resident, health and education cess @4% on TDS should also be added.
Therefore, tax to be deducted = Rs.27,000 x 20.80% = **Rs.5,616.**



Question 19

Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.



Solution

The proviso to section 234C contains the provisions for payment of advance tax in case of capital gains and casual income.

Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.



Question 20

Mr. Jay having total income of Rs.8,70,000, did not pay any advance tax during the previous year 2023-24. He wishes to pay the whole of the tax, along with interest if any, on filing the return in the month of July, 2024. What is total tax which Mr. Jay has to deposit as self-assessment tax along with interest, if he files the return on 29.07.2024? Assume that he does not exercise the option under section 115BAC.



Solution

Obligation to pay advance tax arises in every case, where the advance tax payable is Rs.10,000 or more. As a consequence of such failure, assessee may be charged with interest under section 234B and 234C.

hundred, ignoring fraction) at 1% for four months i.e., from 1st April to 29th July.

The interest under section 234B amount to Rs.3,596

Interest under section 234C

Assessee, other than assessee who declare profits and gains in accordance with provision of section 44AD(1) or section 44ADA(1), are liable to pay advance tax in 4 installments during the previous year. Section 234C is attracted, if the actual installment paid by the assessee is the less than the amount required to be paid by him on such instalments. The interest shall be calculated at 1% per month or part of the month for short payment or non-payment of each instalment.

Mr. Nihar maintains saving A/c & current A/c in Mera Bank Ltd. Details of withdrawals on various dates during PY 2023-24 are as follows:

Date of Cash withdrawal	Saving A/c	Current A/c
05.04.2023	15,00,000	-
10.05.2023	-	22,00,000
25.06.2023	20,00,000	-
17.07.2023	-	5,00,000
28.10.2023	35,00,000	-
10.11.2023	-	38,00,000
12.12.2023	25,00,000	-

31.08.2023	29,00,000	
01.09.2023	14,20,000	
05.09.2023		14,00,000
07.10.2023	18,21,000	
11.12.2023	26,23,000	
12.02.2024	7,56,000	
25.03.2024		16,13,000

She furnished her ROI for AY 2023-24 & AY 2022-23 on/before due date u/s 139(1). However, for AY 2021-22 & AY 2020-21, she has furnished her ROI belatedly. Is any TDS u/s 194N on the withdrawals made by Dr. Sargun from Canara Bank & SBI? If yes, at what rate & what amount?

(a) TDS on 33,79,000 @ 5% by Canara Bank & no tax is deductible by SBI.

he pays a monthly house rent of 32,000 for those 5 months, totaling to 1,60,000. Rent is paid by him on 1st day of the relevant month.

- (b) Mr. Subhash engaged in business of trading of electrical appliances. His turnover for FY 2020-21 & FY 2022-23 was 12 crore & 9.5 crore, respectively. During the PY, XYZ Ltd. placed order for purchase of electric appliances for 55 lakhs on 01.08.2022. He again placed order for 35 lakhs on 01.11.2022. Mr. Subhash delivered both the orders within 15 days of receipt of orders. Discuss, whether Mr. Subhash is required to collect tax at source, on the consideration received from XYZ Ltd.

consideration. Tax is required to be collected at source by a seller, being a person whose total turnover from the business exceeds 10 crores during the FY immediately preceding the FY in which sale of goods is carried out.

Since, section 206C(1H) is applicable w.e.f. 1st October, 2020, tax is not required to be collected at source on any sale consideration received before 1st October, 2020, even though such amount exceeds the threshold limit of 50 lakhs. Section 206C(1H), would apply on sale consideration (including advance received for sale) received on or after 1st October, 2020.

Calculate the interest payable u/s 234B. Assume that ROI would be processed on the same day of filing of return. What are the consequences for delay in furnishing ROI?



Solution

Computation of interest payable u/s 234B by Mr. Sachal

Particulars	Rs.
Tax on total income of Rs. 10,80,000 [Business income of Rs. 8,10,000 + Income from other sources of Rs. 2,70,000]	1,36,500
Add: HEC @ 4%	5,460
Tax on total income	1,41,960

his return on 11.12.2023 i.e., interest u/s 234A will be payable for 3 months (from 1.10.2023 to 11.12.2023) @ 1% p.m. or part of month on the amount of tax payable on total income - TDS & advance tax paid = i.e., Rs. 13,960. Interest u/s 234A = Rs. 13,960 x 1% x 3 = Rs. 419.

Fee for late filing of return u/s 234F: Since Mr. Sachal has furnished his ROI after due date & his total income > Rs. 5 lacs, a fee of Rs. 5,000 will be payable.



Question 25

May 2019 RTP

Mr. Narayan is engaged in the retail business of groceries. During PY 2022-22, his turnover was Rs.1.65 crores. Out of this, receipt of Rs. 1.30 crore represents online transactions & Rs. 35 Lacs cash transactions. He opted for

of ECS through a bank A/c, assessee can declare 6% (instead of 8%) of such turnover as presumptive income u/s 44AD. Since Mr. Narayan does not have any other income during PY 2020-21, business income would be the total income.

Tax liability		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 to Rs. 5,00,000 @ 5%	12,500	
Rs.5,00,001 to Rs. 10,00,000 @ 20%	1,00,000	
Above Rs. 10,00,001 @ 30%	18,000	1,30,500
Add: Health & Education cess @ 4%		5,220
Total Tax Payable		1,35,720

Profits & gains from business computed u/s 44AD:

Particulars	Amount
6% of 15 lakhs, being turnover effected through A/c payee cheque	90,000
8% of 90 lakhs, being cash turnover	7,20,000
Total	8,10,000

An eligible assessee opting for computation of profits & gains of business on presumptive basis u/s 44AD i.r.o. eligible business is required to pay advance tax of the whole amount on or before 15th March of FY.

thereof, assuming that the deductees are residents & having a PAN which they have duly furnished to the respective deductors.

- (a) Mr. Tandon received a sum of 1,75,000 as pre-mature withdrawals from EPF Scheme before continuous service of 5 years on account of termination of employment due to ill-health.
- (b) Rs. 42,000 has been credited as interest on RD by a banking company to A/c of Mr. Hasan (aged 63 years).
- (c) Ms. Kaul won a lucky draw prize of 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer.

(b) Interest other than interest on securities [Section 194A]:

As per section 194A(3)(i), no tax is to be deducted at source on payment of interest on time deposits by a banking company if aggregate amount paid/credited to A/c of senior citizen during FY, does not exceed 50,000. Since, payment to Mr. Hasan (senior citizen) is 42,000, therefore no tax shall be deducted.

Note: 'Time deposits' means deposits (including RD) repayable on expiry of fixed periods.

Any person, being individual/HUF, responsible for paying to a resident any income by way of rent @ 5%. Tax is to be deducted:

- at the time of credit of rent, for last month of PY or last month of tenancy, if property is vacated during the year, as the case may be to the A/c of payee or
- at the time of payment thereof (i.e., rent of last month) in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.

However, no tax is required to be deducted at source under this section where rent does not exceed 50,000 for a month or part of a month during PY. Since, in the given case monthly rent is 52,000, tax shall be deducted @ 5% on 1,56,000 i.e., 7,800 at the time of payment of rent in the last month of tenancy.

15.12.2022	tax liability	45,000 - 9,000 - 18,000	18,000
15.12.2022	75% of advance tax liability	45,000 - 9,000 - 18,000	18,000
15.3.2023	100% of the advance tax liability	60,000 - 9,000 - 18,000 - 18,000	15,000



Question 29

May 2017

S, a resident individual aged 54, furnishes income details as under:

- Wholesale cloth business, whose turnover is 150 lakhs, for which A/c are audited u/s 44AB. Income from such business 8,10,000.
- IFOS is Rs. 2,70,000.

Balance tax payable

13,960

Computation of Interest u/s 234B: Interest on 13,960 for 9 months @ 1% p.m.

Note: As advance tax paid is less than 90% of assessed tax, interest shall be payable u/s 234B – Rs 1,251



Question 30

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

- Ms. Sarla received a sum of Rs. 92,000 on 30th September 2023 towards

of operation of call center. On 18-03-2024, the total amount credited by Jigar Limited in the ledger account of Rashi Limited is Rs. 70,000 regarding service charges of call center. The amount is paid through cheque on 28-03-2024 by Jigar Limited.

- (vii) Ms. Mohit won a lucky draw prize of Rs. 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer. (MTP 7 Marks, April'21, PYP 7 Marks, May '19)



Solution

- (i) On payment of LIC maturity proceeds - The annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and

- (iv) On payment for purchase of bag according to specifications - As per section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or its associate, being a person related to the customer in such manner as defined u/s 40A(2)(b).

Therefore, M/s Packaging Limited is not required to deduct tax at source in respect of payment of Rs. 1,75,000 to Mr. Ankit, for purchase of bag according to its specifications, since it did not supply the material for such bag and nor was the material supplied by any of its associates. Hence, the contract is a contract for ‘sale’ and not a works contract.

Significant Differences between TDS and TCS

	TDS	TCS
(1)	TDS is tax deduction at source	TCS is tax collection at source.
(2)	Person responsible for paying is required to deduct tax at source at the prescribed rate.	Seller of certain goods or provider of services is responsible for collecting tax at source at the prescribed rate from the buyer. Person who grants license or lease (in respect of any parking lot, toll plaza, mine or quarry) is responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.

- an Indian newspaper agency, on 02-07-2023 for commission of articles in relation to the sport of cricket.
- (2) Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31-03-2024.
- (3) Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
- (4) ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2024 by the State of Uttar Pradesh on compulsory acquisition of his urban land. (MTP 4 Marks, March'19, Old SM)

- (3) Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000. The rate of deduction of tax at source is 30%.

Hence, tax to be deducted = ₹ 1,50,000 x 30% = ₹ **45,000**.

- (4) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000. In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹ 2,50,000.



Question 34

Mr. Sachal, a resident individual aged 54, furnishes his income & other details for the P.Y. 2023-24:

- (i) Income of ₹ 8,10,000 from wholesale cloth business, whose accounts are audited u/s 44AB.
- (ii) Income from other sources ₹ 2,70,000.
- (iii) Tax deducted at source ₹ 25,000.
- (iv) Advance tax paid ₹ 1,03,000 during the P.Y. 2023-24.

Advance tax paid	1,03,000
Interest under section 234B is leviable since advance tax of ₹ 1,03,000 paid is less than ₹ 1,05,264, being 90% of assessed tax	
Number of months from 1st April, 2024 to 11th December, 2024, being the date of processing of return	9
Interest under section 234B@1% per month or part of a month for 9 months on ₹ 13,900 [i.e., difference between assessed tax of ₹ 1,16,960 and advance tax of ₹ 1,03,000 paid, being ₹ 13,960 which is rounded off to ₹ 13,900 under Rule 119A of Income-tax Rules, 1962]	1,251

Question 35

Mr. Shikhar, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2023-24.

Estimated tax liability for the financial year 2023-24	₹ 85,000
Tax deducted at source for this year	₹ 15,000

- Would your Answer change if Mr. Shikhar is eligible for and has opted for presumptive tax provisions under section 44AD and his tax liability is entirely on account of such income (ignore TDS)?
- What would be your Answer if, instead of section 44AD, he is eligible for

On or before 15th December, 2023	Not less than 75% of advance tax liability less amount paid in earlier installment(s)	21,000 (52,500, being 60% of ₹ 70,000 - ₹ 31,500)
On or before 15th March, 2024	Whole of the advance tax liability less amount paid in earlier installment(s)	17,500 (70,000, being 100% of ₹ 70,000 - ₹ 52,500)

In case he is eligible for presumptive tax provisions under section 44AD and his entire tax liability is on account of such income, he can pay his entire

	Government	for reconstruction of his residential house in Arunachal Pradesh	
(B)	Mr. Rahul, a wholesale trader of spices whose turn-	Contract payment for construction of office go down	50,00,000
	over was ₹ 5 crores F.Y.2022-23	during January to March 2024 to Mr. Achilles, an individual	

his personal purposes i.e., for reconstruction of his residential house in Arunachal Pradesh, exceeds the threshold limit of ₹ 50,00,000. Therefore, TDS u/s 194M would be
 $= ₹ 52,50,000 \times 5\% = ₹ 2,62,500$.

- (ii) Mr. Rahul is required to deduct tax at source u/s 194C, since his turnover from business in the financial year 2022-23, being the financial year immediately preceding F.Y.2023-24 in which such sum is paid, exceeds ₹ 1 crore. Tax is to be deducted at source at the rate 1% as the payment is made to an Individual.

Therefore, TDS u/s 194C would be =

$$₹ 50,00,000 \times 0.75\% = ₹ 50,000 \times 1\% = ₹ 50,000$$

crore (₹ 1.2 crore, in this case) in cash to ABC & Co., a partnership firm, during the F.Y.2023-24, the bank is required deduct tax at source @ 2% of such sum. Therefore, TDS u/s 194N would be = ₹ 20,00,000 x 2% = ₹ 40,000.



Question 37

Rahil & Co., a partnership firm is having a car dealership show-room. They have purchased cars for ₹ 2 crores from XYZ Ltd., car manufacturers, the cost of each car being more than ₹ 12 lakhs. They sell the cars to individual buyers at a price yielding 10% margin on cost. State whether there will be any obligation to collect tax in the above two situations.

(PYP 2 Marks, Nov'18)

ABC Ltd. and the purchaser, producer or through the platform provided by ABC Ltd. made payment of ₹ 60,000 directly to XY on 21st February, 2024.

- (ii) ABC Ltd is a producer of natural gas. During the year it sold natural gas worth ₹ 26,50,000 to M/s Deep Co., a partnership firm. It also incurred ₹ 1,70,000 as freight for the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges.
- (iii) ABC LLP paid job charges to XYZ, a partnership firm for doing embroidery work on the fabric supplied by the ABC LLP during the previous year 2023-24 as under

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

Therefore, in such circumstances, the TDS provisions would not be attracted on ₹1,70,000, being the component of gas transportation charges paid by M/s. Deep Co. to ABC Ltd.

exceed ₹ 30,000. However, since the aggregate amount paid to XYZ during the P.Y. 2023-24 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 32,000, due on 30.12.2023, taking the total from ₹ 80,000 to ₹ 1,12,000), the TDS provisions under section 194C would get attracted on the entire sum of ₹ 1,12,000. Tax has to be deducted @ 2% (since payment is to a firm, XYZ) on the entire amount of ₹ 1,12,000, from the last payment of ₹ 32,000 on 30.12.2023.

Hence, TDS u/s 194C = ₹ 2,240.

if any.

Would your answer be different, if Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year and payment to Mr. Suresh is for business purposes.

- (C) By virtue of an agreement with Nationalized Bank, M/s ABC Pvt Ltd., a company engaged in catering business received ₹ 60,000 p.m. towards supply of food, water, snacks, etc. during office hours to the employees of the bank. Discuss the TDS implication of this transaction/agreement. (PYP 7 Marks May '23)

In this case, tax is required to be deducted at source from such amount under section 194M @5%, since the aggregate payment made to Mr. Suresh for the said contract exceeds ₹50 lakhs during the P.Y.2023- 24.

Accordingly, ₹ 2,75,000, being 5% of ₹ 55,00,000 [₹25,00,000 + ₹ 30,00,000], is required to be deducted at source.

In case Ms. Aruna made payment to Mr. Suresh for business purposes and she is not required to get her books of account audited [assuming her turnover from such business does not exceed ₹ 1 crore in P.Y. 2022-23], she is not required to deduct tax at source under section 194C. In

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

Alternative answer

- In case Ms. Aruna made payment to Mr. Suresh for business purposes during the P.Y. 2022-23, she would be required to deduct tax at source @1% under section 194C amounting to ₹55,000 (since payment is made to Mr. Suresh, an individual) of ₹ 55,00,000.

- (iii) According to section 194C, the definition of “work” include catering. In the present case, nationalised bank is required to deduct tax source

Income from other sources	
Interest earned from Non-resident (External) Account Rs.2,88,000 [Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
Less: Deduction u/s 80TTA (Interest on saving bank account)	3,000
Total Income	30,000

+ Rs.2,88,000 + Rs.3,000), which is higher than the basic exemption limit of Rs 3,00,000 or Rs.2,50,000. Consequently, he would be required to file return of income for A.Y.2026-27

If he has incurred expenditure of Rs.3 lakhs on foreign travel of self and spouse, he has to mandatorily file his return of income on or before the due date under section 139(1), even if his income is less than the basic exemption limit.



Question 2

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

time.

- (iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).



Question 3

Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2025 audited under section 44AB. Her total income for the assessment year 2025-26 is Rs.6,35,000. She wants to furnish her return of income for assessment year 2025-26 through a tax return preparer. Can she do so?



Solution

(a) Disagree

The return of income of LLP should be verified by a designated partner. Any other partner can verify the Return of Income of LLP only in the following cases:-

- (i) where for any unavoidable reason such designated partner is not able to verify the return, or,
- (ii) where there is no designated partner.

(b) Disagree

In case Mr. A opts to offer his income as per the presumptive taxation provisions of section 44AD, then, the due date under section 139(1) for



Solution

Since Mr. Vineet has income only under the heads “Salaries”, “Income from house property” and “Income from other sources”, he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2025-26 under section 139(1), in his case, is 31st July, 2025. Since Mr. Vineet had submitted his return only on 12.9.2025, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed

PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.

- (ii) **False** : Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.



Question 7

Explain the term “return of loss” under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?

- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward even if return of loss has not been filed as required under section 139(3).



Question 8

Mr. Aakash has undertaken certain transactions during the FY.2024-25, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents

	cheque to LIC for insuring life of self and spouse	
2.	Payment of Rs.1,00,000 to a five-star hotel for stay for 5 days with family, out of which Rs.60,000 was paid in cash	Yes, since the amount paid in cash exceeds Rs.50,000
3.	Payment of Rs.80,000, by ECS through bank account, for acquiring the debentures of A Ltd., an Indian company	Yes, since the amount paid for acquiring debentures exceeds Rs.50,000. Mode of payment is not relevant in this case.

allowed to him u/s 139(1) may furnish ROI for any PY at any time before 3 months prior to the end of relevant AY or before completion of the assessment whichever is earlier. Therefore, in the given question, Mr. Sachin can file his belated return on or before 31.12.2025.

- (b) As per sec 139(5), if any person having furnished a return u/s 139(1) or belated return u/s 139(4), discover any omission/wrong statement, he may furnish a revised return at any time before 3 months prior to the end of the relevant AY or before completion of assessment, whichever is earlier. Hence Mr. Sachin can revise his return on/before 31.12.2025.

whichever is earlier.

- Therefore, Mr. X can revise ROI filed by him u/s 139(4), to claim deduction u/s 80TTA.



Question 11

May 2017

By whom should the return of income be signed in the case of following persons:

- | | |
|---|--------------------------------------|
| (a) Political Party; | (b) Company which is being wound up; |
| (c) HUF, when karta is unable to sign ; | (d) Scientific research association; |

Would your answer be different if she discovered this omission on 21.03.2026?



Solution

- Since Ms. Geetha has income only u/s Salaries, Income from HP & Income from other sources, she does not fall under the category of a person whose A/c are required to be audited under the Income-tax Act, 1961. Therefore, due date of filing return for AY 2025-26 u/s 139(1), in her case, is 31st July, 2025.
- Since Ms. Geetha had submitted her ROI on 29.09.2025, the said return is a belated return u/s 139(4).
- As per section 139(5), if any person, having furnished a return u/s 139(1), within the due date or a belated return u/s 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time:
 - (a) before 3 months prior to end of the relevant AY or
 - (b) before the completion of assessment, whichever is earlier.
- For AY 2025-26, belated return has to be furnished before 31st December 2025 or before completion of assessment, whichever is earlier.
- Since Mr. Atharv has filed his return after 31.7.2025, being due date of filing return of income u/s 139(1) in his case, but before 31.12.2025 or

nor his electricity bills exceed Rs. 2 lacs for PY 2024-25

- (d) Arun is required to file his ROI u/s 139(1) for PY 2024-25, since his electricity bills exceed Rs. 1 lac for PY 2024-25.



Question 15

Nov 2021 RTP

Can Mr. Raghuram file his ROI for AY 2025-26 belatedly u/s 139(4) in PY 2026-27, if he has failed to file said return on/ before the due date of filing ROI for AY 2025-26, due to inadvertent reasons? Also, specify the consequences of non-filing of return within the due date u/s 139(1).



Solution



Question 17

Elaborate the conditions, non-fulfilment of which would render ROI filed by an assessee not maintaining regular books of A/c, defective.



Solution

Refer Rapider



Question 18

- (i) Mr. Sudarshan, due to inadvertent reasons, failed to file his Income-tax return for the assessment year 2025-26 on or before the due date of filing such return of income.

under section 139(1)

Carry forward and set-off of certain losses: Business loss, speculation business loss, loss from specified business under section 35AD, loss under the head “Capital Gains”; and loss from the activity of owning and maintaining race horses, would not be allowed to be carried forward for set-off against income of subsequent years, where a return of income is not furnished within the time allowed under section 139(1).

Interest under section 234A: Interest under section 234A@1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1) till the date of



Question 19

Examine whether the following persons are required to file return of income for A.Y.2025-26, giving brief reasons for your answer -

- (i) Mr. Albert, aged 31 years, whose turnover from business is 70 lakhs for the P.Y.2024-25 and whose total income computed as per books of account is 2 lakhs. This is the first year of his business. He has no other income. He is not claiming any deduction under Chapter VI-A or section 10AA
- (ii) Mr. Ashish, aged 42 years, has gross receipts of 5 lakhs from profession and profits and gains of 2.50 lakhs (computed) from profession for the P.Y. 2024-25. In addition, he has interest of 4 lakhs on fixed deposits and 50,000 from savings bank account.

25,255 and accessories charges of 35,460 during the P.Y. 2024-25. These charges were shown separately in the invoice. Mrs. Sudha's furnished her Aadhaar No. to the dealer. She is a housewife and does not have any income except rental income of ₹25,000 p.m. in respect of a house property gifted to her by her father.

Mr. Ravi Prakash is of the opinion that his wife is not required to furnish return of income, since her total income does not exceed the basic exemption limit. Examine.

on fixed deposits + 0.50 lakhs interest on savings bank account), which exceeds the basic exemption limit of ₹ 2,50,000. Hence, he is required to file his return of income for A.Y.2025-26 as per section 139(1)(b).

Note- The threshold limit of 10 lakhs for gross receipts in profession has to be looked into only in a case where an individual referred to in section 139(1)(b) is not required to file his return of income thereunder. Le, only if Ashish's total income without giving effect to Chapter VI-A deductions is lower than the basic exemption limit.

- (iii) Yes, M/s. ABC & Co. is required to file its return of income for A.Y.2025-26.

3,00,000.

However, such person referred to in section 139(1)(b) who is not required to file his return on account of his total income being lower than the basic exemption limit would be required to file return of income if, inter alia, the deposit in his savings account is 50 lakhs or more during the previous year.

Since a deposit of 50 lakhs has been made in the savings account of Mr. Vallish in the P.Y.2024-25, he is required to file his return of income for A.Y.2025-26

Accordingly, it has to be examined whether, in Mrs. Sudha's case, the requirement to file return for A.Y 2025-26 arises due to TDS/TCS, in her case, exceeding 25,000 in the P.Y.2025-26.

As per section 206C(1F), every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding 10 lakhs, has to collect tax from the buyer 1% of the sale consideration.

Accordingly, dealer of the car is required to collect tax at source of 26.247 @1% on ex- showroom price i.e., ₹ 26,24,710 (₹ 29,52,000 - ₹ 2,15,000 -

file a revised return at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

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



Solution

Computation of interest payable under section 234B by Mr. Salish

Particulars	Rs.
Tax on total income of Rs.10,80,000 [Business income of Rs.8,10,000 +	1,36,500
Income from other sources of Rs.2,70,000]	
Add: Health and education cess@4%	5,460
Tax on total income	1,41,960
Less: Tax deducted at source	25,000
Assessed Tax	1,16,960
90% of assessed tax	1,05,264

Interest under section 234A

Since Mr. Salish's accounts are audited under section 44AB, the due date for filing of return for A.Y. 2025-26, in his case, is ~~30.09.2025~~ **31.10.2025**. Mr. Salish has filed his return on 11.12.2025 i.e., interest under section 234A will be payable for **32** months (from 1.11.2025 to 11.12.2025) @ 1% per month or part of month on the amount of tax payable on the total income, as reduced by TDS and advance tax paid i.e., RRs. 13,960 rounded off to Rs. 13,900 under Rule 119A of Income-tax Rules, 1962 Interest u/s 234A = Rs. 13,900 x 1% x 2 = Rs. ~~417~~ **Rs 278**

Fee for late filing of return under section 234F

Since Mr. Sailesh has furnished his return of income after the due date but before 31.12.2020 and his total income exceeds Rs.5 lakhs, a fee of Rs. 5,000

to furnish return of income on or before the due date.

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



Question 23

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

paid at the time filing earlier return. You are required to examine whether Mr. X can furnish updated return

- (i) as on 31.3.2027
- (ii) as on 28.2.2028
- (iii) as on 31.5.2028

If yes, compute the amount of additional income-tax payable by Mr. X at the time of filing his updated return. (MTP 3 Marks April '23)



Solution

Mr. X may furnish an updated return of his income for A.Y. 2025-26 at any time within 24 months from the end of the relevant assessment year i.e., 31.3.2028.'



Question 25

Mr. Aakash has undertaken certain transactions during the F.Y.2024 -25, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –(RTP May '23)

S.No.	Transaction
1.	Opening a current account with HDFC Bank
2.	Sale of shares of ABC (P) Ltd. for ₹ 1,50,000
3.	Purchase of two wheeler motor vehicle of ₹ 1 lakh
4.	Purchase of a professional laptop of ₹ 3 lakhs

- (b) Company where the company is being wound up
- (c) Local authority
- (d) Individual who is mentally incapacitated from attending to his affairs (RTP Nov '23)



Solution

Person authorized to verify return of income

S.No.	Assessee	Authorised Persons
(a)	HUF whose karta is absent from India	Any other adult member of the HUF
(b)	Company where the company is being wound up	Liquidator



Question 28

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

- (i) How, the Assessing Officer would deal with the issue?
- (ii) What are the consequences if defect is not rectified within the time allowed?

Specify the remedies available if not rectified within time allowed by the Assessing Officer? (PYP 4 Marks May'22)

Mr. A employed with B Pvt. Ltd. residing in Chennai, filed his return of Income on 30 th July. He has no other income other than salary. He however has failed to link his Aadhar with PAN as on return filing date.

- (i) What is the last date for linking Aadhar with PAN?
- (ii) What is the consequence for him if he has linked the Aadhar with PAN on 31 st August 2023?
- (iii) Are there any exceptions provided under section 139AA from quoting of Aadhar number? (PYP 4 Marks Nov '22)



Solution

Every person who has been allotted PAN as on 1st July, 2018, and who is eligible to obtain Aadhar Number, has to intimate his Aadhar Number to prescribed authority on or before 31st March, 2023.

relevant to the assessment year at any time within 24 months from the end of the relevant assessment year.

Circumstances in which updated return cannot be furnished

No updated return can be furnished by any person for the relevant assessment year, where

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

a person of Indian origin and her total income from Indian sources is ₹ 18,00,000 and she is not liable to tax in USA?



Solution

- (a) Under section 6(1), an individual is said to be resident in India in any previous year, if he/she satisfies any one of the following conditions:
- (i) He/she has been in India during the previous year for a total period of 182 days or more, or
 - (ii) He/she has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.
- If an individual satisfies any one of the conditions mentioned above, he/she

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the A.Y.2025-26.

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

Particulars	₹	₹
Income from house property Show room located in Mumbai remained on rent from 01.05.2024 to 31.03.2025@ ₹ 25,000/- p.m.	2,75,000	

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

- ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.		
- Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable under section 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. (See Note 2 below)	1,72,000	1,72,000
Total income		2,67,000

- does not exceed ₹ 5 lakhs.
- (b) Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds ₹ 18,00,000 If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y.2024-25 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

To Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500
To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 35	1,50,000		

(vii) An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2025 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2025-26 under the default tax regime and optional tax regime as per the normal provisions of the Act.



Solution

Computation of total income of Dr. Niranjana for A.Y. 2025-26 under default tax regime

	Particulars	₹	₹	₹
I	Income from Salary			
	Basic Salary (₹ 7,500 x 12)		90,000	

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

(taxable under the head "Income from other sources")		
(iii) Winning from game show on T.V. (net of TDS) – taxable under the head "Income from other sources"	35,000	
(iv) Income tax refund	5,450	77,950
		3,62,450
Less: Allowable expenditure		
Depreciation on clinic equipments on ₹ 5,00,000@15%	75,000	

(iii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	1,82,000	4,54,450
IV Income from other sources			
(a) Interest on income-tax refund		450	
(b) Dividend from UTI (taxable in the hands of unit holders)		10,500	
(c) Winnings from TV game show (₹ 35,000 + ₹ 15,000)		50,000	60,950
Gross Total Income			5,47,900

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Less: Items of expenditure allowable while computing business income under normal provisions of the Act
 100% deduction is allowable in respect of the amount paid to scientific research association allowable under normal provisions of the Act.

Gross Total Income as per normal provisions of the Act

Less: **Deductions under Chapter VI-A:**

(a) Section 80C - Tuition fee paid to university for full time education of her daughter

1,50,000

4,22,900

1,00,000



Question 3

Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2025 reads as follows:

Expenditure	₹	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:	58,85,850	
Stipend to articled Assistants	1,37,000	Audit	27,88,000	
Incentive to articled	13,000	Taxation services	15,40,300	
		Consultancy	12,70,000	55,98,300

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Repair, maintenance and petrol of car	4,000			
Travelling expenses	5,25,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	57,17,824			57,17,824



Solution

Computation of total income and tax payable by Ms. Purvi for the A.Y. 2025-26 under default tax regime under section 115BAC

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VI-A [not allowable under default tax regime]		-

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Computation of total income and tax payable under normal provisions of the Act

Particulars	₹	₹
Gross Total Income		10,11,944
[Income under the “Income from house property” “Profits and gains from business or profession” and “Income from other sources” would remain the same even if Ms. Purvi opts out of the default tax regime under section 115BAC]		
Less: Deductions under Chapter VI-A (See Working Note 4)	10,000	
Total Income		10,01,944

Working Notes:

(1) Income from House Property

Particulars	₹	₹
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 24@30% of NAV	24,780	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Less: Income credited but not taxable under this head:

(i) Dividend on shares of X Ltd., an Indian company (taxable under the head "Income from other sources")	10,524	
(ii) Income from UTI (taxable under the head "Income from other sources")	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524

10,51,724

(iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	33,924

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

- (2) The following incomes were credited in the profit and loss account.
- Income from UTI ₹ 22,000 (Gross)
 - Interest on debentures ₹ 17,500 (Gross)
 - Winnings from horse races ₹ 15,000 (Gross)
- (3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:
Opening stock ₹ 8,000. Closing stock ₹ 12,000.
- (4) ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
- (5) Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
- (6) Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.

Gross total income	11,76,000
Less: Deduction under section 80C (Investment in NSC)	15,000
Total Income	11,61,000

Working Notes:

1. Computation of profits and gains of business or profession

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
Add: Expenses debited to profit and loss account but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Less: Incomes credited to profit and loss account but not taxable as business income		
Income from UTI [taxable under the head "Income from other sources"]	22,000	
Interest on debentures (taxable under the head "Income from other sources")	17,500	
Winnings from horse races (taxable under the head "Income from other sources")	15,000	54,500
		11,71,500
Less: Depreciation allowable under the Income-tax Rules, 1962		50,000
		11,21,500

2. Computation of "Income from Other Sources"

Particulars	₹
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	54,500



Question 5

Balamurugan furnishes the following information for the year ended 31-03-2025:

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Profits and gains of business or profession	
Speculation business income	1,00,000
Less: Business loss of ₹ 1,35,000 set-off to the extent of ₹ 1,00,000	(1,00,000)
	Nil
Balance current year business loss of ₹ 35,000 to be set-off against long-term capital gain	
Capital Gains	
Long term capital gain	70,000
Less: Balance current year business loss set-off	(35,000)
Long term capital gain after set off of business loss	35,000

respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of ₹ 6,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Note - The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2025. The first proviso to section 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source under section 194B. In this case, it has been assumed that tax deductible at source under section 194B

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Life insurance premium (10% of sum assured)
 Motor car (acquired in Jan. 2025 by A/c payee cheque)
 Medical insurance premium (for self and wife) (paid by A/c Payee cheque)

4,25,000

18,000

- (1) balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 1997-98, when the housing loan was taken.
- (2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2024 are given below:
- | | |
|--|----------|
| Furniture & Fittings | ₹ 60,000 |
| Plant & Machinery | ₹ 80,000 |
| (Air-conditioners, Photocopiers, etc.) | |
| Computers | ₹ 50,000 |
- Note:** Mr. Rajiv follows regularly the cash system of accounting.

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

30% of Net Annual Value	18,000			
Interest on housing loan (50% of ₹ 88,000)	44,000	62,000	(2,000)	
Loss from house property				(32,000)
Profits and gains of business or profession				
Fees from professional services			59,38,000	
Less: Expenses allowable as deduction				
Staff salary, bonus and stipend	21,50,000			
Other administrative expenses	11,48,000			
Office rent	30,000			

Less: Deductions under Chapter VI A			
Deduction under section 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of ₹ 1,44,000 is allowed as deduction since it is within the limit of ₹ 1,50,000		1,44,000	
Deduction under section 80D			
Medical insurance premium paid		18,000	1,62,000
Total income			23,30,500

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

- (a) Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
- (b) House Insurance ₹ 860
- (c) He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- (d) In the year 2021-22, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @19% per annum.
- (e) Siddhant received a gift of ₹ 30,000 each from four friends.
- (f) He contributed ₹ 50,000 to Public Provident Fund.

Less: Deductions under section 24

(i) 30% of NAV	₹ 11,310		
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2]	₹ 24,000	35,310	2,390
Income from speculative business			
Income from share speculation business		2,700	
Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700		2,700	Nil
Balance loss of ₹ 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.			

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Particulars	₹
Tax on total income [5% of ₹ 2,29,890 (₹ 5,29,890 - ₹ 3,00,000)]	11,495
Less: Rebate u/s 87A, since total income does not exceed ₹ 7,00,000	11,495
Tax liability	Nil

**Computation of total income and tax liability of Siddhant
for the A.Y. 2025-26 under normal provisions of the Act**

Particulars	₹	₹
Gross total income (as per default scheme)		5,29,890

Since Mr. Siddhant is not liable to pay any tax under default tax regime under section 115BAC, it would be beneficial for him to not to exercise the option of shift out of the default tax regime for A.Y.2025-26.

Notes:

- (1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2025;
- (2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

not maintained.

- Received interest of ₹ 5,860 on bank FDRs on 24.4.2024 and interest of ₹ 6,786 (Net) from the debentures of Indian Companies on 5.5.2024.
- Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.
- Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
- Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute his total income and tax payable thereon for the A.Y. 2025-26. Assume that Mr. Ramdin has exercised the option to shift out of the default

account @ 15% p.a.

Less: Exempt upto 9.5% p.a.

Gift of gold ring worth ₹ 10,000 on 25th wedding anniversary by employer **(See Note 3)**
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000

Less: Standard deduction under section 16(ia)

Profits and Gains of Business or Profession

9,500

5,500

10,000

8,500

4,55,760

50,000

4,05,760

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

fund

Section 80D – Mediclaim Insurance

Section 80G (See Note 4)

Total Income

Tax on total income

Income-tax [5% of ₹ 1,90,690 (i.e., ₹ 4,40,690 – ₹ 2,50,000)]

Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000

Tax liability

Less: Tax deducted at source (₹ 7,540 – ₹ 6,786)

22,500

10,600

4,40,690

9,535

9,535

Nil

754

4. Deduction under section 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Total Income i.e. ₹ 45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Total Income = Gross Total Income - Deductions under section 80C and 80D = ₹ 5,99,160 - ₹ 1,47,870 = ₹ 4,51,290.

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

₹ 80,000 for the period upto 31.3.2025.

(f) Mr. X has deposited ₹ 1,00,000 in public provident fund.



Solution

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

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 25,000 x 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 x 9 months)	54,000	
Less : Exemption under section 10(13A)(Note 1)	36,000	18,000

basic exemption limit of ₹ 2,50,000)

Notes:

(1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

	₹
(i) HRA actually received (₹ 6,000 x 9)	54,000
(ii) Rent paid in excess of 10% of salary (₹ 6,500 – ₹ 2,500) x 9 months	36,000
(iii) 50% of salary	1,12,500

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

- (4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	= 30 days/year x 26 = 780 days
Less: Leave taken /availed by Mr. X during the period of his service	= 15 days/year x 26 = 390 days

4.	on 15.5.2024 at Mumbai taxable Short-term capital gain on sale of shares on 23.4.2024 of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Mediclaime policy premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

(II)	Income from house property	-	10,000
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction u/s 24(a)@30%	18,000	9,000
		42,000	21,000
(III)	Capital gains		
	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000

(C)	gains taxable under sections 111A & 112	40,000	31,000
	Total income (A-B)	1,22,000	3,50,000
	Tax liability of Mrs. Rosy for A.Y.2025-26		
	Tax on long-term capital gains @20% of ₹ 1,00,000	20,000	
	Tax on short-term capital gains @15% of ₹ 20,000	3,000	
	Tax on balance income of ₹ 2,000	Nil	
		23,000	
	Tax liability of Mrs. Mary for A.Y.2025-26		

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

exhausted against other income, then, the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15%, respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.

- (4) Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹ 2,50,000 against long-term capital gains of ₹ 100,000 and the balance limit of ₹ 1,50,000

Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2025	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD)	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for A.Y. 2025-26 both as per section 115BAC and as per regular provisions of the Income-tax Act, 1961 for A.Y. 2025-26. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

Add: Health and Education cess@4%	1,76,870
Total tax liability	45,98,620

Notes:

- (1) Deductions u/s 10AA and 35AD are not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) Mr. X is not liable to alternate minimum tax u/s 115JC under default tax regime under section 115BAC.

**Computation of total income and tax liability of Mr. X for A.Y.2025-26
(under the regular provisions of the Income-tax Act, 1961)**

Add: Health and Education cess@4%	76,230
Total tax liability	19,81,980

**Computation of adjusted total income of Mr. X
for levy of Alternate Minimum Tax**

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		64,00,000
Add: Deduction under section 10AA		16,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 115JEE

Particulars	₹
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	19,81,980
	10,82,470

Notes:

(1) Deduction under section 10AA in respect of Unit in SEZ =

in the F.Y.2023-24 and capitalized in the books of account on 1.4.2024, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 35AD.



Question 12

November 2020

Mr. A (aged 52 years), is a CEO of XYZ Enterprise Limited. During PY 2021-22, he earned salary of 1,65,00,000 & LTCG on sale of listed equity shares amounting to 1,06,500. He earned interest of 4,82,778 on saving A/c. Further, he has provided following other information for filing his ROI:

He does not receive HRA from his employer. Mr. A took a loan from SBI on

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

- (a) Rs. 2,04,070 (b) Rs. 2,42,670
 (c) Rs. 2,52,670 (d) **Rs. 2,02,670**

2. Assuming Mr. A pays rent of 65,000 p.m. for his rented house at Mumbai to Mr. C, a resident individual, is Mr. A liable to deduct TDS on such rent. If so, what would be the rate & amount of TDS?

- (a) Yes, Mr. A is liable to deduct TDS @ 5% amounting to 3,250 every month i.e., at the time of payment of such rent
 (b) Yes, Mr. A is liable to deduct TDS @ 10% amounting to 6,500 every month i.e., at the time of payment of such rent
 (c) **Yes, Mr. A is liable to deduct TDS @ 5% amounting to 39,000 in the month of March 2020**

	business	profession	Receipts
PY 2020-21	78,00,000	43,00,000	1,21,00,000
PY 2021-22	85,00,000	47,00,000	1,32,00,000

During PY 2021-22, she paid an amount of 1,20,000 to a contractor for polishing her old furniture. She has taken services from renowned interior designers for her self-occupied residential HP for which she paid Rs. 2,50,000. Further on 28.05.2021 she sold one commercial property for Rs. 50,00,000. The value adopted for stamp duty was 52,00,000. It was purchased for 40,00,000 on 28.04.2019. Brought forward LTCL from unlisted shares of FY 2020-21 is 7,80,000. During the year, Ms. Chanchal incurred a loss of 70,00,000 while trading in agricultural commodity derivatives (no CTT paid).

that business income is 45,00,000 & income from profession is 25,00,000 for FY 2021-22?

- (a) 7,80,000 u/s 74 (b) 70,00,000 u/s 73
(c) 30,000 u/s 74 (d) 70 Lacs



Question 14

May 2021 – RTP

Mr. Sarthak, aged 38 years, working in Nobita Pvt. Ltd. as Senior Finance Manager. His yearly pay slip for FY 2021-22 is as follows:

Earnings	Total	Deduction	Total
Basic Pay	6,34,068	Employee's contribution to PF	1,14,132

above 65 years) by A/c payee cheque.

- (e) He has purchased a house of 28,00,000 & taken a loan of Rs. 21 Lacs from HDFC. He is paying EMI of Rs. 22,835. Possession of house received on 01.04.2021. He himself is occupying this house. Total principal & interest paid for full year is 55,037 & 2,18,983 respectively as per interest certificate received from bank for FY 2021-22.
- (f) He has 3 children, studying in Sandalwood International School. Following are the components of school fees paid for Academic Session 2021-22:

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

- (j) He has invested 40,000 in listed equity shares of Shaktimaan Power Solution Ltd. on 01.03.2021 at 200 per share & sells 100 shares at 350 per share on 01.11.2021. STT is paid both at the time of sale & purchase of these shares. Based on the above facts, choose the most appropriate answer to Q Nos. (1) to (5):

1. What would be amount of income chargeable to tax u/h Salaries in hands of Mr. Sarthak for AY 2023-24?
- (a) 16,53,210 (b) 16,21,236
(c) **16,76,036** (d) 16,71,236

amount of deduction is available to Mr. Sarthak under Chapter VI-A for PY 2021-22, if he does not opt for section 115BAC?

- (a) 2,62,500 (b) **2,59,537**
(c) 2,50,000 (d) 2,04,500



Question 15

November 2021

Mr. Animesh, an Indian citizen, age 61 years, has set-up his business in Canada & is residing in Canada since 2009. He owns a House in Canada, half of which is used by him for his residence & half is given on rent (converted into Rs. is 12,00,000 p.a.).

He purchased a flat in Delhi on 13.10.2018 for 42,00,000. SDV of the flat was

- Income from Apple Orchid in Nepal given on contract & the yearly contract fee of Rs. 5,00,000 for PY 2021- 22, was received by Animesh in Nepal.
- Mr. Animesh has sold 10,000 listed shares @ Rs. 480 per share of A Ltd., an Indian company, on 15.9.2020, which he acquired on 05.04.2016 @ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares.
- On 31.01.2018, the shares of A Ltd. were traded on a recognized stock exchange as under: Highest price - 300 per share; Average price - 290

does not opt to pay tax u/s 115BAC?

- | | |
|---------------|----------------------|
| (a) 22,82,200 | (b) 22,68,200 |
| (c) 22,48,200 | (d) 21,68,200 |

5. What would be the tax liability of Mr. Animesh for AY 2021-22?

- | | |
|---------------------|--------------|
| (a) 1,82,950 | (b) 1,87,110 |
| (c) 1,80,350 | (d) 1,84,510 |



Question 16

Mr. Amit, having business of manufacturing of furniture, gives the following Trading and Profit & Loss Account for the year ended 31.03.2025:

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Net profit	50,85,000	
	66,66,000	66,66,000

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

- (i) Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.
- (ii) Salary includes 30,000 paid to his brother which is unreasonable to the extent of ₹ 5,000.
- (iii) Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- (iv) Miscellaneous expenses include an amount of ₹ 1,00,000 paid to Political Party by cheque.

Net profit as per profit and loss account	50,85,000
Less: Income-tax refund credited in the profit and loss account, out of which interest on such refund is only taxable, which is to be considered separately under the head "Income from other sources"	<u>30,000</u>
	50,55,000
Add: Expenses either not allowable or to be considered separately but charged in the profit & loss account	
- Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	5,000
- Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 1)	2,500

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Total income	50,38,620
---------------------	------------------

Notes —

- (1) The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).
- (2) Payment to political party is not an expenditure incurred wholly and exclusively for business purpose and hence not allowance under section 37(1). Since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (3) The interest of ₹ 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 5,300 for delay in filing of returns is not allowable since it is for breach of law.

Add: Health and education cess@4%	<u>49,145</u>
Total tax liability	<u>12,77,765</u>
Total tax liability (Rounded off)	<u>12,77,770</u>

Computation of marginal relief

Particulars		₹
(A)	Tax payable including surcharge on total income of ₹ 50,38,620 as per section 115BAC	13,21,745
(B)	Tax payable on total income of ₹ 50 lakhs as per, section 115BAC	<u>11,90,000</u>
(C)	Excess tax payable (A-B)	<u>1,31,745</u>

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Less: Deduction under section 35AD (See Note 1)	<u>20,00,000</u>	<u>2,50,000</u>
Gross Total Income as per normal provisions of the Act		32,38,620
Less: Deduction under section 80GGC for contribution to Political Party (See Note 2)		1,00,000
Total Income as per regular provisions of the Act		31,38,620

Notes —

- (1) Deduction @100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009.

Total Income (computed above as per regular provisions of income tax)		31,38,620
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation under section 32 on building [20 lakhs x 10%]	<u>(2,00,000)</u>	<u>18,00,000</u>
Adjusted Total Income		<u>49,38,620</u>
Alternative Minimum Tax@18.5%		9,13,645
Add: Health and education cess@4%		<u>36,546</u>
Total tax liability		<u>9,50,191</u>
Total tax liability (rounded off)		9,50,190

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,95,000. He has paid municipal taxes of ₹ 25,000 for the current financial year. Both these floors are of equal size.
- (ii) As per interest certificate from HDFC bank, he paid ₹ 1,50,000 as interest and ₹ 80,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2018.
- (iii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 150 lakhs from export turnover. Out of ₹ 150 lakhs, only ₹ 120 lakhs have been received in India in convertible foreign exchange on or before 30.9.2025. This industrial undertaking fulfills all the conditions of section 10AA of the

You are requested to compute total income and tax liability of Mr. Sunil for the Assessment Year 2025-26 under default tax regime.



Solution

Computation of total income of Mr. Sunil for A.Y. 2025-26 under default tax regime under section 115BAC

	Particulars	₹	₹	₹
I	Income from house property Let out portion [First floor] Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,95,000	

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Tax on LTCG on sale of vacant land @20% with indexation		<u>9,600</u>
Tax on remaining total income of ₹ 34,79,950		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 7,00,001 – ₹ 10,00,000 [@10% of ₹ 3 lakhs]	30,000	
₹ 10,00,001 – ₹ 12,00,000 [@15% of ₹ 2 lakhs]	30,000	
₹ 12,00,001 – ₹ 15,00,000 [@20% of ₹ 3 lakhs]	60,000	
₹ 15,00,001 – ₹ 34,79,950 [@30% of ₹ 19,79,950]	<u>5,93,985</u>	
		<u>7,33,985</u>
		7,43,585

- (iv) Dividend Income from Indian companies ₹ 15,00,000.
Dividend received from each company is less than ₹ 5,000.

Additional information –

- (i) Mr. Ayush installed new plant and machinery for ₹ 65 lakhs on 1.10.2024 which was put to use on 1.1.2025. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 1962.
- (ii) Mr. Ayush took a loan from SBI of ₹ 50 lakhs on 1.9.2024 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2025 has

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

You are required to compute the total income and tax payable by Mr. Ayush for the A.Y. 2025-26 assuming that he has shifted out of the default tax regime under section 115BAC.



Solution

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

	Particulars	₹	₹	₹
I	Income from business or profession			
	Net profit as per profit and loss account		82,45,000	

(₹ 40 lakhs) and the fair market value (₹ 35 lakhs) has to be added back as per section 40A(2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value]

Less: Items of income to be treated separately under the respective head of income

6,75,000

89,20,000

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

	Additional depreciation @ 20% x 50% on such interest	<u>27,500</u>	<u>98,625</u>	
	[Since plant & machinery was put to use for less than 180 days in P.Y. 2024-25, it is eligible for 50% of the rate of depreciation]		63,73,825	
II	Capital Gains			
	Short term capital gains on transfer of listed equity shares		10,00,000	
III	Income from Other Sources			
	Interest on income-tax refund	4,550		
	Dividend from Indian companies	<u>15,00,000</u>	<u>15,04,550</u>	
	Gross Total Income		88,78,375	

	to be restricted to ₹ 25,000		
	Total Income		88,13,375
	Total Income (Rounded off)		88,13,380

Computation of tax payable by Mr. Ayush for A.Y. 2025-26 under the regular provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 88,13,380		
Tax on short term capital gains on transfer of listed equity shares @15% u/s 111A [₹ 10,00,000 x 15%]		1,50,000
Tax on other Income of ₹ 78,13,380		

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Ms. Farah, aged 40 years, is an advocate (Taxation). She keeps her books of accounts on accrual basis. Her profit & loss account for the year ended on March 31, 2025 is as follows:

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

	Amount (₹)		Amount (₹)
Staff salary	40,10,000	Fees Earned from:	
Rent	9,00,000	Taxation services	50,00,000
Administrative expenses	6,50,000	Appeals	16,00,000

93,65,000

93,65,000

Other information:

- (i) Administrative expenses include ₹ 50,000 paid to a tax consultant in cash for assisting Ms. Farah in one of the professional assignments.
- (ii) The traveling expenses include expenditure incurred on foreign professional tour of ₹ 50,000 which was within the RBI norms.
- (iii) Ms. Farah paid medical insurance premium for her parents (senior citizens and not dependent on her) online amounting ₹ 47,000. She also paid ₹ 8,500 by cash towards preventive health check-up for herself and her spouse.
- (iv) Repairs and maintenance of car is for the period from 1-10-2024 to 30-09-2025.

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

issued under gold monetization scheme, 2015 [Exempt under section 10(15)]		
Honorarium for valuation of answer papers	50,000	11,50,000
Gross Total Income		28,64,200
Less: Deduction under Chapter VI-A [Deduction under section 80D would not be allowable]		-
Total Income		28,64,200

**Computation of total income and tax payable by Ms. Farah for the
A.Y.2025-26 under regular provisions of the Act**

Particulars	₹
Gross Total Income	28,64,200
[Income under the “Income from house property” “Profits and gains from business or profession” and “Income from other sources” would remain the same under regular provisions of the Act]	
<i>Less:</i> Deductions under Chapter VI-A	
Section 80D	
Medical insurance premium paid online for parents, being senior citizens	47,000

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

is lower than the tax payable under the regular provisions of the Act, it would be beneficial for Ms. Farah to pay tax under default tax regime under section 115BAC for A.Y. 2025-26.



Question 20

Mr. Amit, aged 45 years, a resident Indian has provided you the following information for the previous year ended 31.03.2025

- (i) He received royalty of ₹ 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2025 is ₹ 2,30,000.

municipal taxes of ₹ 60,000 for the current financial year. Both floor are of equal size.

- (vi) He paid insurance premium of ₹ 39,000 on life insurance policy of son, who is not dependent on him and ₹ 48,000 on life insurance policy of his dependent father.
- (vii) He paid tuition fees of ₹ 42,000 for his three children to a school. The fees being ₹ 14,000 p.a. per child.

You are required to compute the total income and tax liability of Mr. Amit under normal provisions for the A.Y. 2025-26.

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

[illegible]

Tax on LTCG of ₹ 10,75,000, being the sum exceeding ₹ 1.25 lakh @10% u/s 112A		1,07,500
Tax on remaining total income of ₹ 21,49,600		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001 – ₹ 21,49,600 [@30% of ₹ 11,49,600]	3,44,880	4,57,380
Add: Health and education cess@4%		5,64,880
Total tax liability		22,595
Tax liability (rounded off)		5,87,475
		5,87,480

Particulars	₹
Tax liability under section 115JC	6,81,020
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	5,87,480
	93,540



Question 21

Mr. Ashok, aged 61 years, a resident individual, engaged in a wholesale business of stationary products provides you the following information for the year ended 31.3.2025. He is also a partner in UVW & Co., a partnership firm.

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Salary as working partner fully taxable	<u>1,00,000</u>	<u>2,20,000</u>	7,50,700
Income from other sources			
Interest on bank fixed deposit (Gross)		55,000	
[₹ 49,500 x 100/90]			
Interest on saving bank account		13,300	
Interest on income-tax refund	<u>1,400</u>	<u>69,700</u>	
Gross total income			9,14,900
Less: Deduction under Chapter VIA (Note 3)		<u>2,65,000</u>	
Total Income			<u>6,49,900</u>

Block 2	Motor Car	6,80,000	15%	51,000	40,800
				[50% of 15% is allowable, since it is put to use for less than 180 days]	
	Less: 20% disallowance for personal use			<u>10,200</u>	
					<u>1,96,800</u>

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Contribution towards PM National Relief Fund eligible for 100% deduction without any qualifying limit		50,000
Under section 80TTB		
Interest on deposits in case of senior citizen, restricted to		50,000
Total deduction		2,65,000

Question 22

Mr. Sahil, resident Indian aged 40 years, a Manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025.

To General Expenses	3,85,000	By Profit on Sale of Shares	3,15,000
To Miscellaneous Expenses	10,53,500		
To Loss on Sale of Shares	1,40,000		
To Interest to Bank for term loan	4,20,000		
To Depreciation	14,00,000		
To Net Profit	94,92,000		
Total	1,57,39,500	Total	1,57,39,500

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Account given above.

- (ix) Deprecation allowable under the Act to be computed on the basis of following information:

Plant & Machinery (Depreciation Rate @15%)	₹
Opening WDV (as on 01.04.2024)	84,00,000
Additions During the year (Used for more than 180 Days)	14,00,000
Total Additions during the year	28,00,000
Note: Ignore Additional Depreciation u/s 32(1)(iia)	

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



Solution

- under section 43A(2)]
- Cash payment to a Transport Carrier [Not disallowed under section 40A(3) since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators]
 - Interest to bank on term loan [Interest paid to bank after the due date of filing of return under section 139(1) is disallowed as per section 43B]

Nil

2,80,000

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

- On Plant & Machinery [@15% on ₹ 98,00,000, being opening WDV of ₹ 84 lakhs and additions put to use for more than 180 days of ₹ 14 lakhs + @7.5% on ₹ 14,00,000, being additions put to use for less than 180 days]

15,75,000

Business Income

93,12,500

Less: Set off of loss from house property as per section 71(3A)

2,00,000

91,12,500

allowable under section 80EEA

Deduction under section 80G

Contribution to Prime Minister's Relief Fund

10,000

1,20,000

Total Income

93,77,500

Tax Liability

Tax on LTCG of ₹ 50,000 exceeding ₹ 1.25 lakhs] u/s 112A @12.5%

6,250

Tax on winning from lotteries of ₹ 1,05,000 @30%

31,500

Tax on balance income of ₹ 90,97,500 at slab rate

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

down value of which is ₹ 8 lakhs as on April 1, 2024. The Statement of Profit and Loss for the previous year ended on March 31, 2025 shows a net profit of ₹ 9.25 lakhs (before taxation and depreciation) after debiting/crediting the following items:

- (i) Administrative expenses include ₹ 9,525 paid towards interest on delay in deposit of GST.
- (ii) General expenses include a sum of ₹ 3,88,000 paid to a non-resident as fee for technical services without deduction of tax at source.
- (iii) Fire insurance premium of ₹ 66,000 for the entire building remained unpaid till 31st March, 2025.
- (iv) Expenditure of ₹ 75,000, was paid to a scientific research association approved under section 35. Out of ₹ 75,000, ₹ 50,000 was utilised

March 31, 2025. Both M/s. Paul Industries and M/s. Kal Industries follow mercantile system of accounting.

- (ii) Mr. Raman acquired a registered trademark on July 15, 2024 for ₹ 2,00,000. Mr. Raman started using this trademark for his business from January 15, 2025. Mr. Raman omitted to enter any transaction relating to this trademark in his books of accounts.
- (iii) Mr. Raman bought a car for personal use on 12th April, 2021 for ₹ 5,40,000. He started using this car for business purposes from 01.04.2024. As on that day, the market value of the car was ₹ 2,10,000. Assume the rate of depreciation to be 15%.
- (iv) He incurred ₹ 2,50,000 on the purchase of a new machinery to be used in the production of spare parts for motor bikes on May 15, 2024.

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

- On trademark [$\text{₹ } 2,00,000 \times 25\% \times 50\%$, since trademark is put to use for less than 180 days]	25,000
- On Car [$\text{₹ } 5,40,000 \times 15\%$]	81,000
- On new Plant & machinery [$\text{₹ } 2,50,000 \times 15\%$]	37,500
- On Building [$\% 8,00,000 \times 10\%$]	80,000
Additional depreciation	
- On new Plant & machinery [Not allowable under default tax regime]	Nil
Income from Business	4,26,500

**Computation of total income and tax liability of Mr. Raman for
A.Y. 2025-26 under normal provisions of the Act**

Particulars	₹	₹
Gross Total Income as per default tax regime		11,20,500
Less: Additional depreciation on new Plant & machinery [$\text{₹ } 2,50,000 \times 20\%$]		50,000
Less: Contribution to scientific research association approved u/s 35		75,000

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

From ₹ 3,00,001 to ₹ 5,00,000 @5%	10,000	
From ₹ 5,00,001 to ₹ 9,45,500 @20%	89,100	99,100
Add: Health and education cess @4%		3,964
Tax Liability		1,03,064
Tax Liability (Rounded off)		1,03,060

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE