INTRODUCTION

09/08/24

Why does government collect tax?

- power [constitution of India]
  - tax on income other than agricultural income → union list → central govn. Entry no. 82 of VII sch. of article 246 of constitution of India.
    - 50,00,000 → Exempt
    - More than 50,00,000 → tax.
  - Agricultural income → state list - Entry 46.
- money
  - > Business - eg. Railway, ONGC, BHEL, LIC, etc
  - > Public in form of taxes
  - > Loans - eg. IMF.
  - Taxes from public
    - Direct tax (income tax)
    - Indirect tax (GST)

10/08/24

Topic 1: Basics and tax rates

To run & develop any country, government needs power and money. Government gets money from businesses, taxes and loan.

Power - Entry no. 82 of Union list in VIIth schedule of article 246 of constitution of India has given power to central government to make law on taxes on income other than agricultural income.

- Entry no 46 of state list in VIIth schedule of article 246 of constitution of India has given power to state government to make law on taxes on agricultural income

In this subject we have to calculate total income and tax liability of person

Name of Assessee ----- PY 24-25 AY 25-26

computation of total income

	₹
Income from salary	xxx
Income from House property	xxx
Income from Business or profession	xxx
Income from capital gain	xxx
Income from other sources	xxx
Gross total income (GTI)	xxx
Less: Deduction u/c VI-A	(xxx)
Total income / Net taxable income (NTI)	xxx

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for computation of total income and tax liabilities we should have knowledge of income Tax Law.

> Income tax Act, 1961 - It is the main source of tax law. It provides determination of total income, tax liability, etc. It is applicable to whole of India from 1 April 1962
- Proviso : It means exception or condition of section.
- Explanation: It means meaning of any term used in the section

> Income tax rules, 1962 - Income Tax Act empowered CBDT (central board of direct taxes) to make rules. Rate of depreciation, all forms, valuation rules, etc. provided in income Tax rules.

> Finance Act, 2024 - Every year finance minister presents finance bill in parliament which contain various amendments to be made in direct and indirect taxes.
Finance Bill (No. 1) 2024 was presented by Nirmala Sitaraman on 1st feb, 2024 and Finance Bill (No. 2) 2024 was presented by her on 23 July 2024.
As soon as bill was passed by Parliament and after receiving approval by the president, it becomes Finance Act.
- Finance (No. 1) Bill, 2024 became Finance Act (No. 1), 2024 on 15th February 2024.
- Finance (No. 2) Bill, 2024 became Finance Act (No. 2), 2024 on 16th August 2024

> Notification: It is issued by central government / CBDT to give effect of ammendment or to give effect of provision of the Act. It is binding to Assessee as well as department

> Circulars: They are issued by CBDT to clarify the meaning of certain provisions. It is binding to Income Tax department but not binding to assessee.

> Sec 4: charging section of Income Tax
Income tax is charged for every assessment year. It is charged on every person. It is charged on total income earned by person in previous year. Tax is charged at the rate prescribed in Finance Act.

Year

- calender year
  1/1 - 31/12
- Financial year
  (1/4 - 31/3)
  - Year of Income
    Previous year (PY)
    PY 2024-25
    (1/4/24 - 31/3/25)
  - Year of tax
    Assessment year (AY)
    AY 25-26
    (1/4/25 - 31/3/26)

sec 2(9): Assessment year - It means a period of 12 months commencing every year on 1st April and ends on 31 March of the subsequent year
Income earned in previous year is taxed in assessment year. It means assessee pays tax and files his return of income in assessment year.

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Income earned in PY 2024-25 will be taxable in AY 2025-26.

Sec 3 : Previous year. - It means the year in which assessee earns the income. PY starts from 1st April of every year and ends on 31 March of subsequent year normally. But in case of new business /profession (new source of income) PY starts from the date on which new business or profession was set up or new source of business or income arrived. Till 31 March of that financial year.

eg. Mr. Kartik started business on 10 December 2024. In this case, PY 2024-25 will commence from 10 Dec. 2024 and ends on 31 March 2025.

> Sec 2(31) : Person:

1. Individual - It means a natural person, i.e, a human being. It includes male, female, minor, third gender, unsound mind

eg. Mr. Ayush

2. Hindu Undivided Family (HUF)

School of Hindu Law

Dayabhaga School	Mitakshara School
↓	↓
West Bengal & Assam	Rest of India except West Bengal and Assam.
↓	↓
child cannot acquire a right in property till the time the head of the family is alive	child acquires right in property by birth.

eg. Mr. BB's HUF

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3. Company
- Indian company : Any body corporate incorporated in India (under companies Act, 2013 or any other state law)
- Foreign company : Any body corporate incorporated outside India having place of business in India.

4. Partnership firm :- It means firm defined under sec 4 of The ~~Indian~~ Partnership Act, 1932 or Limited Liability Partnership Act, 2008.
eg. BB virtual firm.

5. Association of person / Body of Individual (AOP / BOI) :-
Under AOP, any person can become a member but under BOI, only individuals can become member
eg. A & B Joint venture

6. Local Authority :-
eg. Gram Panchayat, Municipality.

7. Artificial Judicial person :-
eg. Deities, Bar council, university, etc

> Assessee [2(7)] :-
It means person required to pay tax or any other sum under income tax law
All assessees are persons but not all persons are assessee.

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Tax rates for assessment year 25-26
[P.Y. 24-25]

General tax rates
[Finance Act, 2024]

Special tax rates
[Income tax Act, 1961]

> General tax rates:-

[A] In case of individual / HUF / AOP / BOI / Artificial Juridical person.

(a) In case of Individual / HUF / AOP / BOI / AJP (resident or non resident) :-

Total income upto ₹ 50,000 (Basic exemption)	–
Total income > ₹ 50,000 upto 5,00,000	5%
Total income > 5,00,000 upto 10,00,000	20%
Total income > 10,00,000	30%

(b) In case of senior citizen (resident individual, aged 60 years or more in P.Y)

Total income upto 3,00,000 (basic exemption)	–
Total income > 3,00,000 upto 5,00,000	5%
Total income > 5,00,000 upto 10,00,000	20%
Total income > 10,00,000	30%

(c) In case of super senior citizen (resident individual, age 80 yrs or more in P.Y]

Total income upto 5,00,000 (basic exemption)	–
Total income > 5,00,000 upto 10,00,000	20%
Total income > 10,00,000	30%

Date of Birth	Basic exemption for PY 24-25 (AY 25-26)
01/04/1965	3,00,000 (completed age of 60 yrs on 31/3/25)
01/04/1945	5,00,000 (completed age of 80 years on 31/03/25).

> Surcharge :-

	%
a) If total income is upto 50,00,000	Nil.
b) total income > 50,00,00 upto 1 crore	10% of tax
c) total income > 1 crore upto 2 crore	15% of tax
d) total income > 2 crore upto 5 crore	25% of tax
e) total income > 5 crore	37% of tax

> Health & Education cess @ 4% always applicable [on taxes + surcharge (if any)]

* Total Income (NIT) and net tax liability is always rounded off to nearest rupee of 10.

₹ 29054 → 29050

₹ 29505 → 29510

₹ 29509 → 29510.

Ex 1: Total income of Mr. BB (age 34 years) is ₹ 15,60,000. compute tax liability for AY 25-26 (PY 24-25). (assume assessee opt out from sec 115BAC]

=> computation of tax liability.

Total income upto 250,000	-	-
> 250,000 upto 5,00,000	5%	12500
> 5,00,000 upto 10,00,000	20%	1,00,000
> 10,00,000	30%	168000
		280500
add: surcharge	-	-
		280500
add: 4% Health & Education cess	4%	11220
∴ Total tax liability		291720

Ex 2: Total income of Mr. Bala (age 62 years) is ₹ 6400,000. He is resident of India. calculate tax liability for AY 25-26 [assume he opt out from sec 115 BAC]

=> computation of tax liability.

Total income upto 3,00,000	-	-
income > 3,00,000 upto 5,00,000	5%	10,000
income > 5,00,000 upto 10,00,000	10%	1,00,000
income > 10,00,000	30%	1620000
		1730000
add: surcharge @ 10% on tax	10%	173000
		1903000
add: Health and education cess	4%	76120
∴ Total tax liability		1979120

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Ex3: Mr. Lobo, (age 82 years) is a non-resident, having total income of ₹ 1,20,30,000. calculate tax liability for AY 25-26 (PY 24-25) [assume he opted out from sec 115BAC]

=> computation of tax liability.

Total income upto ₹ 250,000	-	-
income > 250,000 upto 5,00,000	5%	12500
income > 5,00,000 upto 10,00,000	20%	100000
income > 10,00,000	30%	3309000
		3421500
add: surcharge on tax	15%	513225
		3934725
add: Health & Education cess	4%	157389
∴ Total tax liability		4092114

> Marginal Relief.

Ex4: Mr. BB, resident individual, age 34 years, having total income of ₹ 50,20,000. calculate tax liability. [assume assessee opt out from sec 115 BAC].

=> computation of tax liability.

Total income upto 250,000	-	-
income > 250000 upto 5,00000	5%	12500
income > 5,00,000 upto 1000000	20%	100000
income > 10,00,000 upto 5200000	30%	1296000
		2318500
add: surcharge	10%	231850
		12450350
Restricted to,		
tax 50,00,000 + [NTI - 50 lakh]		
1312500 + 20,000		1332500
		1332500
add: HEC @ 4%		53300
total tax liability		1385800

11 marginal relief is applicable for all assessee wherever surcharge is applicable. you have to check marginal relief when total income is a little bit more than 50L, 1cr, 2cr, etc (in case of individual, AOP, BOI, AJP) or more than 1cr / 10cr (in case of company, co-operative society) __/__/____

Ex 5: Miss Ganga (age 65 years, resident individual), having total income of ₹ 51,00,000. calculate tax liability. [Assume assessee opt out from sec 115 BAC]

=> computation of tax liability.

Total income upto 3,00,000	-	-
income > 3,00,000 upto 5,00,000	5%	10000
income > 5,00,000 upto 10,00,000	20%	100,000
income > 10,00,000 upto 51,00,000	30%	1230000
		1340000.
add : surcharge	10%	134000
		1474000.
Restricted to tax for 50,00,000 + (NTI - 50,00,000) 1312500 + 100,000		1412500
		1412500
Health & Education cess	4%	56400 ~~56500~~
		1466400
∴ Total tax liability		~~1469000~~

∴ Marginal relief in above case = ~~61500~~ 64000.

Ex 6: Total income of Mr. Hari is 1,02,30,000. calculate tax liability. [assume assessee opt out from sec 115 BAC]

=> Computation of tax liability

upto 250,000	-	-
income > 250,000 upto 5,00,000	5%	12500
income > 5,00,000 upto 10,00,000	20%	100,000
income > 10,00,000 upto 102,30,000	30%	2769000
		2881500
add : surcharge	15%	432225
		3313725

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∴ tax liability before HEC & marginal relief		3313725
Restricted to (Note 1)		
Tax on 1 crore + (NTI - 1 crore)		
3093750 + 230000		3323750
		3313725
add : Health & Education cess	4%	132549
∴ Net tax liability.		3446275

Note 1

income upto 250,000	-	-
> 250,000 upto 5,00,000	5%	12500
> 5,00,000 upto 1000000	20%	100,000
> 10,00,000 upto 10,00,000	30%	2700000
		2812500
add : surcharge	10%	281250
		3093750

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Ex 7: Ms Nikita, age 19 years, resident individual, having total income of 2,03,20,000. calculate tax liability. [Assume assessee opt out from sec 115 BAC]

=> computation of tax liability.

Income upto 250,000	-	-
> 250,000 upto 5,00,000	5%	12500
> 5,00,000 upto 10,00,000	20%	100000
> 10,00,000 upto 20320,000	30%	5796000
		5908500
add: surcharge	25%	1477125
		7385625
Restricted to, (Note 1)		
Tax on 2 crore + (NTI - 2 crore)		
6684375 + 320,000		7004375
		7004375
add: Health & Education cess	4%	280175
∴ Net taxable income		7284550

Note 1.

income upto 250,000	-	-
> 250,000 upto 5,00,000	5%	12500
> 5,00,000 upto 10,00,000	20%	100000
> 10,00,000 upto 200,00,000	30%	5700000
		5812500
add: surcharge	15%	871875
		6684375

Marginal relief = 381250.

Ex 8. Mr. Anant Ambani having total income of ₹ 50730,000. calculate tax liability. [assume assessee opt out from sec 115 BAC]

⇒ computation of tax liability.

upto 250,000	-	-
> 250,000 upto 5,00,000	5%	12500
> 5,00,000 upto 10,00,000	20%	1,00,000
> 10,00,000 upto 50730000	30%	14919000
		15031500
add: surcharge	37%	5561655
		20593155
Restricted to (Note 1),		
Tax on 5 crore + (NTI - 5 crore)		
18515625 + 730,000		19245625
		19245625
add: Health & Education cess	4%	769825
∴ Total tax liability.		20015450

Note 1 :

upto 250,000	-	-
> 250,000 upto 5,00,000	5%	12500
> 5,00,000 upto 10,00,000	20%	1,00000
> 10,00,000 upto 5,00,00,000	30%	14700000
		14812500
add: surcharge	25%	3703125
		18515625

Marginal relief = 1347530.

> sec 87A : Rebate for resident individual.

for resident individual, having total income upto ₹ 5,00,000 rebate from tax

(i) tax amount or,

(ii) ₹12500,

whichever is lower.

Note :

(i) rebate available before HEC

(ii) rebate is available against tax of any type of income other than LTCG under sec 112A. (long term capital gain)

Ex 1: Mr. Hari (resident) Total income = 430000.

Tax upto 250,000	-	-
>250,000 upto 430,000	5%	9000
		9000
less : Rebate u/s 87A		(9000)
		X

Ex2: Mr. Raja (resident) Total income = 502000

Tax upto 250,000	-	-
>250,000 upto 500,000	5%	12500
>500,000 upto 502000	20%	400
		12900
Add : HEC	4%	516
(No rebate available as total income exceeds ₹ 5,00,000)		13416
		13420

> Sec 115 BAC : Default tax regime for individual / HUF/ AOP/ BOI / Artificial Juridical system.

tax rates for individual / HUF/ AOP/ BOI / AJP

total income upto 3,00,000 (basic exemption)	–	–
> 3,00,000 upto 7,00,000	5%	
> 7,00,000 upto 10,00,000	10%	
> 10,00,000 upto 12,00,000	15%	
> 12,00,000 upto 15,00,000	20%	
> 15,00,000	30%	

Note 1:

1. In case of senior citizen & super senior citizen basic exemption limit of ₹ 3,00,000 only applicable
2. This section is applicable in case of resident as well as non-resident.

Surcharge

~~upto~~ upto 50,00,000	–
> 50,00,000 upto 1 crore	10%
> 1 crore upto 2 crore	15%
> 2 crore	~~20%~~ 25%

Surcharge of 37% not applicable

3. Health & Education cess @ 4% applicable

13/08/24 Question bank page 1

Question 1

(a) age 45 years.

Computation of tax liability

total income upto 250,000	-	-
income > 250,000 upto 5,00,000	5%	12500
income > 5,00,000 upto 10,00,000	20%	100,000
income > 1000,000 upto 12,00,000	30%	60000
		172500
add : surcharge	-	-
add : Health & Education ces	4%	6900
∴ Net tax liability.		179400

(b) age 63 years

computation of tax liability

total income upto ~~250,000~~ 3,00,000	-	-
Income > 3,00,000 upto 5,00,000	5%	10000
income > 5,00,000 upto 10,00,000	20%	1,00,000
income > 10,00,000 upto 12,00,000	30%	60000
		170,000
add : surcharge	-	-
add : HEC	4%	6800
∴ Net tax liability.		176800

(c) age 82 years

total income upto ₹ 5,00,000	-	-
income > 5,00,000 upto 10,00,000	20%	100000
income > 1000,000 upto 12,00,000	30%	60,000
		160000
add : surcharge	-	-
add : HEC	@4%	6400
∴ Net tax liability		166400

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Assessee does not claim following exemptions & deductions in sec 115BAC

1. Income from salary

a) HRA exemption u/s 10(13A)

b) LTC exemption u/s 10(5)

c) allowances exemption u/s 10(14) [Except: DTDC]

D : commutation allowance exemption for Divyang employee

T : Travel on tour allowance

D : Daily allowances

C : conveyance allowance

d) deduction u/s 16(ii) & (iii) for entertainment allowance & professional tax

e) free meal exemption upto ₹ 50 per meal.

2. Income from house property

a) interest u/s 24(b) in case of SOP (max ₹ 30000/200000) Not allowed

b) Loss from LOP/DLOP Not allowed to set off against any other head of income & losses cannot be c/f

3. Profit and gain from business or profession

a) Additional depreciation 32(1)(iia)

b) deduction u/s 35(1)(ii), (iiA), (iii), 35(2AA) [Donation]

c) Deduction u/s 35AD - specified business

4. Income from other sources.

a) Allowance exemption for MP/MLA/MLC u/s 10(17)

b) Exemption for minors u/s 10(32)

5. Deduction u/c VI-A.

a) deduction u/s 10AA (SEZ)

b) any deduction u/c VI-A [80C to 80U] - except:

80CCD(2), 80CCH(2), 80JJAA.

Note1: Assessee cannot set-off any b/f loss or unabsorbed depreciation attributable to deduction referred above

HP loss cannot be set off against other head.

No deduction or exemption for allowance or perquisite provided under any other law for the time being in force

Note 2 : Sec 115BAC is default tax regime. However assessee can take the benefit of normal (regular) tax regime by opting out from sec 115BAC

(a) assessee does not have PGBP : option of normal tax regime must be exercised upto due date u/s 139(1) for every PY.

(b) assessee having PGBP : Option of normal tax regime must be exercised upto due date u/s 139(1) and this option shall be apply for subsequent year also. However if assessee withdraw from Normal tax regime in any PY then he shall never be eligible for normal tax regime till the time he is having business income

Note 3 : If assessee pay tax as per sec 115BAC then AMT not applicable

Note 4 : If assessee pay tax as per sec 115BAC then max dep rate is 40%

Rebate u/s 87A if assessee pay tax as per sec 115BAC.

For resident individual having total income upto 7,00,000

Rebate amt

(i) Tax amount	xx
(ii) 250000	xx
	xx

Marginal relief : If total income is more than 7,00,000 but upto 7,22,220 tax on such income cannot exceed the amount by which the total income exceed 7,00,000. However, marginal relief Not available in case of Normal tax regime

[B] II Tax rates for companies

	tax rate
A) Domestic company	
(i) total turnover or gross receipt of PY 22-23 is upto 400 crore	25%
(ii) otherwise	30%
B) foreign company	35%

Surcharge

Total income	Dom. co.	Foreign co.
> 1 crore upto 10 crore	7%	2%
> 10 crore	12%	5%

Health & Education cess @ 4% always on taxes + S.C (if any)

Ex1: Compute tax liability of BB virtuals pvt ltd, a domestic company (turnover of PY 22-23 was 70 crore)
Total income PY-24-25 was
(a) 70,00,000
(b) 101,00,000
(c) 100280,000

=> (a) computation of tax liability.

Tax on total income (70,00,000 x 25%)	1750,000
add: surcharge	-
	1750000
add: HEC @ 4%	70000
Net tax liability	1820,000

(b) computation of tax liability.

Tax on total income (1,01,00,000 x 25%)	2525000
add: surcharge @ 7%	176750
	2701750
~~add : HEC @ 4%~~	~~108070~~
~~∴ Net tax liability~~	~~2809820~~

~~(c) Tax on total income (10,02,80,000)~~

Restricted to

tax on 1 crore + (NTI - 1 crore)

2500,000 + (100,000)	26,00,000
	2600000
add: HEC @ 4%	104000
∴ Net tax liability	2704000

(c) Tax on total income (10,02,80,000 x 25%) 25070000

add: surcharge @ 12%	3008400
	28078400

Restricted to

tax on 10 crore + (NTI - 10 crore)

26750000 + 280,000	27030000
	27030000
add: HEC @ 4%	1081200
∴ Net tax liability	28111200

Ex2: Total income of Harry Inc (foreign company) is ₹ 10080,000.
calculate tax liability for PY 24-25 (AY25-26).
Turnove for 22-23 was 360 crore

⇒ computation of tax liability

Tax on total income (10080,000 x 35%)	3528000
add: surcharge @ 2%	70560
	3598560

Restricted to tax on 1 crore
tax on 1 crore + (NTI - 1 crore)

3500000 + 80,000	3580000
	3580000
add: HEC @ 4%	143200
∴ Net tax liability	3723200

[C] Tax rate for partnership firm / LLP / Local authority.
Tax rate = 30%
surcharge applicable @ 12% if total income > 1 crore
HEC @ 4% (always on tax + surcharge if any).

[D] co-operative society.

tax rate on total income upto 10,000	10%
>10,000 upto 20,000	20%
> 20,000	30%

surcharge applicable @ 7% if total income > 1 crore upto 10 crore

@ 12% if total income > 10 crore

HEC @ 4%.

13/08/24. Question bank page 1

Question 2

computation of tax liability.

income upto 250,000	-	-
income > 250,000 upto 5,00,000	5%	12500
income > 5,00,000 upto 10,00,000	20%	1,00,000
income > 10,00,000 upto 51,00,000	30%	1230000
		1342500
add: surcharge	10%	134250
		1476750

Restricted to,

tax on 50,00,000 + (NTI - 50,00,000)

1312500 + 1,00,000 — 1412500

1412500

add: HEC @ 4% — 56500

∴ Net tax liability. — 1469000

Question 3 (part B on page 24)

computation of tax liability.

income upto 250,000.	-	-
income > 250,000 upto 5,00,000	5%	12500
income > 5,00,000 upto 10,00,000	20%	100,000
income > 10,00,000 upto 1,01,00,000	30%	2730000
		2842500
add: surcharge	15%	426375
		3268875

Restricted to

tax on 1 crore + (NTI - 1 crore)

~~2812500~~ + 1,00,000 — ~~2812500~~ 3334375

3234375 — ~~2812500~~ 3268875

add: HEC @ 4% — ~~116500~~ 130755

∴ net tax liability — ~~3029000~~ 3399630

Question 4

computation of tax liability.

Total income upto 250,000	-	-
income > 250,000 upto ~~500~~ 440,000	5%	9500 ~~190000~~
less : Rebate under 87A		(9500)
		x
add : surcharge		x
add : HEC @ 4%		x
∴ total tax liability		0/Nil

Question 3 (part B)

computation of tax liability as per default tax regime u/s 115BAC

upto 3,00,000	-	-
>3,00,000 upto 700,000	5%	20000
>7,00,000 upto 1000,000	10%	30000
>10,00,000 upto 1200000	15%	30000
>1200000 upto 15,00,000	20%	60000
> 15,00000 upto 10100000	30%	2580000
		2720,000
add : surcharge	15%	408000
		3128000

Restricted to

tax on 1 crore + (NTI - 1 crore)

2959000 + 100,000		3059000
		3059000
add : HEC	4%	122360
∴ Net tax liability.		3181360

Agriculture Income

agriculture income from agriculture land in India shall be exempt (not taxable) u/s 10(1)

meaning of agriculture income

1. income from sale of agriculture produce (grown and sale)
2. Rent of agriculture land (used for agriculture purpose by tenant)
3. Rent of farmhouse (used as storehouse or dwelling unit)
4. Income of nursery

Rule No 7 : Sale of agriculture produce

- sale in raw form → total agriculture income (SP - cost)
- sale after further process
  - If process is compulsory for sale → agriculture income
  - process is not compulsory for sale → Business income

Fair market value of agriculture produce	xxx
less: cost of agricultural produce	(xxx)
agricultural income	xxx

Sale value of final product	xxx
(-) process cost	(xxx)
(-) FMV of agric. product	(xxx)
PGBP income	xxx

eg. Mr. Ayush produced 1000 tons of potato (cost 70,000)

200 tons sold in raw form (₹ 1,30,000)

800 tons converted to chips at cost ₹ 300000

sale value = 15,00,000.

∴ total agricultural income :-

(a) sale in raw form

sale price	130000	
(-) cost	(14000)	116000

(b) FMV of agricultural produce for further processing $\left(\frac{130000}{200} \times 800\right)$ 520000

(-) cost of agri. product $\left(\frac{70000}{1000} \times 800\right)$ (56000) → 464000

∴ total agricultural income of Ayush 580000.

PGBP income :-

(a) sale value of final product	1500000
less : processing cost	(3,00,000)
less : FMV of agricultural produce	(520000)
∴ PGBP income	680,000

⇒ total agriculture income = 580,000

PGBP income = 680,000.

__/__/____

Question 13 (page 4).

sugarcane

raw form (30 %) | further process (70%)

sale price =	10,00,000	FMV of agri.	22,00,000	sale value	25L
(-) cost =	5,00,000	less: cost	(14,00,000)	less: cost	(1.5L)
agri. income =	5,00,000	agri. income	8,00,000	less: FMV	(22L)
				PGBP	150000

∴ total agricultural income = 5,00,000 + 8,00,000
= 13,00,000.

total income from business = 150,000.

> Some specific rule for tea, coffee and rubber.

Rule No. 8: Income from growing & manufacturing of tea

40 % business income | 60 % agriculture income

Rule No. 7B: Income from growing & manufacturing of coffee

(i) grown and cured of coffee

25 % business income | 75 % agricultural income

(ii) grown, cured, roasted & grounded coffee

40 % business income | 60 % agriculture income

(iii)

Rule 7A: growing & manufacturing rubber

35 % business income | 65 % agriculture income

Question 17, (page 5)

computation of agriculture income & business income

S.No.	Particulars	%	Business income	%	agriculture income	total income
(i)	sale of latex processed from rubber plants	35	105000	65	195000	3,00,000
(ii)	sale of coffee grown & cured	25	25000	75	75000	1,00,000
(iii)	sale of coffee, grown, cured, roasted & grounded in columbo	100	250000	-	-	250000
(iv)	sale of tea grown & manufactured	40	160000	60	240000	4,00,000
(v)	sale of sapling & seedling grown in nursery	-	-	100	80,000	80,000
	Total		540000		590000	1130000

Question 15 (page 5)

(a) income of Mr. Raja by sale of coffee grown and cured = 10L.

∴ Business income (25%) = 250000.

Agriculture income (75%) = 750000

(b) income of Mr. Shyam by sale of coffee grown, cured, roasted and grounded = 20,00,000

∴ business income (40%) = 800000

Agriculture income (60%) = 1200000.

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Partial integration in case of agriculture income

agriculture income is exempt from tax but for computation of tax liability, it shall be considered if following conditions are satisfied.

1. assessee should be individual / HUF/ AOP/BOI / AJP
2. net agriculture income is more than ₹ 5,000.
3. non-agriculture (other) income > basic exemption.

computation of tax liability

Tax on (total income + Net agri. income)	xxx
(-) tax on (basic exemption + Net agri. income)	(xxx)
Net tax liability	xxx

EN: Question 16 (page 5)

Mr X - PY 24-25, AY 25-26

computation of total income

Particulars	₹	₹
Income from salary		480,000
Income from house property		350,000
Income from other sources		
Net agriculture income	310,000	
(-) exempt u/s 10(1)	(3,10,000)	-
Gross total income		830,000
(-) deduction u/s VI - A		-
Total income / NTI		830,000

__/__/____

Part A: tax liability as per default tax regime u/s 115BAC

Total tax liability:

Tax on (total income + Net agriculture income)

(830,000 + 3,10,000) – Note 1 — 71000

less : tax on (basic exemption + Net agriculture income)

(3,00,000 + 3,10,000) – Note 2 — (15500)

55500

add: HEC @4%. — 2220

Net tax liability — 57720

Note 1: Tax on total income + Net agriculture income = 1140000

tax on income upto 3,00,000	–	–
income > 3,00,000 upto 7,00,000	5%	20,000
income > 7,00,000 upto 10,00,000	10%	30,000
income > 10,00,000 upto 1,14,0000	15%	21000
		71000
~~add: Health and education cess~~	4%	~~2840~~

Note 2: tax on 610,000.

tax on income upto 3,00,000	–	–
income > 3,00,000 upto 6,10,000	5%	15500
		15500

Part B: computation of tax as p assuming assessee opt out of sec 115 BAC.

(i) assuming assessee's age to be 40 years

tax on (total income + net agriculture income) (830,000 + 3,10,000) - Note 1	154500
less: tax on (Basic exemption + Net agriculture income) - Note 2	(24500)
	130000
add: Health and Education ces @ 4%	5200
Net tax liability	135200

Note 1: tax on (total income + Net agriculture income)

tax on 1140,000.

tax on income upto 250,000	-	-
income > 250,000 upto 5,00,000	5%	12500
income > 5,00,000 upto 10,00,000	20%	100000
income > 10,00,000 upto 11,40,000	30%	42000
		154500

Note 2: tax on (Basic exemption + Net agriculture income)

tax on 560000

tax on income upto 250,000	-	-
income > 250,000 upto 5,00,000	5%	12500
income > 5,00,000 upto 560,000	20%	12000
		24500

(ii) assuming assessee's age to be 70 years.

tax on (total income + Net agriculture income)		
830,000 + 3,10,000 = 1140,000 - Note 1		152000
(-) tax on (Basic exemption + Net agriculture income)		
(3,00,000 + 3,10,000) = 610,000 - Note 2		(32000)
		120000
add: HEC @ 4%		4800
Net tax liability.		124800

Note 1 : tax on 11,40,000

tax on income upto 3,00,000	-	-
tax on income > 3,00,000 upto 5,00,000	5%	10000
tax on income > 5,00,000 upto 10,00,000	20%	1,00,000
tax on income > 10,00,000 upto 11,40,000	30%	42000
		152000

Note 2 : tax on 6,10,000.

tax on income upto 3,00,000	-	-
tax on income > 3,00,000 upto ~~6,10,000~~ 5,00,000	5%	10000
tax on income > 5,00,000 upto 6,10,000	20%	22000
		32000

> Revenue receipt - it is always treated as income and taxable under income tax law.

> capital receipt - normally, capital receipts are not treated as income and it is not taxable
eg. loan taken or shares issued by company.
capital receipts are treated as income if it is specifically provided in law. Under the head "capital gain" profit from transfer of capital asset, is treated as income and it is taxable.

Note
1. Income means net receipt (gross receipt - total expenses for earning such income)
2. Income includes casual income also. eg. winnings from lottery, gambling, card games, etc
3. In income tax, income is taxable, whether it is legal or illegal income

> Deemed Income :-

sec 68 - cash credit
where any amount is credited in the books of accounts of assessee and assessee is not able to explain source and nature of such ~~acc~~ amount or explanation is not satisfactory in the opinion of assessing officer, then, it will be treated as deemed income of assessee.
If assessee has taken any loan or borrowing from any person & if explanation about source and nature is not satisfactory of that person (loan giver), then such loan is

treated as deemed income of assessee.

eg. Mr. BB took loan of ₹10,00,000 from A and C. If A and C could not explain source or nature of such amount, then this amount is treated as deemed income of Mr. BB.

If any closely held company (unlisted company) received any amount towards share application, share capital, share premium, from any resident person and if such shareholder's explanation is not satisfactory about source & nature, then it is assumed that company's explanation is not satisfactory and is treated as deemed income of company.

eg. BB virtuals pvt. ltd issued shares to Aditya of ₹2,0000,000. In this case, if Aditya's explanation about source and nature of 2 crore is not satisfactory, such income of Mr. BB is treated as deemed income

Sec 69 : Unexplained investments

In any previous year, if assessee made an investment which is not recorded in books of accounts and assessee's explanation is not satisfactory about source and nature of investment, then value of such investment is treated as deemed income of assessee

Sec 69A : Unexplained money

If in any previous year, the assessee is found to be owner of any money, jewellery, bullion, etc. and same is not recorded in books of accounts and assessee's explanation about source and nature is not satisfactory, then value of such asset is treated as deemed income

__/__/____

sec 69B : Amount of Investment / asset not fully recorded in books

If in any previous year, assessee made investment or found to be owner of any asset and if such investment or asset is not fully recorded in books of accounts and assessee's explanation is not satisfactory, then difference between value of investment / asset and amount recorded in books of accounts is treated as deemed income of assessee

eg. Mr. BB found to be owner of 1 kg gold (market value = 70,00,000) during PY 24-25 but he has recorded only 30,00,000 in books of accounts. for acquring 1 kg gold. In this case, assessing officer may treat 40,00,000 as deemed income of Mr. BB, if BB's explanation is not satisfactory.

sec 69C : Unexplained expenditure

If in any previous year, assessee incurred any expenditure and assessee's explanation is not satisfactory about source of such expenditure, then such expenditure shall be treated as deemed income of assessee.

eg. Mr. Mahajan incurred 2 crore rupees expenditure on marraige of his daughter. If Mahajan's explanation is not satisfactory about source and nature of such expenditure, it shall be treated as deemed income of Mr. Mahajan

sec 69D : Amount borrowed on Hundi / Repaid on Hundi.

If any amount is borrowed or repaid on Hundi, in cash, then such amount shall be treated as deemed income of assessee

If any amount borrowed on Hundi, is already treated as income, then at the time of repayment, it will not be treated as income.

__/__/____

Sec 115BBE :

Above deemed income (sec 68|69|69A|69B|69C|69D) shall be taxable @ 60% + 25% surcharge + 4% HEC.

Effective tax rate = 78%

> special rate of tax :- [Income tax Act, 1961]

Sec	Particular	Tax rate
sec 112	Long term capital gain (LTCG) → before 23/7/24	20%
	→ transfer after 23 July 2024	12.5%
sec 112 A	Long term capital gain on sale of shares/ mutual funds → transfer before 23 July 2024	10% in excess of 125000
	→ transfer after /on 23 July 2024	12.5% in excess of 125000
sec 111 A	Short term capital gain on sale of shares /MF	
	→ transfer before 23 July 2024	15%
	→ transfer after /on 23 July 2024	20%
sec 115BB	Winnings from lottery, cardgame, etc	30%
sec 115BBJ	Winnings from online games	30%

Note: In case of LTCG u/s 112, 112A and STCG u/s 111A and dividend income, maximum surcharge rate applicable is 15% of taxes

Surcharge for assessee being individual, HUF, AOP, BOI, AJP.

S.NO.	conditions	surcharge %
1.	Total Income upto ₹ 50 lakh	NO surcharge
2	Total income more than ₹ 50 lakh upto ₹ 1 crore	10% of tax
3.	Total Income more than ₹ 1 crore upto ₹ 2 cr.	15% of tax
4.	Total income more than 2 cr. and it includes dividend, LTCG u/s 111 A, 112A & 112	15% on tax
	> Remaining total income (excluding special income) is upto 2 crore	15% on remaining income
	> Remaining income (excluding special income) more than ₹ 2 crore upto 5 cr	25% on remaining
	> Remaining income (excluding special income) more than 5 crore	37% on remaining

Ex 1. from following information calculate tax liability of Mr. BABA age 32 years. Assume assessee opt out from 115BAC.

Income from salary (computed)	60,00,000
Income from house property (computed)	20,00,000
Income from business	15000000
Income from capital gain	
→ LTCG u/s 112 (asset transfer on 15/6/24)	25,00,000
→ LTCG u/s 112 A (asset transfer on 10/12/24)	1000000
→ STCG u/s 111 A (asset transfer on 15/11/24)	1500000
	5000000
Net taxable income	28000000

⇒ computation of tax liability

S.No	Income	Rate	Income	Tax
1.	Income on LTCG u/s 112	20%	25,00,000	500000
2.	Income on LTCG u/s 112 A (on income excess of 125000)	12.5%	10,00,000	109375
3.	Income on STCG u/s 111A	20%	15,00,000	3,00,000
4.	Balance net taxable income	slab rate	230,00,000	6712500
			280,00,000	7621875

Add: surcharge on 909375 @ 15%	136406
surcharge on 6712500 @ 25%	1678125
	9436406
Add: HEC @ 4%	377456
∴ Net tax liability.	9813860

Tax on balance Net taxable income

income upto 250,000	-	-
> 250,000 upto 5,00,000	5%	12500
> 5,00,000 upto 10,00,000	20%	100,000
> 10,00,000 upto 230,00,000	30%	6600000
		6712500

Ex2: Mr. Jay is a resident, aged 32 years. His income details for PY 2024-25 are as follows.

(i) LTCG u/s 112A (asset trf. on 16/06/24)	1,00,00,000
(ii) LTCG u/s 112 (asset trf. on 10/12/24)	60,00,000
(iii) STCG u/s 111A (asset trf on 14/02/25)	2,00,00,000
(iii) other income	1,00,00,000

calculate his tax liability for AY 2025-26. He shifted out of default tax regime u/s 115BAC

⇒ computation of tax liability.

S.No.	Income	Rate	Income	Tax
1.	LTCG u/s 112A (excess of 125000)	10%	100,00000	987500
2.	LTCG u/s 112	12.5%	60,00,000	750000
3.	STCG u/s 111A	20%	200,00000	40,00,000
4.	Balance net taxable income	slab rate	10000000	2812500
			46000000	8550000

Add: surcharge on 5737500 @ 15%	860625
surcharge on 2812500 @ 15%	421875
	9832500
add: HEC @ 4%	393300
	10225800

Tax on balance taxable income

income upto 250,000	–	–
> 250,000 upto 5,00,000	5%	12500
> 5,00,000 upto 10,00,000	20%	100000
> 10,00,000 upto 1,00,00,000	30%	2700000
		2812500

Ex3: Mr. BB, a resident, aged 34 years. His income details for PY 24-25 as follows:

(i) capital gain u/s 112A (asset trf. 23/07/24)	2,00,000
(ii) capital gain u/s 112 (asset trf on 15/05/24)	1,00,000
(iii) capital gain u/s 111A (asset trf on 17/06/24)	3,00,000
(iv) dividend	13,00,000
(v) other income	3,34,00,000

Calculate his tax liability for AY 2024-25.

=> computation of tax liability for AY 2024-25.

S.No.	Income	Rate	Income	Tax
1.	LTCG u/s 112A (excess of 125000)	~~10~~ 12.5 %	200,000	~~7500~~ 9375
2.	LTCG u/s 112	~~12.5~~ 20 %	100,000	20000
3.	STCG u/s 111A	15%	3,00,000	45000
4.	Balance net taxable income (dividend + other income)	Slab rate	34700000	10100000 ~~10090000~~
			35300000	10174375

add: surcharge on income u/s 112A, 112 & 111A @ 15%	11156
surcharge on dividend income @ 15%	56758
surcharge on other income @ 25%	2430403
add: HEC @ 4%	506907
	13179600

computation of tax liability on balance net taxable income

upto 3,00,000	-	-
> 3,00,000 upto 7,00,000	5%	20000
> 7,00,000 upto 10,00,000	10%	30000
> 10,00,000 upto 12,00,000	15%	30,000
> 12,00,000 upto 15,00,000	20%	60,000
> 15,00,000 upto 34700000	30%	9960000
		~~10090000~~
		10100000

dividend tax = $\frac{10100000}{34700000} \times 13,00,000 = 378386$

Normally, income earned in previous year is taxed in assessment year, it means, assessee pays tax and file his ITR (income tax return) in assessment year (A.Y.). But in the following cases, income is earned in PY & assesse pays tax and files ITR in PY itself.

1. Sec 172 : Shipping business of non-resident (NR)
   In case of NR engaged in shipping business, assessee is required to pay tax and file his ITR in previous year itself before leaving Indian port

2. Sec 174 : person leaving India
   If it appears to AO (assessment officer) that any person leaving India for permanant settlement, AO may ask assessee to pay tax and file return in previous year itself on the income earned in previous year.
   eg. Mr. Vijay Mallya leaving India on 10 December 2024
   In this case, AO may ask assessee to pay tax and file return / ITR of income earned between 01/04/2024 and 10/12/24 in PY 24-25 itself.

3. Sec 174A : AOP | BOI | AJP formed for a particular event or purpose
   If AOP | BOI | AJP is formed for particular event and is dissolved in PY itself, AO may ask assessee to pay tax and file ITR in PY itself.
   eg. BOI created for the purpose of Ganesh Chaturthi festival and it is dissolved after the festival. In this case, AO may ask BOI to pay tax & file ITR in PY itself.

4. <u>sec 175</u> : person likely to transfer property to avoid tax.
If it appears to AO that any person is likely to transfer / sell / gift / donate any of his asset to avoid payment of liability in income tax, AO may ask assessee to pay tax and file ITR in PY itself.

5. <u>sec 176</u> : Discontinued business
If any business or profession is discontinued in PY. AO may ask assessee to pay tax and file ITR in PY itself on income earned in PY.

Note : sec 172 (shipping business of NR is mandatory section but other sec are applicable only if it appears to AO)

43 19/08/24 HW - computation of tax liability on special income

1) calculate net tax liability assuming assessee opt out of sec 115BAC

Mr. Sk's income (age 64 years - Non resident)

LTCG u/s 112 A (asset trf on 10/12/24)	1,50,000 (125000)	12.5
LTCG u/s 112 (asset trf on 10/12/24)	170,000	12.5
CTCG u/s 111A (asset trf on 10/12/24)	410,000	20%
other income	99,00,000	

⇒ computation of tax liability

S.No	Particulars	Rate	Income	Tax
1.	LTCG u/s 112 A (in excess of 125000)	12.5%	150000	3125
2.	LTCG u/s 112	12.5%	170000	21250
3.	CTCG u/s 111A	20%	410,000	82000
4.	Balance taxable income	Note 1	99 00000	2782500
			1,06,30,000	2888875
	add: Surcharge on ~~278~~ 106375 @ 15%			15956
	Surcharge on 2782500 @ 15%			417375
	add: HEC @ 4%			132888
				3455090

Note 1: computation of tax liability on balance income

income upto 250,000	-	-
> 250,000 upto 5,00,000	5%	12500
> 5,00,000 upto 10,00,000	20%	100000
> 10,00,000 upto 99,00,000	30%	2670000
		2782500

44

2) calculate tax liability assuming assessee opt out of sec 115 BAC

Mr. Dev's income details (28 yrs)

LTCG u/s 112A (asset transfer on 10/12/24)	19,000,000
STCG u/s 111A (asset transfer on 10/12/24)	7,00,00,000
other income	60,00,000

=> computation of tax liability

No.	Particulars	Rate	Income	Tax
1.	LTCG u/s 112	12.5 %	190,00,000	2375000
2	STCG u/s 111A	20 %	700,00,000	14000000
3.	Balance net taxable income	Note 1	60,00,000	1612500
			95000000	17987500

add: surcharge on 16375000 @ 15%	2456250
surcharge on 1612500 @ 15%	241875
	20685625
add: HEC @ 4%	827425
Net tax liability	21513050

Note 1 : computation of tax liability on 60,00,000

income upto 250,000	-	-
> 250,000 upto 5,00,000	5%	12500
> 5,00,000 upto 10,00,000	20%	100000
> 10,00,000 upto 60,00,000	30%	1500000
		1612500

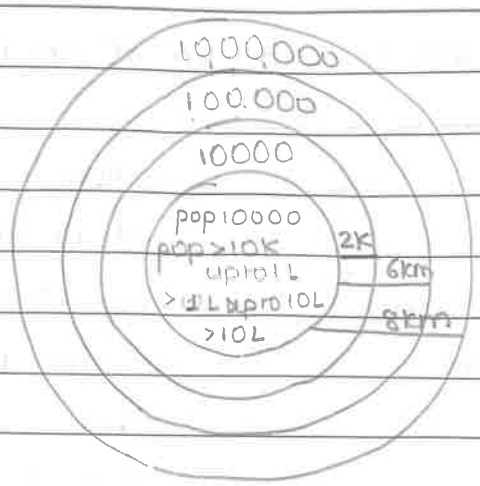
Note: Agriculture income

Rent of farmhouse shall be treated as agriculture income if such farmhouse is located in rural area.

Rural area is an area which is not urban area

~~Urban area means:-~~

~~pop 1000,000~~
~~pop > 10k upto 1L~~
~~pop > 1L > 10L~~
~~pop > 10 lakh~~



urban area

Question 11 (page 3)

part A : computation of tax liability as per default tax regime (115 BAC)

SNO.	Particulars	Rate	Income	Tax
1.	LTCG U/S 112 (~~excess of 100000~~)	12.5%	5500000	687500
2.	STCG U/S 111A	20%	65,00,000	13,00,000
3.	Balance income	Note 1	53000000	15590000
			65,00,000	17577500
	add: surcharge on 1987500 @ 15%			298125
	add: surcharge on 15590000 @ 25%			3897500
				21773125
	add: Health and education cess @ 4%			870925
	Net tax liability.			22644050

37% surcharge will not be applicable as tax liability is as per 115BAC

Note 1: computation of tax on 630,00,000 income

income upto 3,00000	-	-
> 3,00,000 upto 7,00,000	5%	20,000
> 7,00,000 upto 10,00,000	10%	30000
> 10,00,000 upto 12,00,000	15%	30,000
> 12,00,000 upto 15,00,000	20%	60000
> 15,00,000 upto 5,30,00,000	30%	15450000
		15590000

__/__/____

part B : assuming assessee opt out of sec 115BAC

S.NO.	Particulars	Rate	Income	Tax
1.	LTCG u/s 112	12.5%	5500000	687500
2.	STCG u/s 111A	20%	6500000	1300000
3.	Balance income	Note 1	63000000	15712500
			65000000	~~15712500~~
				17700000

add : surcharge on special income @15% 298125

surcharge on balance income @ 37% 5813625

23811750

add : HEC @ 4% 952470

NTL 24764220

Note 1 : computation of tax liability on balance income

income upto 250000	-	-
> 250000 upto 500000	5%	12500
> 500000 upto 1000000	20%	100000
> 1000000 upto 53000000	30%	15600000
		15712500

Income from House Property [4 to 6m]

Sec 22 : charging section of house property

Rental income (annual value) of house property is taxable under head "income from House property" if following two conditions are satisfied.

1. There should be a house property
2. Assessee should be owner of such property

Notes :

1. House property means building and land appertenant (attatched) to that building
2. Income from residential property as well as commercial property (complex, godown, etc) also covered under house property
3. Rent of vacant land - taxable under IFOS/ PGBP

eg. Rohan builders

income from sale of building → taxable under PGBP

income from letout of building → taxable under HP.

Types of house property

- letout property (LOP) always taxable
- self occupied property (SOP)
  - self occupied (residence)
    - 2 SOP(R) - exempt
    - > 2 SOP(R)
      - 2 SOP - exempt
      - remaining SOP - DLOP deemed to be let out property - taxable
  - SOP - used for business or profession → ignore

Name of assessee PY 24-25 AY 25-26

computation of income from house property

Particulars	SOP	LOP	DLOP
Municipal value ↑	-	xx	xx
Fair rent	-	xx	xx
whichever is higher ↓	-	xx	xx
standard rent	-	xx	xx
Expected rent ↑	-	xx	xx
actual rent	-	xx	xx
Gross annual value (GAV)	-	xx	xx
- municipal taxes paid	-	(xx)	(xx)
Net annual value (NAV)	-	xx	xx
- deduction u/s 24	-	xx	xx
(i) 24 (a) 30% of NAV	-	(xx)	(xx)
(ii) 24 (b) interest on loan	(xx)	(xx)	(xx)
	(xx)	xx	xx

> Municipal value :- It means value of property as per municipality records

> Fair rent : It means rent of similar property in the same locality. It is also known as reasonable rent or reasonable letting value

> Standard rent : It means rent as per rent control act
It is the maximum amount of rent that can be legally recovered by owner from tenant.

> Actual rent :
Actual rent = rent received + rent receivable - unrealised rent.

> municipal taxes :
(a) it means taxes recovered by municipility, local authority, gram panchayat.

(b) It is also known as property taxes, local taxes, house tax, etc
(c) It is allowed only if it is paid by owner.
(d) If it is to be paid by tenant, then it isn't allowed.
(d) It is allowed on payment basis
paid → allowed, outstanding → not allowed
"pay kiya toh allow hoga, nahi kiya to nahi hoga, jab kiya tab hoga."
(e) If it is given in % form, it should be calculated on municipal value

> Interest on loan

(a) Interest is allowed as deduction if loan is taken for the purpose of house property, i.e. purchase, construction, repair or renovation
(b) Loan maybe taken from bank, financial institution, friends, family
(c) Interest is allowed on due basis
(paid → allowed, outstanding → allowed)
(d) Interest on interest (penal interest) is not allowed as deducti
(e) If any fresh loan is taken for repayment of prior loan, and earlier loan was taken for the purpose of house property, interest on fresh loan is allowed as deduction.
(f) If any interest paid / payable outside India shall not be allowed as deductions if TDS is not deducted on such interest.
(g) limit of interest:

LOP / DLOP — No limit
(full interest allowed)

SOP(2)

Special case	normal case
1. loan is taken on or after 1/4/1999 2. loan is taken for purchase or construction of HP	limit = ₹ 30,000
3. loan — construction purpose — construction should be completed in 5yrs 4. limit - ₹ 2,00,000	

Question 12 (page 3)

Computation of tax liability of Mr. Sharma (624(S))

S.No.	Income	Rate	Income	Tax
1.	LTCG u/s 112	12.5%	5200000	650000
2	STCG u/s 111A	20%	6400000	1280000
3.	Balance income	Note 1	11400000	3230000
			23000000	5160000
	add: surcharge on 1930000 @15%			289500
	surcharge on 3230000 @15%			484500
				5934000
	add: HEC @4%			237360
	Net tax liability			6171360

Note 1 : computation of tax liability on balance income

income upto 3,00,000	-	-
> 3,00,000 upto 5,00,000	5%	10000
> 5,00,000 upto 10,00,000	10%	100,000
> 10,00,000 upto 114,00,000	30%	3120000
		3230000

Note : Under default tax regime u/s 115BAC

Interest on loan in case of SOP → deduction not allowed.

chapter 4 - Question 1 (page 42)

Particulars	House 1	House 2	House 3	House 4	House 5
Municipal value ↑	80,000	55000	65000	24000	80000
Fair rent	90000	60000	65000	25000	75000
Whichever is higher ↓	90,000	60,000	65000	25000	80,000
Standard rent	N.A	75000	58000	NA	78000
Expected rent ↑	90,000	60000	58000	25000	78000
Actual rent	72000	72000	60000	30000	72000
Gross annual value	90,000	72000	60,000	30,000	78000
(-) municipal taxes	(8000)	(6600)	(5200)	(2400)	(12000)
Net annual value	82000	65400	54800	27600	66000

> ~~Interest on loan~~

> Other expenses.:

→ repair / renovation
→ insurance premium charges
→ parking charges
→ society maintainance
→ electricity and water charges

} not allowed because 30% standard deduction on Net annual value is allowed

> Actual rent:

actual rent = rent received + rent receivable - unrealised rent.

unrealised rent - It means rent which is not recovered from tenant. It is like bad debts of rent.

It is deductable while calculating actual rent if following 4 conditions of Rule 4 are satisfied.

1. tenancy should be bona fide
2. tenant should have vacated that property
3. Such tenant should not occupy any other house property of same assessee.
4. Reasonable steps should be taken for recovery of unrealised rent.

Question 4 (page 43)

Computation of liability.

Particulars	Amt (₹)
Municipal value ↑	130000
Fair rent	110000
Whichever is higher ↓	130000
Standard rent	120000
Expected rent ↑	120000
Actual rent	121000
Gross Annual Value (GAV)	121000 ~~132000~~
(-) Municipal taxes	(13000)
Net Annual Value (NAV)	108000 ~~119000~~
Deductions u/s 24	(32400) ~~(35700)~~
24(a) 30% of NAV	(40000)
24(b) Interest on loan	35600 ~~43300~~

Actual rent = rent received + rent receivable - rent unrealised

= (11,000 × 12) - 11,000

= 121000

Note : As per ITR form, unrealised rent deducted from Gross annual value. So alternatively, we can deduct unrealised rent from GAV as well.

> Preconstruction period interest.

It means interest before the year in which construction is completed. It is allowed in 5 equal instalments from the year in which the construction was completed.

eg. Mr. Sachin took a housing loan from HDFC bank on 1 October 2022 of ₹ 20,00,000 @9%. Construction of house property is completed on 10 December 2024. Calculate amount of interest allowed for previous year 2024-25. (AY 25-26)

PY	Interest	
22-23	90000	(200000 × 9% × 6/12)
23-24	180000	(200000 × 9%)
	270000/5 = 54000	→ preconstruction period interest
24-25	180000 + 54000 = 234000.	
	+ 54000 ... upto 5 years from 24-25.	

eg 2. Mr. BB took a loan of ₹ 2000000 from SBI on 01/06/2020 @ 6%. He made following repayments of principal amount.

01/04/2021	400,000
01/10/2022	200,000
01/12/2023	150000

Construction completed on 10/11/2023. Calculate interest allowable for PY 24-25 (AY 25-26)

=>

year	interest calculation	
20-21	2000000 × 6% × 10/12 =	100000
21-22	1600000 × 6% =	96000
22-23	(1600000 × 6% × 6/12) + (1400000 × 6% × 6/12) =	90,000
23-24	(1400000 × 6% × 8/12) + (1250000 × 6% × 4/12) =	81000 + 57200 = 138200
24-25	(1250000 × 6%) =	75000 + 57200 = 132200

eg3. Ms. Pratiksha took a loan from Axis bank for construction of house property on 1/12/21 of ₹ 42,00,000 @ 7% p.a. She made following repayment of principal amount

1/4/22	7,00,000
1/10/22	4,00,000
1/02/24	5,00,000
1/07/24	7,00,000

construction completed on 10/12/2024. compute interest PY 24-25

=>

Year	Interest calculation	Interest
21-22	42,00,000 × 7% × 4/12	98000
22-23	(35,00,000 × 7% × 6/12) + (310,00,000 × 7% × 6/12)	231000
23-24	(3100000 × 7% × 10/12) + (2600000 × 7% × 2/12)	211166
24-25	(2600000 × 7% × 3/12) + (19,00,000 × 7% × 9/12) + 108033	253283

> Concept of vacancy (ghar pe tala loga hua hai)

Expected rent ≤ Actual rent + Vacancy rent

↓

Gross annual value

Expected rent ≥ actual rent + vacancy rent

↓

gross annual value

Ex 1: ER = 520000

rent p.m = 50000 p.m

vacancy = 3 months.

∴ ER AR + VR

∴ 520000 ≤ 450000 + 150000

∴ GAV = 450000

Ex 2: ER = 520000

rent p.m = 20000 p.m

vacancy = 2 months

∴ ER AR + VR

520000 ≥ 200000 + 40000

∴ GAV = 520000.

Partly let out property (area wise)

If some area of house property is let out, and remaining area is self occupied, then let out portion is treated as LOP and the self occupied portion is treated as SOP.

In this case, Municipal value, fair rent, standard rent, municipal taxes, interest on loan should be divided between SOP and LOP on area basis. Actual rent will never be divided because it is always incurred on LOP portion.

Interest on Loan

- let out property (LOP) → full interest allowed
- Self occupied property (SOP)
  - sec 115 BAC → NO interest
  - otherwise → Max interest 2,00,000/ 30,000 p.a

Question 9 (page 44)

computation of tax liability (opt out of 115BAC)

Particulars	SOP	LOP
Municipal value ↑	-	1,09,000
Fair rent	-	90000
Whichever is higher ↓	-	1,00,000
Standard rent	-	110000
Expected rent ↑	-	1,00,000
Actual rent	-	896000
Gross Annual value	-	100,000
(-) Municipal taxes	-	(10000)
Net annual value	-	90000
Deduction u/s sec 24	-	
24(a) 30% of NAV	-	(27000)
24(b) Interest on loan	(80,000)	(40,000)
	(80,000)	23000

part B: assessee follows default tax regime u/s 115BAC.

computation of tax liability

Particulars	SOP	LOP
Municipal value ↑	-	1,00,000
Fair rent	-	90,000
Whichever is higher ↓	-	1,00,000
Standard rent	-	110,000
Expected rent ↑	-	1,00,000
Actual rent	-	96000
Gross annual value	-	1,00,000
(-) Municipal taxes	-	(10000)
Net annual value	-	90,000
Deduction u/s 24	-	
24(a) 30% of NAV	-	(27000)
24(b) interest on loans	-	(40,000)
	-	23000.

If assee pay tax u/s 115BAC, interest on loan will not be allowed on SOP. hence Net income from house property is ₹ 23000.

Question 13 (page 46)

Mr. X PY 24-25, AY 25-26

Particulars	SOP	LOP
Municipal value ↑	-	95000
Fair rent	-	92500
Whichever is higher ↓	-	95000
Standard rent	-	81000
Expected rent ↑	-	81000
Actual rent (8000 x 10)	-	80,000
Gross annual value	-	80,000
(-) municipal taxes	-	(14250)
Net annual value	-	65750
Deduction u/s 24		
24(a) 30% of NAY	-	((19725)
24(b) Interest on loan	(9000)	(9000)
	(9000)	(37025

∴ Income from house property = 37025 - 9000
= 28025

Question 14 (page 46)

Mr. Vikas PY 24-25 AY 25-26

Particular	SOP	LOP
Municipal value ↑	-	32000
fair rent	-	42000
whichever is higher ↓	-	42000
Standard rent	-	36000
Expected rent ↑	-	36000
Actual rent	-	60,000
Gross annual value	-	60,000
(-) municipal taxes	-	(3520)
Net annual value	-	56480
Deduction u/s 24		
24(a) 30 % of NAV	-	(16944)
24(b) interest on loan	(12400)	(6200)
	(12400)	33336

20936.

calculation of interest

PY	interest		
17-18	1,00,000 × 12% × 9/12	= 9000	pre construction
18-19	100000 × 12%	= 12000	
19-20	100,000 × 12%	= 12000	
20-21	100,000 × 12%	= 12000 + 6600	
21-22	100,000 × 12%	= 12000 + 6600	
22-23		= 12000 + 6600	
23-24		= 12000 + 6600	
24-25		= 12000 + 6600 = 18600	
		= 12000	

> Partly let out property (time wise)

If property is let out for some period of time and self occupied for remaining time such property is treated as LOP. Even if the property is let out for one day, then also it is treated as LOP.

SOP means property is self occupied for residential purpose throughout the year or unoccupied due to business or profession or employment at any other place

Question 7 (page 43)

Smt. Rajalakshmi PY 24-25 AY 25-26

Computation of Income from house property

Particulars	LOP
Municipal value ↑	500,000
Fair rent	420000
Whichever is higher ↓	500,000
Standard rent	480,000
Expected rent ↑	480,000
Actual rent	350,000
Gross value (GAV)	480,000
Municipal taxes	(60000)
Net annual value (NAV)	420,000
Deduction u/s 24	
24(a) 30% on NAV	(126000)
24(b) Loan interest	(25000)
Income from house property	269,000

W/N1: actual rent = rent received + rent receivable − unrealised rent

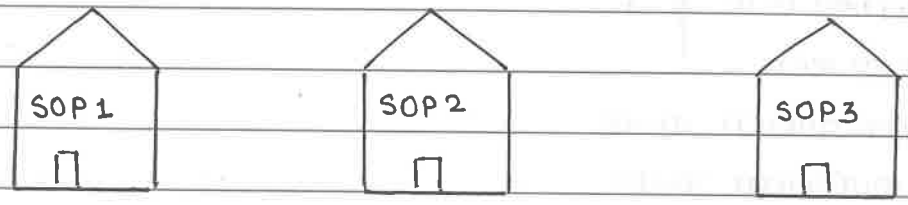
= (50000 pm × 9 months) − 100,000

= 450,000 − 100,000

= 350,000

In the present question, unrealised rent is reduced while computing actual rent. As per ITR form, alternatively, we can reduce unrealised rent from GAV.
If we reduce from GAV, the answer may vary and net income from house property will be ₹199000.

> assessee own more than 2 SOP.



	Andheri	Bandra	Vasai.
option			
A	SOP	SOP	DLOP
B	SOP	DLOP	SOP
C	DLOP	SOP	SOP

<u>conclusion</u>: assessee has to select option in which his net income from house property is minimum / lower.

Question 8 (page 44)

Mr. Ganesh — PY 24-25, AY 25-26

a) assuming house 1 & house 2 as SOP and house 3 as DLOP

Particulars	SOP	DLOP
Municipal value ↑	-	3,30,000
Fair rent	-	3,80,000
Whichever is higher ↓	-	3,80,000
Standard rent	-	375000
Expected rent ↑	-	375000
Actual rent	-	-
Gross annual value	-	375000
(-) municipal taxes	-	(19800)
Net annual value	-	355200 ~~17700~~
Deduction u/s 24		-
24(a) 30% of NAV	-	(106560)
24(b) Interest on loan	(30,000)	(175000)
	(30,000)	73640

Net house property income = 43640.

b) assuming house 1 and house 3 as SOP and house 2 as DLOP

Municipal value ↑	-	360,000
Fair rent	-	275000
Whichever is higher ↓	-	3,60,000
Standard rent	-	370,000
Expected rent ↑	-	3,60,000
Actual rent	-	-
GAV	-	3,60,000
(-) municipal taxes	-	(28800)
NAV	-	331200
Deduction u/s 24		
24(a) 30% of NAV	-	(99360)
24(b) Interest on loan	(175000)	55000 ~~(30,000)~~ (175000)
	(175000)	176840

Net house property income = 1840

(c) assuming house 2 and house 3 as SOP and house 1 as DLOP.

Particulars	SOP	DLOP
Municipal value ↑	-	300000
Fair rent	-	375000
whichever is higher ↓	-	375000
standard rent	-	350000
Expected rent ↑	-	350000
Actual rent	-	-
GAY	-	350000
(-) municipal taxes	-	(36000)
NAY	-	314000
deduction u/s 24		
24(a) 30% of NAY	-	(94200)
24(b) interest on loan	(200000)	-
	(200000)	219800

Net income from house property = 19800

W/N:

Interest on loan

HP(2)	Interest on loan for repairs on property	55000
	Maximum limit	30000 -(1)
HP(3)	Interest on loan on purchase of HP	175000
	Maximum limit	200000
	Actual interest	175000 -(2)
Maximum interest allowed in case of SOP		
	(1)+(2) restricted to	200000

conclusion: Since income from house property is lower in option (b) i.e. 1840 ₹, Mr. Ganesh should opt House 1 and House 3 as SOP and House property 2 as DLOP.

Note : If assessee pays tax under 115BAC,
In this case, assessee is not eligible to claim interest - deduction in case of SOP. ∴ his income would be
option 1 : 73640
option 2 : 176800
option 3 : 219800
In this case, option 1 is beneficial for the assessee, so house 2 and house 3 should be treated as SOP and house property 3 is treated as DLOP

__/__/____

Joint ownership (co-ownership)

It means property is owned by two or more than 2 owners. In this case, income from house property is calculated normally and thereafter it should be divided between co-owners in their ownership ratio.

Interest on loan in case of co-ownership

LOP | DLOP	SOP
No limit	maximum limit = 30,000 | 2,00,000 (×) No. of owners.

eg. If there are 2 owners, maximum limit would be 60,000 \| 4,00,000.

Question 12 (page 46)

Mr. Raman AY 2025-26, PY 24-25

Computation of house property income

Particulars	LOP
Municipal value ↑	1,60,000
Fair rent	150000
Whichever is higher ↓	1,60,000
Standard rent	170,000
Expected rent ↑	1,60000
Actual rent	180,000
Gross Annual value	180,000
(-) municipal tax	–
Net annual value	1,80,000
Deduction u/s 24	
(i) 24 (a) 30 % of NAV	(54000)
(ii) 24 (b) Interest on loan	(38000)
Income of Mr. Raman	48000
Income of co-owner.	48000

Note 1: Municipal taxes of ₹ 5100 will not be allowed since, it is paid by the tenant.

Note 2: Interest is allowed on due basis, so total interest of ₹ 25000 shall be allowed as deduction, even when actual interest paid is 21000.

Note 3: Interest on interest (penal interest) will not be allowed as deduction

Note 4: If any fresh loan is taken for repayment of earlier loan & earlier loan was taken for construction of house property, interest of fresh loan shall be allowed as deduction. So in the present question, ₹ 5000 interest on loan shall be allowed.

> Arrears of Rent

It means rent under dispute

Sec 25A : recovery of unrealised rent or arrears of rent.

recovery is taxable in the year in which it is recovered under the head income from house property whether the assessee is owner of the property or not in the year of recovery. Any expenditure incurred on recovery shall be ignored

taxable amount = recovery × 70% (30% standard deduction)

Question 16 (page 48)

computation of income from house property as per default tax regime u/s 115BAC

	SOP	LOP
municipal rent ↑	-	675000
fair rent	-	-
whichever is higher. ↓	-	675000
Standard rent	-	-
Expected rent ↑	-	675000
Actual rent	-	816000
Gross Annual value	-	816000
(-) municipal value	-	(135000)
Net annual value	-	681000
Deduction u/s 24	-	
(i) 24(a) 30% of NAY	-	(204300)
(ii) 24(b) interest on loan	-	(225000)
	-	251700.

WN1 : Interest on Loan = 300000.

SOP (25%) — 75000 (Not allowed)

LOP (75%) — 225000

WN2 : Actual rent = (5 units × 12 months) + (1 unit × 8 months)

= 720000 + 96000

= 816000.

WN3 : Vacancy

Expected rent < actual rent + vacancy rent

675000 < 816000 + 48000

675000 < 864000 – Gross annual value

	Arun	Bimal
Income from house property	125850	125850
other income	290000	180000
Total income	~~485~~ 415850	305850

part B : computation of total income if assessee opt out from sec 115 BAC

	Arun	Bimal
Income from house property		
SOP	(37500)	(37500)
LOP	125850	125850
add : other income	290000	180000
∴ Total taxable income	378350	268350

Note : If assessee opted out from 115BAC, then interest on loan is allowed in case of SOP. In this case, total interest of ₹75000, deduction will be allowed of 37500 to each co-owner.

> composite rent (rent of house property + rent of other asset)

agreement is seperable

rent of HP → taxable under HP

rent of other assets → taxable under PGBP / IFOS

agreement is not seperable → Total rent taxable under PGBP / IFOS.

Note : If let out of property is not feasible without other assets, then total rent is taxable under the head PGBP or IFOS. whether agreement is seperable or not.

Question 19 (page 51)

part A: Mr. Naveen PY 24-25 AY 25-26

computation of income from house property

	SOP
Net annual value	–
Deduction from sec 24	
24(a) 30% of NAV	–
24(b) Interest on loan	(200,000)
	(200,000)

Note 1 :

PY 22-23	Calculation of interest	180000
23-24	15,00,000 × 12%	180000
24-25	15,00,000 × 12%	180000 + 72000 = 252000
		maximum deduction = 200,000

~~part B~~ : ~~Mr. Vikas~~ ~~PY 24-25 AY 25-26~~

PTO

part B Mr. Vikas AY 24-25 AY 25-26

computation of income from house property

		SOP	LOP
Municipal value ↑		-	360000
Fair rent		-	~~100000~~ 50000
Whichever is higher ↓		-	50000
Standard rent		-	-
Expected rent ↑		-	50000
Actual rent		-	60000
Gross annual value		-	60000
(-) municipal taxes		-	(~~8000~~) (4000)
Net annual value		-	56000
Deduction u/s 24			
24(a) 30% of NAV		-	(16800)
24(b) interest on loan		(67500)	(67500)
IFHP	(95800) (~~98600~~)	(67500)	(~~31100~~)(28300)

Note: Interest on loan

PY 22-23	10,00,000 × 10% × 9/12	75000
23-24	10,00,000 × 10%	100000
24-25	10,00,000 × 10%	100000 + 35000
		= 135000

SOP	LOP
67500	67500

Note 2: Actual rent = 20,000 × 3 months
= 60,000.

Note: If any property is acquired in the middle of the year, or construction completed in between the year, then municipal value, fair rent, standard rent considered only from the date when assessee became owner or construction is completed. Municipal taxes are allowed on payment basis. Thus taxes paid, whether advance or prepaid are allowed as deduction.

Question 2 (page 42)

Mr. Rajesh PY 24-25, AY 25-26.

Computation of Income from house property

	₹
Actual rent (10,000 × 12 × 95)	1,14,00,000.
Gross annual value	1,14,00,000.
(-) municipal taxes (8000 × 95)	(7,60,000)
Net annual value	10,640,000

Question 3 (page 42)

Interest on loan taken for house property at Bombay

30,00,000 × 10% = 300,000.

Restricted to 200,000	200,000
Interest on loan taken for repairs on house property at ~~Bombay~~ Delhi.	
500,000 × 11% = 55000	
Restricted to 30,000	30,000
Total deduction u/s 24(b)	230000

Question 5 (page 43)

Mr. Ganesh PY 24-25 AY 25-26

Computation of ~~tax~~ income from house property

Particular	₹
Municipal value ↑	250000
Fair rent	200000
Whichever is higher ↓	250,000
Standard rent	210,000
Expected rent ↑	210,000
Actual rent	180,000
Gross annual value	180000
(-) municipal taxes	(20000)
Net annual value	160000
Deduction u/s 24	
24(a) 30% of NAV	(48000)
24(b) loan interest	(65000)
Income from house property	47000

Actual rent = rent received + rent receivable - unrealised rent

= (20000 × 10) - 20,000

= 1,80,000

Question 20 (page 32)

	SOP (25%)	LOP (50%)
Municipal value ↑	-	94000
Fair rent	-	124000
Higher amount ↓	-	124000
Standard rent	-	114000
Expected rent ↑	-	114000
Actual rent	-	147000
Gross annual value	-	147000
(-) municipal taxes	-	(10,000)
Net annual value	-	137000
Deduction u/s 24		
24(a) 30% of NAV	-	(41100)
24(b) Interest on loan	(15000)	(30,000)
	(15000)	65900

Net income from house property = 50900

Sec 27: Deemed owner.

> If any individual transfers house property to his / her spouse without consideration or inadequate consideration, then such individual is treated as deemed owner of such property

Exception - transfer in connection of liveapart

> If any individual transfers any property to minor child. for without consideration or inadequate consideration then such individual is treated as deemed owner.

Exception - transfer to minor married daughter. (बालिका वधू hahahaha)

> If any person is a member or shareholder of any co-operative society, then he is treated as deemed owner of house property in such society.

> In case of immovable property, if possession acquired in part performance of contract then assessee is treated as deemed owner from the date on which he obtained possession.

> If any house property is acquired under a long term lease (12 years or more), then acquirer is treated as deemed owner.

> holder of impartiable estates - it means property which is not legally divisible. The main holder of impartiable estate shall be treated as deemed owner.

Notes:

> where the house property is held as stock in trade & not let out during the previous year, the NAV of such property shall be treated as NIL for the period of 2 years from the end of the financial year in which construction was completed

eg. Rohan Builder completed construction of a house on 19 July 2024. In this case, if house property is not let out then the NAV of the house property shall be treated as NIL

till 31 March 2027. from PY 27-28 this house property is treated as DLOP and shall be taxable under house property.

> If assessee pays tax as per default taxation regime u/s 115BAC. then interest on loan u/s 24(b) in respect of SOP (30000/ 2,00000) not allowed to assessee.

> SOP exemption (2 SOP) available only in case of individual and HUF.

> Municipal tax paid to foreign municipality also allowed as deduction in case of resident and ordinary resident.

> Interest for the year in which property acquired or constructed is allowed (full interest) irrespective of date of acquisition or construction.

> If buyer acquires property and enter into agreement with the seller to pay consideration in instalment, remaining amount of instalments shall be treated as loan and if any interest is paid on such outstanding amount, it shall be allowed as deduction u/s 24(b)

Capital gain (5 - 8 marks)

sec 45(1) : Any profit & gain arising from transfer of capital ~~gain~~ ~~shall~~ asset shall be taxable under the head capital gain in the year in which transfer took place.

sec 2(14) capital asset

Property of any kind held by assessee, connected with business or not,

excluding

(1) stock in trade

(2) movable personal asset

except - jewelly, drawing, painting, sculpture, art, other work of art.

(3) sell of rural & agricultural land

(4) gold bonds 1999 or deposit certificate issued under gold monitization scheme (GMS) 2015.

↳ interest on instrument also exempt u/s 10(15)

capital gain is chargeable if.

(a) there should be capital asset

(b) there should be transfer

(c) capital gain available in year of transfer.

Note : Any security held by FII (foreing institutional investor) is always treated as capital asset.

meaning of rural agriculture land.

it means agriculture land situated in rural area

Rural area is an area which is not a urban area

urban area means - refer topic 1 (page 45)

Sec 2(47) meaning of transfer

1. Sale of capital asset
2. Exchange of capital asset
3. Relinquishment of capital asset or extinguishment of right in capital asset
4. compulsory acquisition of capital asset.
5. allowing possession of any immovable property
conversion of capital asset in stock in trade
7. transfer of shares of a co-operative society
8. Redemption of zero coupon bonds

Types of capital asset

part A	part B	part C
1) any security listed in RSE of India	1) Immovable property	other assets
2) mutual fund (equity oriented)	2) shares of unlisted company	before 23/07/24 - 3 years
3) unit trust of India		after 23/07/24 - 2 years.
4) zero coupon bond		
1 year	2 years	

__/__/____

Types of capital assets

- Short term capital asset → STCG
- Long term capital asset → LTCG

S	capital asset	period of hold	
~~part A~~		upto 22/07/24	from 23/07/24
part A	Security listed in RSE of India Unit of UTI Unit of equity oriented MF ZCB	1 year	1 year
part B	unlisted shares / not in part A Immovable property	2 year	2 year
part C	Any other asset	3 year	2 year

If any asset held for more than 1/2/3 years - treated as LTCA.

case	asset	transfer before 23/7/24	transfer after 23/7/24
1.	Gold	3 years	2 years
2	shares of RIL listed in NSE	1 year	1 year
3.	House property	2 year	2 year
4.	shares of BBVrituals pvt ltd	2 years	2 years
5.	unlisted unit of Kotak mutual fund equity oriented	1 year	1 year
6.	zero coupon bond	1 year	1 year
7.	unlisted unit of SBI debt mutual fund	3 years	2 years
8.	shares of apple INC listed in USA stock exc	2 years	2 years

__/__/____

Sec 48: computation of capital gain

Incase of STCA		in case of LTCA	
full value of consideration	xxx	full value of consideration	xxx
(-) transfer expenses	(xxx)	(-) transfer expense	(xxx)
Net consideration	xxx	Net consideration	xxx
(-) cost of acquisition	(xxx)	(-) Index cost of acquisition	(xxx)
(-) cost of improvement	(xxx)	(-) Index cost of improvement	(xxx)
short term capital gain	xxx	Long term capital gain	

Note 1: index cost of acquisition

$$\text{cost of acquisition} \times \frac{\text{index of year of transfer}}{\text{index of year of acquisition}}$$

Note 2: Index cost of improvement.

$$\text{cost of improvement} \times \frac{\text{index of year of transfer}}{\text{index of year of improvement.}}$$

cost Inflation (CII)

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

Note 3 : If asset acquired before 1/4/2001
cost of acquisition
i) Actual cost
ii) FMV on 1/4/2001
whichever is higher

(Ammendment)
important note: index benefit not available if asset transfer on or after 23/7/2024
(Note 1 & 2 not applicable on ~~or~~ transfer after 23/7/24)

Note 4: If any improvement before 1/4/2001 → ignore

Q3 (page 83)

Mr. C	PY 24-25 AY 25-26
full value of consideration	7200,000
less: transfer expenses	(60,000)
	7140000

(-) Index cost of acquisition

(i) cost of property	106000
(ii) FMV on 1/4/2001	450000
~~106000~~ × ~~363~~/100	450000

Index = 450000 × 363/100 (1633500)

(-) index cost of improvement.

03/04 : 310,000 × 363/109 (1032385)

09-10 250000 × 363/148 (613175)

Long term capital gain 3860940

Note : Improvement done before 2001 shall be ignored.

Q2 (page 83)

MRA

Computation of capital gain

Full value of consideration	3700000
(-) transfer expenses	(74000)
Net consideration	3626000
(-) Index cost of acquisition	
$350000 \times \frac{363}{109}$	(1165596)
(-) Index cost of improvement	
$200000 \times \frac{363}{113}$	(642477)
	1817927

Example

Mr. Gopal acquired a house property for 7 lakhs in PY 82-83 and paid stamp duty at the time of registration of ₹ 150000. Fair market value of property on 1/4/20 is ₹ 16,00,000. He incurred following expenses on improvement.

96-97	350000
12-13	4,00000
23-24	350000

He sold this property to Bala on 22/07/2024 for ₹ 1,25,00,000 and paid commission at the time of transfer @ 2%.

Mr. Gopal

computation of capital gain

full value of consideration		12500000
(-) transfer expenses		(250000)
Net consideration		12250000
(-) index cost of acquisition		
(i) actual cost (700000+150000)	850000	
(ii) fair market value	1600000	
	$1600000 \times \frac{363}{100}$	(5808000)
(-) Index cost of improvement		
12-13 $4,00,000 \times \frac{\cancel{200}\ 363}{200}$		(726000)
23-24 $350000 \times \frac{363}{348}$		(365086)
Long term capital gain		5350914

suppose in above situation if gopal transfers such house property on 23/07/2024 instead of 22/07/2024, what will be long term capital gain

computation capital gain

fair value of consideration		12500000
(-) transfer expenses		(25000)
Net consideration		12250000
(-) cost of acquisition		
(i) cost (700,000 + 15,000)	850000	
(ii) fair market value	1600000	(1600000)
(-) cost of improvement		
PY 12-13		(4,00,000)
PY 23-24		(350000)
Long term capital gain		9900000

(Ammendment)

important Note:

In case of resident individual and HUF if any immovable property transfers on or after 23/07/2024 and such property was acquired before 23 July 2024, then such tax long term capital gain shall be lower of

i) 12.5% without indexation

ii) 20% with indexation

Above option is applicable only for tax calculation and not for the purpose of capital gain and total income calculation

extra example

Suppose in continuation of above example, Gopal transfers house property on 23 July 2024. his other income is ₹ 10,00,000. calculate total income & tax liability of Mr. Gopal (opt out from 115BAC)

Computation of total income

LTCG on sale of house property (calculated above)		99,00,000
other income		10,00,000
Gross total income		10900000

calculation of tax liability

i) Tax on LTCG

@ 12.5% (without index) - 99,00,000 × 12.5%	1237500	
ⓑ 20% with index (5350914 × 20%)	1070183	1070183
(whichever is lower)		

84.

ii> Tax on balance income

upto 250,000	-	-
> 250000 upto 5,00,000	5%	12500
> 5,00,000 upto 10,00,000	20%	100000
		112500
add : tax on LTCG		1070183
Total tax liability		1182683
Add : Surcharge @ 15%		177402
~~add~~ :		1360085
add : HEC @ 4%		54403
		1414488

__/__/____

Sec 45(2) conversion of capital asset into stock in trade

Normally year of tax = year of transfer. In case of conversion of capital asset into stock in trade, transfer took place in the year of conversion, however, the tax is paid in the year in which the stock in trade is sold.

In this case, income is divided in two parts.

Computation of capital gain		PGBP	
Full value of consideration (FMV on date of conversion)	xxx	Sale value of stock	xxx
(-) transfer expenses	(xxx)	(-) FMV of capital asset on date of conversion	(xxx)
Net consideration	xxx	PGBP income	xxx
(-) COA / JCOA	(xxx)		
(-) CGI / JCGI	(xxx)		
STCG / LTCG	xxx		

Q4 (page 83)

Mr. X — PY 24-25, AY 25-26

Computation of capital gain	₹
Fair market value on date of conversion	550,000
(-) Index cost of acquisition $60000 \times \frac{348}{113}$	(184778)
Long term capital gain	365222

Profit / gain from business & profession	₹
Sale value of stock	600000
(-) Fair market value of capital asset on conversion	(550000)
PGBP	50,000

Imp note: If stock in trade is sold in part, then capital gain is also taxable in part.

Q5 (page 83)

Computation of capital gain

		₹
Fair market value at the date of conversion		15,00,000
(-) transfer expenses		(-)
Net consideration		15000000
(-) Index cost of acquisition		
(i) $10,00,000 \times \frac{167}{100}$	= 1670000	(1670000)
(ii) fair market value on 01/04/2001 =	930000 →	
Gross long term capital gain		1,33,30,000

∴ capital gain taxable under PY 24-25 (AY 25-26)

$13,330,000 \times \frac{15 \text{ flats}}{20 \text{ flats}} = 9997500$

PGBP income:

Sale value of stock (15 flats × 20 lakh each)	3,00,00,000
(-) fair market value of plot on date of conversion (150 lakh × 15 flats / 20 flats)	11250000 (~~15000000~~)
	18750000
Gross PGBP income	~~1,50,00,000~~

~~PGBP income taxable under PY 24-25 (AY 25-26)~~

~~1,50,00,000 × 15 flats~~

(-) cost of construction (8 lakh × 15 flats)	(12000000)
PGBP	6750,000

Note: as per 45(2) in case of conversion of capital asset into stock in trade, transfer took place in the year of conversion, but the capital gain is taxable in the year in which the stock in trade is sold.
In the present question, Preeti sold 15 flats in previous year 24-25 so proportionate capital gain taxable in PY 24-25.

2. If any asset acquired before 1/4/2001, cost of acquisition shall be actual cost or FMV as on 1/4/2001, whichever is higher.
In the present question, actual cost is ₹10,00,000, ie, higher than FMV on 1/4/2001, ie. ₹9,30,000. so we have to consider ₹10,00,000

Sec 45(5): Compulsory acquisition of capital asset.
normally, year of ~~transfer take~~ = year of transfer but in case of compulsory acquisition of capital asset transfer takes place in the year in which, the asset is compulsory acquired but capital gain is taxable in the year in which compensation is received.

Part A: For initial compensation		Part B: additional compensation
Computation of capital gain		computation of capital gain
FVOC	initial compensat^n	FVOC additional compensat^n
(-) transfer expense	(xxx)	(-) legal fees
Net consideration	xxx	litigation charges (xxx)
(-) COA / JCOA	(xxx)	STCG / LTCG xxx
(-) COI / JCOI	(xxx)	
STCG / LTCG	xxx	

compensation received in instalments

1. Initial compensation - If it is received in instalment then total initial compensation taxable in the year in which first instalment is received.
2. Enhanced / additional compensation - If it is received in instalment, then it is taxable as and when received (जब मिलेगा तब taxable होगा)

Note: If interest is received on late compensation then such interest is taxable under 'income from other sources' in the year in which it is received.

Taxable amount = Interest received x 50% (50% standard deduction u/s 57)

Q6 (page 84) Mr. Navin PY 24-25 (AY 25-26)

part A: Initial compensation

computation of capital gain

FVOC (inital compensation)	1400000
(-) transfer expense	-
Net consideration	1400000
(-) cost of acquisition (index)	
$200,000 \times \frac{148}{100}$	(296000)
Long term capital gain	1104000

part B: enhanced compensation PY 25-27 AY 27-28

computation of capital gain

FVOC (additional compensation)	250000
(-) legal expenses	(6000)
Long term capital gain	244000

Note 1: If initial compensation is received in instalment then total initial compensation is taxable in year in which first instalment is received.
In the present question, first instalment of 210,000 is received in previous year 24-25, so total compensation of 14,00,000 taxable in the year PY 24-25

2. Nature of capital gain on additional compensation depends upon nature of original compensation. If capital gain on original compensation is long term, the capital gain on enhanced compensation shall be long term as well.

Q7 (page 84)

part A: Initial compensation

FVOC (initial compensation)	2,00,000
(-) transfer expenses	(30000)
Net consideration	170000
(-) index cost of acquisition	
$1200,000 \times \frac{\cancel{113}}{113} \frac{363}{} \frac{317}{113}$	3366371
	~~(3854867)~~
Long term capital loss	(1396371)

part B: enhanced compensation

FVOC (additional compensation)	1800000
(-) legal expenses	(100000)
Long term capital gain	1700000
less: LTCL of PY 24-25	(1396372)
Net LTCG	303628

If any enhanced compensation is received due to intrim order (temperory order) of any court, then such compensation shall be taxable in the year in which final order is made.

eg. Intrim order passed in PY24-25
and award compensation ₹400,000 (recd in PY24-25)
↓
final order passed in PY27-28
and decided compensation = 700,000.

₹400,000 already recd. taxable in PY27-28

remaining 300000 recd in PY 29-30, taxable in PY 29-30.

As per CBDT (central board of direct tax), if compensation received is exempted as per sec 96 of the fair compensation and transperency in land acquisition, rehabilitation and resettlement Act, 2013. (RFCTLARR), such compensation also exempted under income tax.

<u>Sec 45 (1A): Destruction /damage of capital asset</u>

Normally destruction is not treated as transfer of capital asset. However, if destruction of capital asset due to following 4 reasons, and insurance claim received, then it is treated as transfer and capital gain is applicable

1. natural calamities (flood, tsunami, earthquake)
2. riots
3. enemy attack (husband-wife not included haha)
4. accidental fire

In above cases, asset is transferred in year of destruction but capital gain is taxable in year in which insurance claim is received)

__/__/____

Computation of capital gain

FVOC (Insurance claim / money / FMV of asset received in claim)	xxx
(-) transfer expenses	(xxx)
Net consideration	xxx
(-) cost of acquisition / index cost of acquisition	(xxx)
(-) cost of improvement / index cost of improvement	(xxx)
STCG / LTCG	xxx

Example:

Mr. Vedant acquired a house property for ₹ 5,00000 in PY 12-13. on 01/11/24, the house property was destroyed due to fire. Insurance claim of ₹ 3,00,00,000 was received on 19/7/25. Calculate capital gain.

	PY 24-25
FVOC (insurance claim)	3,00,00,000
(-) transfer expense	(-)
Net consideration	3,00,00,000
cost of acquisition	(500000)
∴ Long term capital gain	29500000

Since asset was transferred in PY 24-25 after 23/07/24, indexation shall not be applicable.

Note:

As per sec 112 in this case, while calculating tax liability, assessee is required to pay tax @ 12.5% without indexation or 20% with indexation whichever is lower.

Normally capital gain is taxable in year in which transfer took place. But in following 3 cases, capital gain is taxable in some other year

section	cases	year of trf	year of tax
45 (2)	conversion of capital asset into stock in trade	conversion into ST1	stock sold
45(5)	compulsory acquisition of capital asset	compulsory acquisition	compensation received.
45(1A)	destruction / damage of capital asset.	year of destruction	insurance claim received.

Special case No. 1

~~sec 50 (c)~~ sec 50c : Stamp duty value ie. SDV shall be treated as FVOC

In case of immovable property held as capital asset, if SDV is more than 110% of consideration, then such SDV shall be treated as FVOC

Illustration	I	II	III	IV	V
Sale proceed	100000	100000	100000	100000	2000000
SDV	107000	112000	110000	109000	2500000
FVOC	100,000	112000	100000	100000	2500000

If assessee is not satisfied with SDV, and he thinks that SDV is more than market value, his case may transfer to valuation officer (VO) by assessing officer (AO).

If value determined by VO is less than SDV, then value thus determined shall be treated as FVOC

If value is more than SDV, value of VO shall be ignored & SDV shall be treated as FVOC.

Mr. BB acquired a house property in PY 93-94 for ₹ 3,00,000. FMV as on 01/04/2001 is ₹ 9,00,000. He sold the property to Kaka on 10/12/2023 for ₹ 6400000. Mr. Kaka paid stamp duty ~~of~~ at time of registration of ₹ 535000, ie. @ 6% of stamp duty value. compute capital gain in hands of Mr. BB. Assume BB paid brokerage @ 1% of SV.

⇒ stamp duty value = 89,16,666

110% of sale value = 64,00,000 × 110%

= 70,40,000.

Since ~~sale value~~ SDV > 110% of consideration, SDV shall be treated as FVOC

∴ FVOC = 89,16,666.

Mr. BB — PY 23-24 AY 24-25

Computation of capital gain

Fair value of consideration	89,16,666
less: transfer expenses	(64000)
Net value of consideration	8852666
(-) Index cost of acquisition	
$9,00,000 \times \frac{348}{100}$	(3132000)
Long term capital gain	5720666

SDV on the date of registration or agreement
normally SDV considered on the date of registration
but if date of agreement and registration are not same,
assessee can take SDV on date of agreement if he received
consideration or part thereof upto the date of agreement by
account payee cheque, account payee demand draft or
any other electronic mode through bank A/c
Electronic mode : credit card, debit card, UPI, Net banking,
RTGS, NEFT, IMPS, Bhim UPI, QR code

Special case No: 2

Sec 51: Advance money forfeited (token amount)

Mr Ayush
19/07/2012
200,000 (token money)

PY 2002-3
cost = 500000
Mr. Umang

Mr. BB
16/05/2024
50,00,000 - sale

capital gain	PY 24-25 AY 25 26
Full value of consideration	50,00,000
(-) Index cost of acquisition	
$(5,00,000 - 200,000) = 3,00,000 \times \frac{363}{105}$	(1037143)
	3962857.

__/__/____

sec 56(2)(ix) → IFOS

If any advance money forfeited before 1/4/14 then its should be reduced from.

① cost of asset if asset acquired on or after 1/4/2001

② Fair market value as on 1/4/2001 (if asset acquired before 1/4/2001 & FMV as on 1/4/2001 > cost)

③ WDV (in case of depreciable assets)

Notes :

1) Advance money reduce before indexation

2) Advance money forfeited by previous owner shal not be reduced.

sec 56(2)(ix)

If any advance money forfeited on/after 1/4/2014 then it shall be taxable under income from other sources (IFOS) in year of forfeiture

example :

Mr. Babu acquired a house property in previous year 2001-2002 for ₹ 500000 during the PY 2007-2008 he entred into contract for sale of property with Mr Kaka and received amount in advance of ₹ 120000. Kaka did not remit the balance amount so Babu entred into agreement for sale of Mr. Janu on 01/4/2024 and received advance of ₹ 70000. Mr. Janu did not remit the baldnce amount so babue forfeited the advance. Finally Mr. Babu sold the property to Miss Kiran for ₹ 70,00,000. on 22/07/2024. calculate capital gain in hands of Babu

Mr. Babu (PY 24-25 AY 25-26)

computation of capital gain

FVOC	70,00,000
(-) transfer expenses	—
Net consideration	7000,000
(-) Index cost of acquisition	
$(500000 - 120000) = 380000 \times \frac{363}{100}$	(1379400)
Long term capital gain	5620600

Income from other sources

Advance money forfeited	70000

Note 1: Advance money forfeited before 1/4/2014 is ₹ 120000 shall be reduced from cost of acquisition due to sec 51

Note 2: Advance money forfeited on or after 01/04/2014 shall be taxable under IFOS in the year of forfeiture. So ₹ 70,000 is taxable under IFOS in PY 24-25

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Special case No: 3

Sec 47: following transaction not regarded as transfer (exempt transfer)

1) HUF $\xrightarrow{\text{asset}}$ members

2) gift / (Ind / HUF) $\longrightarrow$ ~~transfer~~ / ~~capital gain~~
will / inheritance

3) Holding company $\longrightarrow$ 100% subsidiary company
~~capital gain~~

In case of following transactions, capital gain is not applicable

1. distribution of capital asset by HUF to member on partition
2. transfer of capital asset by individual / HUF under gift / will / inheritance

   exception: If shares allotted under ESOP gifted to someone then it is treated as transfer & capital gain shall be applicable for computation of capital gain. FMV as on date of gift is treated as FVOC
3. Transfer of capital asset by Holding company to 100% subsidiary company. subsidiary company should be a Indian company
4. Transfer of capital asset by 100% subsidiary company to holding company. & holding company should be an Indian company.

In above cases,

i) cost of acquisition = cost to previous owner (sec 49(1))

ii) cost of improvement = incurred by previous owner as well as present owner shall be considered.

iii) period of holding :- POH of previous owner as well as present owner shall be considered

iv) Index cost of acquisition =

cost of acquisition × $\frac{\text{Index of year of transfer}}{\text{Index of year in which previous owner acquired asset}}$

v) benefit of FMV : as on 1/4/2001 available

Q.16 (page No. 87)

Mr. Dinesh PY 24-25, AY 25-26

Computation of capital gain

FVOC = sale price = 55,00,000

Stamp duty value = 65,00,000

(as per 50C, since SDV > 110% of consideration) 65,00,000

(-) transfer expenses —

Net consideration 65,00,000

(-) cost of acquisition

plot (previous owner) (70,0000)

Building (15000000)

(-) cost of improvement (5,00,000)

Long term capital gain 38,00,000

Q.17 (page No. 87)

Mr. Dee (PY 24-25 AY 25-26)

computation of capital gain

Fair value of consideration			22,00,000
(-) transfer expenses			-
Net consideration			2200,000
(-) cost of acquisition (cost to previous owner)			
i) actual cost	650000		
ii) FMV on 1/4/2001	270000	650000	
SDD on 1/4/2001	290000	270000	(270000)
(-) cost of improvement			(235000)
Long term capital gain			1695000

Note 1:

As per sec 51 advance money forfeited by present owner (assessee) before 1/4/2014 shall reduce from cost of acquisition In the present question advance money forfeited by previous owner Mr. Kay shall not be reduced

Note 2:

In above question index benefit is not available because transfer took place on or after 23 July 2024 as per sec 112 In case of resident individual / HUF (immovable property) while calculating tax liability assessee has option to pay tax 20% with indexation of 12.5% without indexation

Q18 (page No. 87)

Mr. X (PY 24-25 AY 25-26)

Computation of capital gain

Fair value of consideration		58,00,000
(-) Index cost of acquisition		
i) cost	525000	
ii) a) FMV on 1/4/01	1190000	
b) SDV 1290000		
(1190000 - 40000) = 1150000 × 363/100		(417500)
Long term capital gain		1625500.

Note 1:

As per advance money forfeited by present owner (assessee) before 1/04/2014 shall reduce from cost of acquisition

In the present question advance money forfeited by Mr. X (1190000 - 40000)

Note 2:

In the above question benefit of indexation is available because asset sale before 23/07/2024.

Under special case 3

5. capital asset transferred by amalgamating company amalgamated company in scheme of amalgamation and amalgamated company is an Indian company.

6. Shareholder transfer share of amalgamating company and received share of amalgamated company is not ~~transfer as~~ treated as transfer

7 capital asset transferred by demerged company to resulting company and resulting company is an Indian company.

8. Conversion of bonds / debentures / deposits certificate into shares or debentures of that company

9. Conversion of preference shares into equity shares of that company.

eg. Mr. A purchased 1000 preference shares of BB ltd @ 100 per share on 16/7/2002. During PY 18-19, preference shares were converted into equity shares and Ankush received 1500 equity shares (FV 10/-). on 16/07/2024. company sold all the equity shares @ 650 / per share. compute capital gain

→ Solution:

a) conversion of preference share in equity share is not treated as transfer so in PY 18-19 capital gain is not applicable

b) computation of capital gain on equity shares

(1500 × 650)	975000
Net consideration	975000
(-) Index cost of acquisition	
preference shareholder (1000 × 100)	
$1,00,000 \times \frac{363}{105}$	(345714)
	629286

10. Redemption of sovereign gold bond is issued by RBI in case of individual

11. Transfer of capital asset under reserve mortgage scheme of senior citizen
Note: any money received by senior citizen under reserve mortgage scheme is fully exempt u/s 10(43)

12. Conversion of gold into electronic gold receipt (EGR) or conversion of EGR into gold is not treated as transfer and capital gain is not applicable on conversion.

- cost of acquisition of current asset (Gold / EGR) = cost of acquisition of previous asset (Gold / EGR which is so converted)

- period of holding of earlier asset (gold / EGR) shall also be included.

Example :

Mr. Satish purchased 10 grams of Gold for ₹9000 in PY 12-13. on 16th April 2023 he converted such gold into EGR on 14th February 2025, he sold such EGR for ₹ 60,000 discuss tax treatment

a> on conversion of gold into EGR is not treated as transfered, so capital gain is not applicable on conversion of gold into EGR

b> capital gain on sale of EGR

	PY 24-25 AY 25-26
Full value of consideration	60000
(-) transfer expenses	(-)
	60,000
(-) cost of acquisition	(9000)
∴ Long term capital gain	51000.

Special case No 4

Capital gain in case of shares and debentures

a) Bonus shares

Bonus shares

Bonus shares allotted before 1/4/2001 :-

a> cost of acquisition - Nil

b> Fair market value on 01/4/2001 XXX

cost of acquisition XXX

If bonus acquired on or after 01/4/2001 :-

COA always nill.

period of holding (POH) from allotment date to transfer date

b) Right shares

Right shares

acquired by share holders
COA : amount paid to company
POH : from allotment date to transfer date

Renouncement of right (relinquishment of capital asset)
↓
capital gain
FVOC : renouncement price
(-) COA : NIL
STCG XXX
POH from offer date to renouncement date

- In hands of purchase of rights
cost of acquisition : amt paid to company + amt paid for purchase of right
Period of holding : from date of allotment of shares till date of transfer.

c) No indexation in case of debentures & bonds
in case of debentures & bonds index benefit is not available
except : 1) Sovereign gold bonds issued by RBI } indexation होगा
2) capital index bond

Note : If any asset transfer on / after 23/07/2024 then index benefit is not allowed but in case of debentures & bonds, indexation is not allowed even if it is transfered before 23/07/2024.

Question 9 (page 84)

PY 24-25 AY 25-26

Computation of capital gain

	purchase: 1000 ES (1995-1996)	Bonus: 100 ES (2001-02)	Bonus: 1100 ES (2005-06)
~~Fat~~ Full value of consideration	200000	20000	220000
(-) transfer expense (2% brokerage)	(4000)	(400)	(4400)
Net consideration	196000	19600	215600
(-) Index cost of acquisition			
(1) purchase of 1000 ES.			
cost 30300			
FMV on 1/4/01 80000			
indexation = $80000 \times \frac{363}{100}$	(290400)		
(2) Bonus shares of 2000.			
cost Nil			
FMV 8000			
indexation = $8000 \times \frac{363}{100}$		(29040)	
(3) Bonus shares of 1100			Nil
Long term capital gain	94400	9440	215600

Net long term capital gain : 111760.

Question 10 (page 85)

Mr. R — PY 24-25 AY 25-26

computation of capital gain

	purchased:	Bonus 2:5	Right issue
	1000 ES	200 ~~400~~ ES	200 ES
	(2001-02)	(2024-25)	
	1000 × 300	200 × 300	200 × 30
Full value of consideration	3,00,000	60,000	6000
(-) transfer expenses	–	–	–
Net consideration	3,00,000	60000	6000
i) 1000 original shares	(75000)		
ii) 200 right shares (200 × 160)		(32000)	
iii) 200 right shares			–
	225000	28000	6000
	LTCG	STCG	STCG.

Mr. Q — PY 24-25 AY 25-26

computation of capital gain

FVOC	56000
(-) cost of acquisition	
[200 shares × (160 + 30)]	(38000)
Long term capital gain	18000

__/__/____

Special case No.5

- capital gain in case of intangible assets :

In case of

1) goodwill of business or profession or other intangible asset
2) trademark or brandname
3) patent or copyright
4) right to carry on any business or profession.
5) Tenancy right, route permits, loans hours or any other rights.

Cost of acquisition < self generated - Nil
purchased - purchase price

Note :

1) In case of above assets, FMV as on 01/04/2001 benefit is not allowed
2) In case of goodwill or business, patent, copy right, right to carry on any business or ~~fro~~ profession or any other intangible asset cost of improvement is always treated as Nil.

Special case : 6

sec 50CA : capital gain in case of ~~unadequa~~ unquoted shares (unlisted shares)

In case of transfer of unlisted share, if sale value is less than FMV ~~is treate~~, then FMV is treated as full value of consideration.

Mr. BB acquired 10000 shares of BB virtuals pvt ltd. @ 10 on 15 october 2017. on 10th dec 2024 he transfer 4000 shares to Mr. Anupam mittal @ 1000 per shares. FMV of such shares @ 600 per share. compute capital gain.

Mr. BB PY24-25 AY25-26

computation of capital gain

FVOC (4000×600)	2400000
(-) cost of acquisition (4000 ×10)	(400000)
LTCG	2360000

Special case 7:

Sec 50B: Slump sale : sale of a business.

computation of capital gain

FVOC: 1) FMV as per rule 11UAE ↑	xxx
2) FMV of consideration recd	
(-) transfer expense	(xxx)
	xxx
(-) cost of acquisition (Note 1)	(xxx)
[no indexation]	
STCG / LTCG	xxx

Note 1: Net worth (COA)

Depreciable asset - WDV as per Income tax Act	xxx
other asset - book value	xxx
liabilities - book value	(xxx)
Net worth	xxx

Slump sale means transfer of undertaking, unit, business for lumpsum consideration without assigning value of individual asset and liability.

so

Note:

1. Revaluation of asset shall be ignored
2. Indexation benefit not available in case of slump sale
3. Undertaking held for > 3 years - LTCG,
   otherwise - STCG
4. Net worth calculation - value of self generated asset shall be taken as Nil
5. For calculation of net worth, value of asset on which deduction u/s 35 AD (PGBP) claim is taken as Nil
6. No profit under PGBP shall arise even if stock is transferred under slump sale

Question 15 (page 86)

Computation of capital gain.

Full value of consideration	
(transfer rule 11UAE)	30,00,000
(-) transfer expenses	(28000)
Net consideration	2972000
(-) cost of acquisition	
(net worth - Note 1)	(1250625)
Long term capital gain	1721375

Note 1:

Assets:	
Building (1200000 - 3,00,000)	9,00,000
Machinery	3,00,000
debtors	100,000
other asset (1,80000 - 50,000)	180,000
Patent	28125
Total assets:	1428125
(less) : liabilities	
~~Net~~ Bank loan	140000
creditors	37500
Net worth	1250625

Note 2: Patent

cost	50,000
(-) depreciation @ 25% PY 22-23	(12500)
	37500
(-) depreciation	(9375)
WDV as on 1/4/24	28125

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Special case No. 8

Capital gain if consideration not determinable

FVOC = FMV of asset transferred (asset जो जा रही है - विदाई hoha)

Special case No. 9 [Sec 50AA] - capital gain in case of debt MF, MLD & unlisted bonds.

In case of

(a) unit of a specified mutual fund acquired on or after 1st April 2023 or a market linked debenture (MLD) or

(b) unlisted bond or an unlisted debenture which is transferred or redeemed or matures on or after 23 July 2024,

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

computation of capital gain

FVOC on transfer, redemption or maturity	xx
(-) transfer expenses	(xx)
Net consideration	xx
(-) cost of acquisition	(xx)
STCG	xx

Note 1: In above cases, there will always be short term capital asset & STCG so indexation not allowed.

Specified mutual fund (debt MF) means MF where 35% or less of total money of MF is invested in Equity shares of domestic company.

Special case No.10

	$
FVOC [avg rate on date of transfer]	xxx
(-) transfer expense (avg rate)	xxx
(-) COA (avg rate on date of acquisition)	(xxx)
ST/LTCG in $	xxx

convert STCG into Indian ₹ by applying TTBR on date of transfer

1st proviso to sec48:

capital gain in case of shares/debentures transferred by Non resident:

if following conditions are satisfied, calculate capital gain in foreign currency and reconvert it into Indian currency.

1. Assessee should be non-resident.
2. Assessee should purchase shares/debenture of Indian company
3. Such asset acquired in foreign currency.

eg: Ms. Sunny is a NR acquired shares of BB ltd (Indian company) for ₹ 75000 on 16/07/2017 in US Dollar. She transferred all the shares on 10 December 2024 for ₹ 5,00,000. Transfer exp = 20,000. compute capital gain

	TTBR	TTSR
16/7/2017	50	52
10/12/24	63	65

FVOC $\left(\frac{5,00,000}{64}\right)$	$7812.5
(-) transf exp (20000/64)	(312.5)
Net consideration	7500
(-) COA (75000/51)	(1470.5)
LTCG	6029.4 $ = 379853 ₹

Exemptions

Sec 54: Exemption for residential house property

a) eligible assessee - Individual / HUF

b) asset transferred - residential house property

c) capital gain on transferred asset - long term capital gain.

d) asset to acquired - one residential house property in India

Note: If LTCG is upto ₹ 2 crores, then assessee can acquire 2 residential house property within prescribed limit. This benefit of two house property is available only once in life time

e) Time limit - New house property should be purchased within 1 year before the date of transfer or purchase within 2 year after the date of transfer or construct within 3 years after the date of transfer

f) capital gain account scheme : (CGAS) assessee should acquire house property or deposit desired amount in CGAS account upto the due date of return filling.

deposited amount should be utilized for the purpose of house property within prescribed time limit. If the deposited amount misutilized or ~~uti~~ unutilised then exemption claim earlier shall be withdrawn

g) amount of exemption :

i) capital gain

ii) cost of new asset / deposite amount in CGAS

Note : Ammendment by Finance Act 2023

If cost of new asset is more than 10 crores then amount exceeding 10 crores shall not be taken into account for the ~~exemption~~ purpose of exemption.

It means maximum exemption can be 10 crore in this section

b) Lock in period.

New house property should not be transfer with in 3 years from date of its acquisition if it is transferred within 3 years, then exemption claim earlier shall be withdrawn and it shall be reduced from COA of new house property

cost of acquisition = cost of acquisition - exemption claim earlier

Q.19 (page no -87)

Mr. Ravi PY 24-25 AY 25-26

computation of capital gain			
Fair value of consideration			27,00,000
(-) transfer expense			(15000)
Net consideration			2685000
(-) index cost of acquisition			
i) cost		80000	
ii) a) FMV 1/4/11	200000		
b) SDV 1/4/11	190000	190000	
190000 × 363/100			(689700)
Gross long term capital gain			1995300
less: exemption u/s 54			
a) capital gain	1995300		
b) cost of new asset	500000		(5,00,000)
Net long term capital gain			1495300

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computation of capital gain on transfer of new House property

FVOC	9,00,000
(-) transfer expenses	–
Net consideration	9,00,000
(-) COA	
(cost - exemption claim)	
(5,00,000 - 5,00,000)	Nil
Short term capital gain	9,00,000

Q20 (page 87)

Mr. Roy (PY 21-22 AY 22-23)

computation of capital gain

	(POH 9/9/11 to 6/1/22)
Fair value of consideration	15,700,000
(-) transfer expense	(-)
Net consideration	15,700,000
(-) index cost of acquisition	
i) cost = $30,00,000 \times \frac{317}{184}$	(5168478)
Gross LTCG	10531522
less: Exemption u/s 54	
i) capital gain 10531522	
ii) cost of new asset 20500000	(10531522)
Net LTCG	Nil

Note: Since assessee acquired house property in Panchkula within 2 years from the date of transfer of property so he is eligible for exemption u/s 54

computation of capital gain		(PY 24-25 AY 25-26)
FVOC		32500000
- transfer expenses		-
NC		3,25,00,000
- COA		
(20500000 - 10531522)		9968478
Gross LTCG		22531522
- exemption u/s 54		
i) capital gain	22531522	
ii) cost of HP	2570000	(22531522)
Net LTCG		Nil

Note : As per 54 assessee cannot transfer the new house within the period of 3 years from the date of its acquisition. If it is transferred within 3 years then exemption claim earlier & it shall be reduced from cost of New house property while calculating capital gain.
In the present question assessee transfer Panchkula house within 3 years so exemption claim earlier shall be reduced from the cost of acquisition

There is LTCG on transfer of Panchkula house & assessee purchased Delhi property within 2 years from the date of transfer so exemption can be claimed u/s 54

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Sec 54B: Exemption for urban agricultural land

a) Eligible assessee :- Individual / HUF

b) Asset transferred :- urban agricultural land which was used by assessee or his parents for agricultural purpose for 2 years before the date of transfer.

c) capital gain on transferred asset :- STCG / LTCG

d) asset to be acquired :- urban / rural agricultural land

e) time limit :- New agricultural land should be acquired within 2 years after the date of transfer (+2)

f) CGAS
g) amount of exemption
h) lock in period

} same as sec 54

Note : If assessee acquired new asset as rural agricultural land and if he transfer that new asset within the period of 3 years then also exemption claim earlier shall not be withdrawn because rural agricultural land is not a capital asset.

Q21 (page 88) Mr. Suman (PY 24-25 AY 25-26)

computation of capital gain

FVOC	2200000
(-) transfer expenses	(50000)
Net consideration	2150000
(-) cost of acquisition	(200000)
Gross LTCG	1950000
less : exemption u/s 54B	
i) capital gain 1950000	
ii) cost + deposit 1200000 (8,00,000 + 4,00,000)	(1200000)
Net LTCG	750000

Sec 54D : Exemption for compulsory acquisition of industrial land and building.

a) eligible assessee – all assessee

b) transferred asset – compulsory acquisition of Industrial land and building which was used by assessee for ~~ind~~ industrial purpose for 2 years before the date of transfer.

c) capital gain on transferred asset :- LTCG / STCG

d) asset to be acquired :- Industrial land & building

e) time limit – New industrial land & building should be purchased and construction within 3 years after the date of receipt of compensation.

f) CGAS
g) lock in period
h) amount of exemption

} same as 54

Q22 (page 88)

computation of capital gain

FVOC	14,00,000
- transfer expense	–
Net consideration	14,00,000
- cost of acquisition	(350000)
Gross LTCG	1050000
- exemption u/s 54D	
i) capital gain 1050000	
ii) cost of new industry land & building 200000	200000
Net LTCG	850000
Tax @ 12.5%	106250

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sec 54EC : Exemption for immovable property

(a) Eligible assessee - all assessee

(b) transferred asset - any immovable property (land, building, land & building

(c) capital gain on transferred asset - LTCG

(d) asset to be acquired -

NHAI / RECL / PFCL / IRFCL bonds which is redeemable after 5 yrs.

NHAI - national highway authority of India

RECL - Rural electrification corporation limited

IRFCL - Indian railway finance corporation ltd.

PFCL - power finance corporation ltd

(e) time limit - Bond should be acquired within 6 months after the date of transfer (+ 6 months)

(f) CGAS - ~~set~~ not applicable

(g) amount of exemption : (i) capital gain
(ii) cost of bonds

Note : Assessee can claim maximum exemption of ₹ 50 lakh for bonds acquired within 6 months

(h) lock in period - assessee cannot transfer bonds or convert it into money within 5 yrs from date of its acquisition. If it is transferred / converted into money then exemption claimed earlier shall be withdrawn & it is treated as LTCG in year in which it is transferred / converted into money

Notes

1. converted into money means loans / advances taken on security of bonds.

2. u/s 54EC, time limit calculated from date of transfer. but as per CBDT, in case of conversion of capital asset into stock in trade, time limit is calculated from the date on which stock is sold.

Question 25 (page 88) (PY 24-25 AY 25-26)

FVOC		1,00,00,000
(-) trf expenses		-
Net consideration		1,00,00,000
(-) cost of acquisition		999300
Gross LTCG		9000700
(-) exemption u/s 54EC		
(i) capital gain	9000700	
(ii) cost of new bond	70,00,000	
	70,00,000	
Max emption	50,00,000	(50,00,000)
Net LTCG		4000700

sec 54F : Exemption for any LTCA

(a) eligible assessee: Ind / HUF

(b) trf asset: any LTCA except Residential HP.

(c) capital gain on transferred asset - LTCG

(d) asset to be acquired - Residential HP in India

(e) time limit - HP should be acquired within ~~6 months~~ - same as sec 54 (-1, +2, +3)

(f) CGAS - same as sec 54

(g) amount of exemption

(i) Net consideration fully utilised - CG fully exempt.

(ii) Net consideration is partly utilised capital gain is partly exemp as following:

$$\text{LTCG} \times \frac{\text{cost of new asset / deposit amt}}{\text{Net consideration}}$$

Note: Ammendment by Finance Act, 2023 - If cost of new asset is more than 10 crore then amt in excess of 10 crore shall not be considered for purpose of exemption under this section

(h) Lock in period = assessee should not transfer house property within 3 years from the date of its acquisition. If it is transferred within 3 years, earlier claimed exemption shall be withdrawn & treated as LTCG in year in which new house property transferred

Notes :

1. On the date of transfer of any LTCA, assessee should not own more than 1 residential HP (other than acquired under this section)
2. Assessee should not purchase any other house property within 2 years after the date of transfer or construct within 3 years after date of transfer.

Question 23 (page 88)

Mr. D — PY 24-25 AY 25-26

Computation of capital gain.

FVOC	1150000 ~~252000~~
(-) Trf expense	7000 ~~(5,00000)~~
Net consideration	~~245000~~ 1143000
(-) cost of acquisition	(252000)
Gross LTCG	891000
(-) Exemption u/s 54F	~~(500000)~~
~~Net LTCG~~ LTCG × cost of new asset / NC	~~391000~~
891000 × 500000 / 1143000	(389763)
Net LTCG	501236

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Example - Mr. Rohit purchased gold in PY 12-13. for ₹ 8,00,00,000. on 16 July 2024 he sold such gold for ₹ 40.05 crore. Transfer expenses ₹ 0.05 crore. on 28 June 2025, he purchased a residential house property in Mumbai for ₹ 28 crore. Compute capital gain. on 30 March 2027, he transferred Mumbai house for ₹ 34 crore.

Mr. Rohit	PY 24-25 AY 25-26
Fair value of consideration	400500000
less: transfer expense	(5,00,000)
Net consideration	40,00,00,00
(-) cost of acquisition	
$8,00,00,000 \times \frac{363}{200}$	(145200000)
Gross LTCG	254800000
(-) Exemption u/s 54F	
$LTCG \times \frac{\text{cost of new asset}}{\text{Net consideration}}$	
$254800000 \times \frac{\cancel{28\,00\,0000}\ 100000000}{4000,00,000}$	(63700000)
Net LTCG.	191100000

	POH 28/6/25 till 29/3/27
Fair value of consideration	34,00,00,000
(-) transfer expense	(-)
Net consideration	34,00,00,000
(-) cost of acquisition	(28,00,00,000)
Gross STCG	6,00,00,000
exemption LTCG taxable in PY 26-27, AY 27-28	63700000

In all sections of exemptions (54, 54B, 54D, 54EC, 54F), time period for acquiring new asset is considered on date on which compensation is received if such asset is compulsorily acquired

Question 8 (page 84)

As per sec 45(1A) if any capital asset is destroyed due to fire and assessee received insurance claim, then it is treated as transfer and capital gain is applicable. In this case capital asset is transferred in which it is destroyed but capital gain is calculated in year in which insurance claim is received.

computation of capital gain		PY24-25 AY25-26
Fault value of consideration		600000
- transfer expenses		-
	NC	600,000
- COA (WDV		(208800)
	STCG	391200

Question 11 (page 85)

~~Computation of capital gain~~ ~~PY24-25 AY25-26~~

A] As per sec 47, if any HUF transfers asset to member on partition, then it is not treated as transfer & capital gain is not applicable in case of HUF.

B] computation of capital gain in hands of A PY24-25 AY25-26

FVOC	15,00,000
(-) trf exp	(20000)
NC	1480000

Net consideration	1480000
- cost of acquisition	(150000)
- cost of improvement	(235000)
LTCG	1095000

Question 24 (page 88)

Mr. Selvan	PY 24-25 AY 25-26
computation of capital gain	
Full value of consideration	75,00,000
(-) trf expenses	-
Net consideration	75,00,000
(-) cost of acquisition (2002)	(10,00,000)
(-) cost of improvement (2005)	(200,000)
Gross long term capital gain	6300000
less: exemption u/s 54EC	
(i) capital gain 6300000	
(ii) cost of bonds 20,00,000	(20,00,000)
less: exemption u/s 54	4300000
(i) capital gain 4300000	
(ii) cost of HP 2500,000	(2500000)
Long term capital gain (Net)	18,00,000

	PY 25-26 AY 26-27
Full value of consideration	40,00,000
(-) cost of acquisition	(25,00,000)
Gross short term capital gain	15,00,000
LTCG (considered as exemption u/s 54 PY 24-25)	25,00,000

Question 27 (page 89)

Mr. Cee — PY24-25 AY 25-26

computation of capital gain

full value of consideration	20,00,000
(-) transfer expense	-
Net consideration	20,00,000
(-) ~~Index~~ cost of acquisition	
~~10,00,000~~ × ~~363~~	(10,00,000)
(-) cost of improvement	(200,000)
~~Cross~~ short term capital gain	8,00,000

~~Question 30 (page 90)~~

105 Question 30 (pg 90)

Mrs. Harshita PY 24-25 AY 25-26

computation of capital gain and business income

Fair value of consideration - FMV of land

as on 21 March 2024	21,000,000
less: index cost of acquisition	
$35,00,000 \times \frac{348}{113}$	(10778761)
	10221239
proportionate capital gain $\left(\frac{10}{15} = \frac{2}{3}\right)$	6814159
∴ gross long term capital gain	6814159
less: exemption u/s 54EC	
i) capital gain 6814159	
ii) cost of bonds 50,00,000	(50,00,000)
capital gain	1814159

Business income :-

Sale price of flats (30 lakh x 10)	3,00,00,000
less: Fair market value of land on date of conversion $\left(2,10,00,000 \times \frac{2}{3}\right)$	(1,40,00,000)
less: cost of construction (10 lakh x 10)	(10,00,000)
Business income	60,00,000

Note :

1) If a capital asset is converted in stock in trade, such conversion shall be treated as transfer & capital gain shall be applicable on such asset. Indexation on cost of such asset shall be calculated till the FY in which it was transferred.

2) Capital gain shall not be taxable on such asset on date of conversion, but on the date of sale of such asset or its use in business.

3) For purpose of calculating of capital gain, proportionate cost of acquisition shall be taken, in proportion to sale of stock in trade

In this case, only 2/3rd of stock is sold, thus cost of capital asset should be considered proportionately.

4) Since assessee purchased Bonds of NHAI and RECL within 6 months of transfer of capital asset, sec 54EC shall be applicable. Assessee can claim exemption of amount upto ₹50,00,000.

Question 32 (page 92)

~~Full v~~ Mr. Sarthak PY 24-25 AY 25-26

Full value of consideration		
a) Actual sale consideration	150,00,000	
b) value as per stamp duty	170,00,000	
Since SDV is more than 110% of actual sale consideration, SDV shall be considered as FVOC [sec 50C]		170,00,000
less: transfer expenses		—
Net consideration		170,00,000
less: Index cost of acquisition $30,00,000 \times \frac{363}{100}$		(10890000)
Gross long term capital gain		6110000
Exemption u/s 54 (2,00,000 + 3,500,000)		(5500000)
Net long term capital gain		610000

~~Q.24. page 88~~

~~Mr. Selvam~~

Tax rates under capital gain:-

1. Share market:-

Before 2004 → LTCG 20%
→ STCG → normal tax rate

2004 → ~~Dec~~ → LTCG → exempt u/s 10(38) } security transaction tax law
→ STCG → 111A 15%

Share market मे indexation नही मिलता

sec 112A : LTCG on transfer equity share / equity oriented mutual funds units; units of business trust

~~units of business trust~~

LTCG on the transfer of equity shares or equity oriented mutual funds or unit of business trust shall be -

i) @10% if transfer took place 23/07/2024

ii) @12.5% if transfer took place on or after 23/07/2024

→ in excess of ₹125000

conditions:

i) STT (security transction tax) paid on acquisition and transfer on equity shares

ii) STT paid on transfer of equity oriented unit and unit of business trust.

Notes

a) rebate u/s 87A not available against long term capital gain u/s 112A

b) Index benefit not available in case sec 112A even transfer took place before 23/07/2024

example:

From the following information. compute tax liability of Mr. Kammo (52 years) resident individual assume assessee opt out from sec 115BAC

	₹	
Income from PGBP	3,10,000	
Long term capital gain u/s 112A	180,000	
(transfer on 10/12/2024)	490,000	- Total income

Calculation of tax liability			PY 24-25 AY 25-26
i) tax on LTCG u/s 112A @ 12.5%			
in excess 1250,00			
(180000 - 125000)			6875
ii) tax on balance Net Tax liable income			
upto 250,000	-	-	
> 250,000 upto 3,10,000	5%	3000	3000
			9875
(-) Rebate u/s 87A			
Tax amount or 12500 ↓			(3000)
			6875
add: Health & Education cess @ 4%			(275)
Net tax liability			7150

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Sec 55: cost of acquisition

If sec 112A apply and asset acquired before 1/2/2018 then cost of acquisition shall be higher of step 1 or step 2

Step 1	cost of acquisition		xxx
Step 2	lower of		
	a> FMV as on 31/1/18		
	b> FVOC	xxx	xxx
		COA =	xxx

calculation of fair market value as on 31/1/2018

FVOC	8200,000
Step 1 cost of acquisition	(7000000)
Long term capital gain	1200,000
Step 1: cost of acquisition	10,00,000
Step 2: lower of	
a> FMV on 31/1/2018 70 lac	
b> FVOC 82 lac	70,00,000
cost of acquisition (treated)	70,00,000

cost of FMV as on 31/1/2018:-

(1) In case of listed shares or unit as on 31/1/2018

FMV = Highest price quotes on 31/1/2018 in stock exchange

If there is no trading as on 31/1/2018 in a stock exchange then highest price of last trading session

Paytm

1000 unlisted share 16/7/2009 @ 100 per share : 100,000.

↓ 31/1/2018 unlisted cost $100,000 \times \frac{272}{148} = 183784$

↓

listed 2023 — sale, SP = 500,000

(2) In case of shares and unit not listed on 31/1/2018.

In case units

FMV = NAV on 31/1/2018

(Net asset value)

In case of shares

$FMV = COA \times \frac{\text{index of FY 17-18}}{\text{index of year of acquisition}}$

Note :

① sec 112A is applicable in case of equity shares if it is listed at time of sale and STT paid at time of acquisition and sale

② sec 112A is applicable in case of equity oriented MF units and unit of business trust even if it is listed or unlisted But STT should be paid at the time of sale

111

Q35 (page 96)

Mr. Naveen PY 24-25 AY 25-26

computation of capital gain

A) 10,000 share of Y ltd @ 650 per share

FVOC	65,00,000
- transfer expense	-
Net consideration	65,00,000
- cost of acquisition (WN1)	(30,00,000)
Long term capital gain 112A	3500000

working note 1

step 1 : original cost		100	
step 2 : a) FMV 31/1/18	300		
b) FOV	650	300	300

(300 X 10000) = 30,00,000

B) 1000 unit AB mutual funds @ 50

computation of capital gain

fair value of consideration (1000 X 50)	50,000
- transfer expenses	-
Net consideration	50,000
- cost of acquisition (WN2) (1000 X 50)	(50,000)
LTCG 112A	Nil

WN2

step 1 : cost	10		
step 2 : a) FMV 31/1/18	55		
b) FVOC	50	50	50

112A
Slump sale
Deb bonds
sp. case 10 } LTCG – Indexation not allowed even if transfer before 23/07/24

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112

c) sale of shares of Ltd unlisted company.

computation of capital gain

fair value of consideration (200 x 100)	20,000
(–) cost of acquisition	
i) cost Nil	
ii) FMV as 1/4/2001 @ 50%	
(₹ 50 x 100)	(5000)
Long term capital gain u/s 112	15000

Solution Total long term capital gain

A)	i) 35,00,000 @ 10% in excess of 125000	337500
B)	ii) Nil	Nil
C)	iii) 15000 @ 12.5% transfer on or after 23/7/24	1875.

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Sec 111A : STCG in case of equity shares, equity oriented MF units, units of business trust

In case of short term capital gain, on transfer of equity shares, equity oriented mutual fund, units of business trust, shall be taxable @ 15% (if transfer took place before 23/7/24) and @ 20% (if transfer took place on or after 23/7/24)

Condition : STT shall be paid at the time of sale

common notes for sec 112A & 111A

1. STT not allowed under the head capital gain. If STT paid at time of sale, it is not treated as transfer expenses and if STT paid at time of purchase it is not included in cost of acquisition
2. If sale transaction took place in the recognized stock exchange located in International financial service centre (IFSC) and consideration is received in foreign currency, then benefit of sec 112A and 111A is available even if STT is not paid. [STT not applicable in IFSC]
3.

Tax rate under capital gain (other than 112A and 111A)

- long term capital gain u/s 112
  - transfer before 23/07/24 → 20%
  - transfer after / on 23/07/24 → 12.5%
- short term capital gain → normal tax rate (slab rate)

exception : 1] assessee - Ind | HUF (resident)
2] asset immovable property
3] asset acquired before 23/07/24
4] asset transfered on/after 23/07/24

tax = (i) 20% with indexation
(ii) 12.5% without indexation

eg. Mr. D purchased a house property on 10 December 2002 for ₹ 50,00,000. He sold property on 14/02/2025 for ₹1,20,00,000. His income from business & profession is ₹40,00,000. Compute his total income & tax liability for AY 25-26. as per default tax regime (115BAC)

Mr. D — PY 24-25 AY 25-26

computation of capital gain / total income

~~Fair value of consideration~~

Profit & gain from business / profession		4000,000.
Capital gain		
FVOC	12000,000	
(-) Brk expense	–	
Net consideration	12000,000	
(-) cost of acquisition	(5000,000)	
LTCG	70	7000000
Gross total income / Net taxable income		11000,000.

computation of tax liability.

(i) tax on long term capital gain (7000,000)

(a) tax @ 20% with indexation (WN1) Nil

(b) tax @ 12.5% without indexation

(7000,000 × 12.5%) 875000 →

Total tax liability on LTCG Nil ~~Nil~~.

(ii) tax on balance income (4000,000)

income upto 300,000	–	–	
> 300,000 upto 700,000	5%	20000	
> 700,000 upto 1000,000	10%	30000	
> 1000,000 upto 1200000	15%	30000	
> 1200,000 upto 1500000	20%	60000	
> 1500,000 upto 4000000	30%	750000 →	890,000.
add: surcharge @ 15%			133 500
add: HEC @ 4%			40940

WN1 : capital gain with indexation

FVOC	120,00,000
(-) COA	
$50,00,000 \times \frac{363}{105}$	(17285714)
Long term capital loss.	(5285714)

Special tax rates

SN.	Section	Nature of Income	Tax rate
1.	112	long term capital gain	(i) 20% without index (ii) 12.5% with index
2.	112A	LTCG on Eq SH, EOMF, unit of business trust	10% | 12.5% in excess of 12500
3.	111A	STCG of Eq shares	15% | 20%
4.	115BB	winning from lottery	30%
5	115BBJ	online gaming	30%
6.	115BBE	deemed income (68|69|69A|69B|69C|69D)	60%

Mr. BB (resident individual) – compute tax as per 115BAC

PGBP	120,000
LTCG 112 (trf on 7/7/24)	20000
LTCG 112A (trf on 10/12/24)	1500000
STCG 111A (trf on 15/11/24)	70,000
winnings	80,000
gross total income	1,790,000

SNO.	Nature of Income	Rate	Income	Tax
1	LTCG 112	20%	20000 - 20000	~~4000~~ Nil
2	LTCG 112A	12.5%	1500000-90k	~~171875~~ 160625
3	STCG 111A	20%	70000 - 70000	~~14000~~ Nil
4	winnings	30%	80000	24000
5	Balance NTI	slab rate	120000	Nil (Basic)
			1790000	184625

add: Health & Education cess @ 4%. 7385

Net tax liability 192010.

Benefit of basic exemption against LTCG u/s 112 / 112A / 111A.

In case of resident individual, HUF if balance total income other than special rates income) is less than basic exemption, then unutilised basic exemption, can be set off against LTCG 112, 112A and STCG u/s 111A but never against winnings or deemed income

Mr. Raju

	₹
Income from house property	100000
Long term capital gain 112	500000 } special rates के सामने deduction नहीं मिलता
LTCG u/s 112 A	700000
Gross total income	1300000
(-) deduction u/c VI A	
80C 150000	(100000)
Net taxable income	1200000

Note: deduction u/c VI A not available against income taxable under special rates.

__/__/__

Sec 10(37) : Exemption for capital gain on urban agriculture land.

STCG / LTCG on compulsory acquisition of urban land (agricultural) shall be exempt if following conditions are satisfied

1. Assessee should be individual or HUF
2. Such agricultural land used by assessee or his parents for agriculture purpose for two years before date of transfer
3. Consideration is determined by RBI or central government.

Question 26 (page 88)

	Mr. Kumar	PY24-25 AY25-26
(i)	Fair value of consideration	1200,000
	- transfer expense	-
	Net consideration	1200,000
	- cost of acquisition	(600,000)
	Gross LTCG	600,000
	- deduction u/s 10(37)	(600,000)
	Net long term capital gain	Nil

(ii) FYOC if agriculture land is sold then exemption ~~200~~ u/s 10(37) shall not be applicable. If assessee purchases any other agriculture land within period of 2 years after date of transfer, then he can claim exemption u/s 54B.

(iii)	FYOC	1200,000
	(-) cost of acquisition $(6,00,000 \times \frac{264}{305})$	(~~600,000~~) 1588571
	long term capital ~~gain~~ loss	~~6,00,000~~ (308571)

Since assessee has not used agriculture land for agricultural purposes, he cannot claim deduction u/s 10(37).

(iv) If assessee was a company, benefit of deduction u/s 10(37) shall not be available as assessee must be individual or HUF to claim deduction u/s 10(37).

Question 28 (page 89)

(i) Under default tax regime 115BAC

	Mr A	Mr B	Mr C	Mr D
Long term capital gain (excluding rural agriculture land as it is not a capital asset)	85000 u/s 112	10000 u/s 112A	Nil (exempt)	Nil
Other income	240000	310000	590000	480000
Total income	325000	320000	590000	480000
Tax liability				
Tax on LTCG (85000 - 60,000)				
Basic unutilised exemption	3125	Nil	Nil	Nil
Tax on balance income	Nil	~~Nil~~ 500	14500	9000
	3125	500	14500	9000
rebate u/s 87A	(3125)	Nil	(14500)	Nil
Net tax liability	Nil	500	Nil	9000
Add: Health & Education cess		20		360
Net tax liability		520		9360

(ii) exercise option to shift out of default tax regime

	A	B	C	D
Long term capital gain	85000	10,000	Nil	–
other income	240,000	3,10,000	590,000	480,000
Total taxable income	325000	320,000	590,000	480000
Tax liability.				
Tax on special income	9375	Nil	–	–
Tax on balance income				
upto 250,000 – –	–	–	–	–
upto >250,000 - 500,000 5%	–	~~12500~~ 3000		14500
>500,000 upto 10,00,000 10%	–			
Senior citizen				
upto 3,00,000 –		–		
>3,00,000 upto 500,000 5%		~~500~~		
super senior citizen				
upto 5,00,000 –			–	
> 5,00,000 - 10,00,000 20%			18000	–
rebate u/s 87(A)	(9375)	–	(–	–
Add: HEC @ 4%		120	720	460
Net tax liability	Nil	3120	18720	11960

__/__/____

Question 29 (page 90)

Mr. Mithun		PY 24-25 AY 25-26
Computation of capital gain	1/4/2007	1/12/2022
FVOC	400000	400000
- transfer expense	(4000)	(4000)
Net consideration	396000	396000
- COA		
step 1 cost 1000		
step 2 1) FMV on 31/1/18 2000		
2) FMVOC 4000 → 2000		
(2000 X 100)	(200000)	Nil
LTCG u/s 112A	196000	396000

Question 11 (page 85)

Mr A	PY24-25 AY 25-26
fair value of consideration	1500000
less: transfer expenses	(20000)
Net consideration	1480000
(-) cost of acquisition	(150000)
(-) cost of improvement	(235000)
Long term capital gain	1095000

Notes:

1) ~~transfer of pro~~ allotment of property in HUF partition is not considered as transfer & hence is not liable for capital gain. Such property is transferred when it is further sold

2) Since transfer took place after 23/7/24, indexation shall not be available

Question 33 (page 93)

Mrs. Yuvika — PY24-25 AY25-26

Fair value of consideration

actual consideration 810

Stamp duty value 890

(since stamp duty value is less than 110% of 810 (891 lakhs), the FVOC shall be taken as actual consideration) 810

less: transfer expenses

brokerage @ 1% of 810 (81)

Net consideration 801.9

less: Index cost of acquisition

$(80,000\,00 + 10\%) \times \frac{363}{113}$ (282.6)

less: cost of improvement

Construction of residential building

$100 \text{ lakh} \times \frac{363}{122}$ (297.5)

Gross long term capital gain 221.8

less: deduction u/s 54 (130)

less: deduction u/s 54EC (50)

Net long term capital gain 41.8 lakh

Question 34 (page 95)

Mr. Shiva PY24-25 AY25-26

Fair value of consideration

i) actual value 3050000 ↑

ii) stamp duty value 3900000

(since actual consideration is 3050000 & SDV is more than 110% of actual consideration) 3900000

less: transfer expenses

brokerage @1% 30500 (~~39000~~)

Net consideration ~~3861000~~ 3869500

(-) ~~Index~~ cost of acquisition

i) FMV as on 1/4/2001 1185000 ↓

SDV as on 1/4/2001 1070000

1070000 ↑

ii) actual cost 359000

1870000

less: advance money forfeited) 111000 (959000)

(-) cost of improvement (390000)

~~Gross~~ LTCG ~~2512000~~ 2520500

Note 1: Since transfer took place after 23/7/24, Indexation will not be available

Note 2: Normally SDV is considered on date of registration but if date of registration & agreement are not same then SDV can be considered on date of agreement if assessee received any consideration or part thereof upto the date of agreement by account pay check or account pay demand draft or any mode of electronic clearing system.

So in the present question, SDV considered on date of agreement.

Note 3: Any advance money forfeited before 1/4/2014 shall be reduced from cost of acquisition. In the present question, advance money forfeited of ₹ 1,51,000 in the year 2007 shall be reduced from cost of acquisition as per sec 51

Question 36 (page 96)

Mr. Rajkumar — PY 24-25 AY 25-26

₹ in crores

Fair value of consideration		
i) actual cost	17 cr.	
ii) stamp duty value	19 cr.	
Since stamp duty value is more than 110% of actual cost, stamp duty value should be considered as FVOC		19
(-) transfer expenses		
brokerage 1% on sale consideration		(0.17)
Net consideration		~~19.17~~ 18.83
(-) cost of acquisition		(5)
Gross LTCG		~~14.17~~ 13.83
(-) deduction u/s 54		
(i) capital gain	13.83	
(ii) cost of new asset	18 (restricted)	
(whichever is lower)		(18)
Net LTCG		3.83

If Mr. Rajkumar sold new property in December 2025,

	PY 24-25 : AY 25-26
Fair value of consideration	15 cr
(-) cost of acquisition	(13 cr)
(+) deduction claimed u/s 54 in PY 24-25	10
Short term capital gain	12 cr

Question 37 (page 97)

Summary

* sec 45(1) - charging section
* sec 2(14) - capital asset
* sec 2(47) - transfer of capital asset
* sec 48 - computation of capital gain.

*** cases in which year of transfer is not year of tax.

sec 45(2) - conversion of capital asset into stock in trade

sec 45(5) - compulsory acquisition of capital asset

sec (1A) - destruction of capital asset

special cases

*** 1] sec 50C - stamp duty value treated as FVOC

*** 2] sec 51 - advance money forfeited

** 3] sec 47 - exempt transfer

** 4] se capital gain in case of shares/debentures

* 5] capital gain in case of intangible asset

** 6] 50CA - unlisted shares FVOC (FMV)

*** 7] 50B - slump sale

* 8] 50D - consideration not known

* 9] 50AA - Debt MF/MLD/unlisted debenture bond

* 10] capital gain for non resident.

Exemptions

*** sec 54 - sale of RHP & purchase of RHP

*** sec 54B - urban ~~rural~~ agriculture land → urban/rural agri land

** sec 54D - industrial L&B → industrial L&B

*** sec 54EC - immovable property - NHAI/RECL/PFCL/IRFCL bonds

*** sec 54F - Any LTCG → RHP

** sec 10(37) - urban. agriculture land - compulsory acquisition

*** Tax rates

LTCG u/s 112A - 10% | 12.5%

LTCG u/s 112 - 20% | 12.5%

STCG u/s 111A - 15% | 20%

(A)

cost

Sale	1,5500,000/-
− COA	9922000
LTCG	5578,000

Invest HP.

$$5578000 \times \frac{x}{5500000} = 5578000$$

(A)	1,5500,000	55
(B)	48,00,000	80
	2,03,00,000/-	
(C)	50,00,000	
	2,53,00,000/-	
	1,00,00000/-	
	3,53,00,000/-	

1000 1.40 8.1

Residence and scope of total income (5-7)

Total Income of assessee cannot be determined without knowing his residential status. If any person becomes resident in India, his global income shall be taxable in India. If any person becomes NR in India, then only Indian income shall be taxable for such person. Residential status shall be determined for every year.

A] Residential status of individual [sec 6(1)]

- resident
- Non-resident.

Basic conditions as per sec 6(1)

1) stay in India for 182 days or more in PY, or.
2) stay in India for 60 days or more in PY and 365 days or more in last 4 PY's.

Resident individual [sec 6(6)]

- ordinarily resident
- resident but Non-ordinary resident

Additional condition as per sec 6(6)

1) resident in India for 2 years or more in last 10 PY's and
2) Stay in India for 730 days or more in last 7 PY's

If any individual satisfies any 1 basic condition, he is called as a resident of India. If he satisfies both the additional conditions, he is treated as ordinary resident of India.
The day on which individual entered India as well as he leaves India shall be considered as stay in India.

eg. Mr. Jack

			comes in India	leaves India
~~154~~ 107 days	stay	(FY 24-25)	14/2/24	16/7/24
45 days	stay	(FY 24-25)	13/12/24	26/1/25
41 days	stay	(FY 24-25)	19/2/25	17/3/25
2 days	stay	(FY 24-25)	30/3/25	27/4/25

2) Mr. Kunal

comes in India leaves in India

Question 2 (page 7)

Mr. Lee PY 24-25 AY 25-26

(a) Determination of residential status if he stay 100 days every year

Particulars	No. of days	satisfied / Not satisfied
Basic conditions:		
i] Stay in India for 182 days or more in PY or,	100 days	Not satisfied
ii] Stay in India for 60 days or more in PY and 365 days or more in last 4 PYs.	100 days & 400 days	satisfied
Additional conditions:		
i] Resident for 2 years or more in last 10 PYs and	Yes	satisfied
ii] Stay in India for 730 days or more in last 7 PYs	700 days	Not satisfied

(a) Conclusion: Mr. Lee satisfied basic condition but did not satisfy additional conditions. Thus, Mr. Lee shall be treated as resident but not ordinarily resident in India for PY 24-25 and AY 25-26.

23 - 24 90 R
22 - 23 90 R
21 - 22 90 R
20 - 21 90 R
19 - 20 90 R
18 - 19 90 NR
17 - 18 90 NR
16 - 17 90 NR
15 - 16 90 NR

a(i) Determination of residential status if he stays in India for 90 ~~days every year~~

Particulars	No. of days	Status
Basic conditions:		
1] Stay in India for 182 days or more in last PY, or	90	Not satisfi
2] Stay in India for 60 days or more in last PY and	90	
365 days or more in last 4 years.	360	Not satisfied.
Additional conditions:		
1] Resident for 2 years or more in last 10 PYs and	Yes	Not satisfied
2] Stay in India for 730 days or more in last 7 PYs	630	Not satisfied

~~a(ii) Determination of residential status~~ Treated as NR for PY 24-25.

(a)(ii) Determination of residential status if he stays in India for 110 days

Particulars	No. of days	Status
Basic conditions:		
1] Stays in India for 182 days or more in last PY	110	Not satisfied
2] Stay in India for 60 days or more in last PY	110	
& 365 days or more in last 4 years	440	satisfied
Additional conditions:		
1] Resident for 2 yrs or more in last 10 PYs	Yes	satisfied
2] Stay in India for 730 days or more in last 7 PYs	770	satisfied.

∴ Mr. Lee will be treated as resident & ordinarily resident for the PY 24-25 AY 25-26

Exception of 2nd basic condition

Cases where 2nd basic condition will not be considered
[Stay in India for 60 days in last PY and 365 days or more in last 4 PY]

1. Indian citizen leaving India for employment / business or profession outside India.
2. Indian citizen leaving India as crew member of Indian ship.
3. Indian citizen or person of Indian origin comes in India in PY for visit and total income in India upto 15,00,000.

Question 2 (page 7)

(b) Since Shrinath is an Indian citizen leaving India for employment / business / profession, 2nd basic condition shall not be considered

Particulars	No. of days	Status
Basic condition :		
1] Stays in India for 180 days or more in last PY	100	Not satisfied

Thus, Shrinath shall be considered Non-resident.

(c) If Shrinath visited India for 120 days instead of 100 days every year Shrinath will be treated as ~~non~~-resident since his stay in India is not more than 120 days, if his total income exceeds 15 lakh.
If his income does not exceed 15 lakh, he shall be considered Non-resident.

Indian citizen (POIO visiting India

total income (other than foreign income) upto 15,00,000
↓
No need to check 2nd basic condition

Total income > 15,00,000
2nd basic condition
Stay in India for 120 days or more in PY and 365 days or more in last 4 PYs
↓
resident but not ordinarily resident.

CBDT Notification

In case of Indian citizen being crew member of foreign bond ship leaving India for ~~calculated~~ calculation of No. of days stay in India following time limit should be excluded from the date entered into continuous discharge certificate in respect of joining a ship and ending on the date entered into continue discharge certificate in respect of signing off ship

crew member joining ship — stop in India — ship signing off } counted as stay outside India

a) Sec 6(1A) deemed resident

If any individual being Indian citizen not satisfied any basic condition as per sec 6(1) having total income more than 15,00,000 other than foreign income (shall be deemed to be resident in India if he is not liable to tax in any other country due to residency or domicile then he is treated as R but NOR in India

eg. Mr. Tech Guruji is an Indian citizen and currently working in Dubai during PY24-25, he had visited 55 days in India. During current PY he is not liable to pay tax in any country due to his residence or domicile.

Determine his residential income if his total income (other than foreign income)

a) 25,00,000 - R but NOR (deemed resident)

b) 11,00,000 - Not resident.

b) Sec 6(2) Residential status of HUF

If control and management.

wholly or partly in India → Resident of India

wholly outside India → Non-resident

If Karta satisfied both additional condition → R and OR

otherwise → R but NOR

Q4 (page 8)

a) residential status of HUF : business of HUF is fully transferred / transacted from Australia. It means it is wholly controlled from outside India. Thus, as per sec 6(2) HUF is treated as Non-resident in India

b) Residential status of Mr. E

Particulars	No. of days	satisfied / Not
Basic conditions:		
i) stay in India for 182 days or more	245	satisfied
ii) stay in India for 60 days or more 365 days or more in last 4 PYs		Not applicable
Additional conditions:		
i) resident for 2 PY or more in last 10 PY	Nil	Not satisfied
ii) stay in India for 730 days or more in last 7 PYs	Nil	Not satisfied

Conclusion:- Mr. E satisfied basic condition but he could not satisfy both the additional condition so he will be treated as resident but not ordinary in India in PY 24-25

c) Residential status of firm / LLP / AOP / BOI / local authority / AJP sec 6(2)

If control and management

- wholly / partly in India → Resident
- wholly outside India → Non resident

d) residential status of company sec 6(3)

- Indian company → always resident
- Foreign company
  - place of effective management in India → resident (POEM)
  - otherwise → NR

POEM - place where key management and commercial decision are made

Sec 5 : Scope of total income

Total income

- Indian income → income accrued / arise in India OR income received in India
- Foreign income → other than Indian income
  - foreign business controlled from India OR professional set up in India
  - other foreign income

	R.OR	R but NOR	NR
Indian income	✓	✓	✓
Foreign income			
(i) business controlled from India	✓	✓	×
(ii) other foreign income	✓	×	×

Q7 (pg 9) PY 24-25 AY 25-26

Particulars	R.OR	R but NOR	NR
Interest on UK development bonds			
- 50% received in India	5000	5000	5000
- 50% received o/s India	5000	-	-
Income from business in chennai	20,000	20,000	20,000
Long term capital gains			
- 50% received in India	20,000	20,000	20,000
- 50% o/s India	20,000	-	-
Dividend from british co.	50000	-	-
Income earned from Germany			
- received in India	40,000	40,000	40,000
- received o/s India	30,000	30,000	-
Profits managed from London	15000	15000	15000
HP in London bought to India	50,000	-	-
Interest on Indian debenture	12000	12000	12000
fees rendered in India	8000	8000	8000
profits from Mumbai	26000	26000	26000
Income from Nepal	16000	-	-
Income from agr. land (Nepal)	18000	-	-
profession - Kenya / managed in India	5000	5000	-

Interest on saving bank deposit in SBI	12000	12000	12000
Income from business in Russia, controlled from Russia	80000	–	–
Dividend from indian company	5000	5000	5000
Agriculture income from land in Rajasthan	Nil	–	–
Total income	332000	198000	163000.

Note :

1. As per sec 10(1), agriculture income from land in India is exempt from tax
2. Income taxable on accrual basis, so post untaxed profit remittance in India in CY will be ignored / shall not be taxable
3. As per sec 56(2)(x), gift received on occassion of marraige is exempt from tax.

Q15 (page 16) Mr. Dhruv PY24-25 AY25-26

	No. of days	satisfied / Not
Basic conditions		
(i) stay in India for 182 days or more	164 days	Not satisfied
OR		
(ii) stay in India for 60 days or more in PY AND	NA	NA
365 days or more in last 4 PYs	NA	NA

conclusion : since MR Dhruv not satisfied basic condition so he is treated as NR

classmate
Date
Page

computation of tax liability.

A] Tax as per default tax regime u/s 115BAC

upto 282000	-	-
∴ total tax liability		Nil

Tax as per Normal provision (opt out of 115BAC)

upto 250000	-	-
> 250,000 upto 282000	5%	1600
		1600
- rebate u/s 87A [NA to NR]		Nil
		1600
Add: Health and Education cess		64
∴ Net tax liability		1664

B] If gift from wifes friend is of ₹ 1600000

computation of tax liability as per default tax regime

upto 3,00,000	-	-
> 3,00,000 upto 700,000	5%	20000
> 7,00,000 upto 10,00,000	10%	30000
> 10,00,000 upto 12,00,000	15%	30000
> 12,00,000 upto 15,00,000	20%	60,000
> 15,00,000 upto 16,00,000	30%	30000
		170000
add: HEC @ 4%		6800
		176800

Tax as per normal provision (opt out from 115BAC)

upto 250,000	-	-
> 250,000 upto 5,00,000	5%	12500
> 5,00,000 upto 10,00,000	20%	100000
> 1,00,000 upto 15,00,000	30%	180000
		292500
add : HEC @4%		11700
		304200.

Sec 7 : Income deemed to be received in India :-

1. Employees contribution in excess of 12% in RPF of salary and interest credited in excess of 9.5% in RPF (recognized provident fund)
2. Employer contribution to national pension scheme of employee
3. Amount transfer from URPF (unrecognized provident fund) to RPF

sec 9 : Income deemed to be accrued / arised in India :-

1. Dividend paid by Indian company outside India
2. Salary received by Indian citizen from Indian government for service rendered outside India

   Note : As per sec 10(7) prerequisites and allowances are exempt.
3. Salary income for service rendered in India whether such amount is received before or after service

   eg - gratuity, pension, etc
4. Income of non resident from business connection in India

Business connection means a person (agent) acting on behalf of non-resident.

(a) Habitually conclude contract on behalf of non-resident.

(b) Habitually maintains stock from which he regularly delivery on behalf of non-resident

(c) Habitually secure order for non-resident.

In following cases business connection shall not exist:-

(a) purchase of goods in india for export

(b) collection of news or views in India for transmission outside India

(c) shooting of movie or film in India if such non-resident is individual who is non ~~reside~~. citizen of India or firm which does not have any partner who is citizen of India or who is resident of India or company which does not have any shareholder who is citizen of India or resident of India

(d) Foreign company engaged in mining of diamonds, display of uncut or unassorted diamond in any special zone

5. Sec 9(1)(v) interest

deemed to be accrued / arised in India

USA imr. Henry (NR) $\xrightarrow{\text{loan}}$ govt
$\xleftarrow{\text{interest}}$

interest ↑↓ NR

$\rightleftarrows$ interest resident $\longrightarrow$ exception: used money for earning income outside India

money used for any business or profession carried on by NR in India

(circle of loan to resident person)

Exception: Money used for any business or profession outside India or ~~or~~ for earning any income from any source outside India then it is not treated as deemed to be accrued in India

eg.

Mr Henry (NR) $\xrightarrow{\text{loan}}$ Mr. BB (R)
- business in Mumbai : Yes
- Business in Nepal : No
- Flat in Dubai : NO
- Tata ltd - Yes

Mr. Henry (NR) $\xrightarrow{\text{loan}}$ Mr. Som (NR)
- business of canada - No
- Nagpur: Yes
- Shares of Reliance - NO

6. sec 9(1)(vi)/(vii) Royalty fees for technical service (FTS)

Mr. David (NR) USA $\xrightarrow{\text{service}}$ / $\xleftarrow{\text{royalty FTS}}$ govt / resident person

$\xrightarrow{\text{service royalty}}$ NR

deemed to be accrued or arise in India

exception: If service / right used in any business or profession o/s India or for earning any source of income from outside India then not treated as accrued in India

Service to NR: Service / right used for any business or profession in India OR for earning any source of income in India

7. sec 9(1)(viii)

If any gift of money is made by resident to non resident, R but NOR, foreign company outside India then it is treated as deemed to be accrued or arised in India

Income from other sources

Any income which is not taxable under the head "salary", "house property", "PGBP" or "capital gain", that income shall be taxable under the head "income from other sources."

1. Tax liability of Gift.

(a) employer $\xrightarrow{\text{gift}}$ employee – taxable under "salary"

↳ money – fully taxable

↳ in kind – value of 5000 or more – taxable

(b) gift due to Business / PGBP – taxable under PGBP.

gift received or asset acquired by any person u/s 56(2)(x) with effect from 1/4/2017

- M.R.I.D.H.U.T.L.A.I.T.C → sec 56(2)(x) Not applicable Exempt.
- Otherwise
  - money more than 50,000 p.a → fully taxable
  - movable property [S.S.J.O.P.S.A.O.B.V]
    - without consideration (gift) → If aggregate FMV > 50,000 → fully taxable
    - low consideration → agg FMV – consideration > 50000 → difference is taxable
  - immovable property
    - land / building without consideration → SDV > 50,000 – fully taxable
    - land and building → Per property (SDV – consid^n) > 50,000 → SDV > 110% of consider → taxable

1. Property

S.S - shares & security

J - jewellery

D - drawing

P - painting

S - sculpture

A : archeological work

O : other work of art

B - bullion

V : virtual digital asset

2. MRIDHUTLAJTC

M - marriage

R - relatives

D - death / contemplation of death

I - inheritance

H - hospital / medical institution

U - university

T - trust

LA - local authority

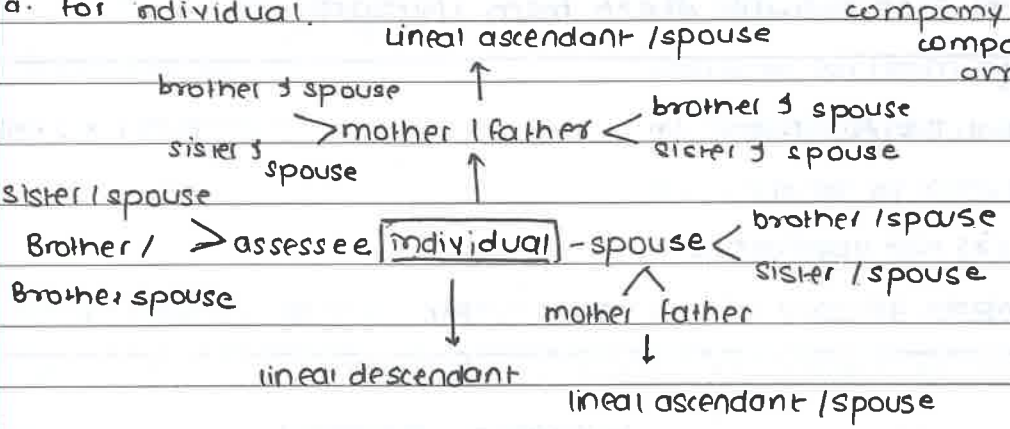
I - firm & individual by trust for benefit of relative of individual

T - By hospital / university / trust / medical institution

C - certain transaction referred u/s 47 partition of HUF, Holding co → sub-company, 100% subsidiary company to holding co - amalgamation & demerger

3. meaning of relative

a. for individual.



(b) HUF - any member of HUF

Ex- from following information calculate gross total income of Sayali.

1. Salary income (computed) - 7,20,000.
2. she received gift of ₹ 30,000 each from her four friends
3. She received gift of gold chain worth ₹ 20,000 from her fathers friend
4. She received gift of a car worth ₹ 4,00,000 from her best friend
5. Gift of gold ring worth ₹ 80,000 from ex-boyfriend
6. Gift of 2BHK flat from her mother's brother and SDV is ₹ 2 crore
7. Gift of ₹ 20,000 from her father.
8. purchased jewelry of ₹ 80,000 from Pooja jewellers (FMV = 110,000)
9. purchased 1BHK flat from Rohan builders for ₹ 2 crore (SDV = 2.3 crore)
10. Gift of ₹ 420 from her husband
11. Gift of Iphone 16 worth ₹ 1.5 lakh from her cousin

Computation of gross total income

(1) Salary income	720,000
(2) Gift from four friends	120,000
(3) Gold chain worth	20,000
(4) car from friend (exempt)	–
(5) gift of gold ring	80,000
(6) 2BHK flat (exempt)	
(7) Gift from father (exempt)	
(8) Jewellery purchased (1,10,000 – 80,000) = 30,000 - exempt.	
(9) 1BHK flat ~~(exempt)~~ [2.3 crore – 2 crore]	30,00,000
(10) gift from husband (exempt)	
(11) gift from cousin - Iphone (exempt)	
	3940,000.

Note :

1. As per sec 56(2)(x), any gift received from relative is not taxable. So in present question gift received from father, husband, mother's brother is not taxable because they are covered in definition of relative

2. BMW car and Iphone 16 are not covered in definition of property so it is not taxable

Sec 49(4) - cost of acquisition

If any asset received as gift or acquired for low consideration and assessee paid tax under IFOS on SDV / FMV u/s 56(2)(10) then such SDV / FMV shall be treated as COA of such asset

eg. Mr. D purchased a house property for ₹ 2 lakh. in PY 01-02 Mr. D gifted such property to Mr. N (his friend) on 14/02/24 SDV of such property on that date is ₹ 4000000. Mr. N sold such property to Mr. S on 10/12/24 for ₹ 7200000.

Discuss tax treatment in hands of Mr. D and Mr. N.

⇒ Part A: In hands of Mr. D

as per sec 47, gift is not treated as transfer so capital gain is not applicable in hands of D.

Part B: In hands of N.

(i) As per sec 56(2)(10), if any immovable property received as gift & SDV > 50,000 per property, then it is fully taxable in hands of receipant under IFOS.

In this case, SDV of property is 4000000. ie, > 50000

Thus it is taxable in hands of Mr. N u/s 56(2)(10) in PY 23-24

(ii) CG is applicable on sale of property

Computation of capital gain PY24-25 AY 25-26

FVOC	7200000
(-) cost of acq.	(4000000) — sec 49(4)
Net STCG	3200000

eg 2 : Suppose in above example, if Mr. D and N were relatives

part A: In hands of Mr. D

as per sec 47, gift is not treated as transfer, so capital gain will not be applicable

part B: In hands of Mr. N

(i) Gift received from relative, ∴ sec 56(2)(10) Not applicable

(ii) computation of capital gain on sale of property

FVOC	7200000
(-) COA (cost to prev. owner)	(200000)
∴ LTCG	70,00,000.

eg 3 Mr. Ramesh purchased a house property for ₹500000 in 01-02. Ramesh sold such property to Mr. Suresh on 19/07/23 for ₹40,00,000. SDV of property on that date is ₹60,00,000. Suresh sold such property to Mr. Krishna on 10 Dec 2024 for ₹8200000. Discuss tax treatment in hands of Ramesh & Suresh

⇒ part A: In hands of Ramesh

computation of capital gain

FVOC [SOC]	60,00,000
- transfer expenses	–
	60,00,000
- Index cost of acquisition	
$5,00,000 \times \frac{348}{100}$	(1740000)
Long term capital gain	4260,000

part B : In hands of Suresh

(i) If any immovable property acquired for low consideration and difference between SDV and consideration is more than 50,000 and SDV is more than 110% of consideration, then such difference is taxable under sec 56(2)(10) In the present case, difference is ₹ 20,00,000, ie, more than 50,000 and SDV is more than 110% of consideration, so difference of 20,00,000 is taxable under IFOS in hands of Mr. Suresh

(ii) computation of capital gain on sale of property to Mr. Krishna

		PY24-25 AY25-26
FVOC		82,00,000
(-) cost of acquisition	[49(1)]	(60,00,000)
STCG		22,00,000

Note 4:

If assessee is not satisfied with SDV, he can apply to registered valuer for valuation. ~~If valuation officer~~ - same as 50(c)

Note 5: SDV on date of registration or agreement. u/s 56(2)(10)

Normally SDV is considered on date of registration but u/s 56(2)(10), if date of agreement or registration are not same, then assessee ie buyer can take SDV on date of agreement if he paid any consideration or a part thereof by A/c payee cheque or A/c payee DD or any other electronic mode upto date of agreement.

Question 13 (page 106)

In hands of y (seller)	I	II	III	IV	V
Selling price	400000	4.00.000	490.000	6.00.000	6.00.000
SDV	439000	446000	470.000	659000	680.000
FVOC [SOC]	400000	446000	470.000	6.00.000	680.000
In hands of x (Buyer)					
(i) per property (SDV - consideration) > 50k	No	No	Yes	Yes	Yes
(ii) SDV > 110% consideratio	No	Yes	Yes	No	Yes
Taxable u/s 56(2)(x)	Nil	Nil	70.000	Nil	80.000
COA [49(4)]	4.00.000	4.00.000	470.000	6.00.000	680.000

Question 14 (page 106)

In hands of Y (seller)	I	II	III	IV	V
Selling price (consideration)	381000	381000	427500	427500	7.10000
SDV	4.00.000	470.000	450.000	490.000	780.000
FVOC [SOC]	4.00.000	470.000	427500	490000	710.000
In hands of x (buyer)					
(i) (SDV - consideration) > 50K	NO	Yes	No	Yes	Yes
(ii) SDV > 110% of consideratn	NO	Yes	NO	Yes	No
Taxable u/s 56(2)(x)	Nil	89000	Nil	962500	Nil
COA [49(4)]	400000	470.000	427500	490.000	710000

Q11 pg 105 Mr. Ganesh PY 24-25 AY 25-26

computation of income from other sources

(i) Gift of cash from sundar		51000
[since aggregate money > 50,000. so it is fully taxable]		
(ii) movable property		
50 shares of Beta ltd	60,000	
100 shares of Alpha ltd	70,000	130 000
[since aggregate FMV of movable property > 50,000. so it is fully taxable]		
(iii) immovable property (low consideration)		
Land acquired from sister's mother in law		
(SDV − consideration) > 50,000 AND		
SDV > 110 % of consideration		
so difference of ₹ 200,000 taxable under IFOS		200,000
∴ Income from other sources		381 000

computation of capital gain on sale of shares of Alpha ltd

FVOC	100,000
(−) cost of acquisition [49(4)]	(70,000)
Short term capital gain	30,000

Sec 43CA : SDV treated as FVOC in case of builder.

In case of immovable property held as stock in trade, if SDV is more than 110% of consideration then SDV is treated as FVOC which calculating business income.

If assessee not satisfied with SDV then his case may transfer to VO (same as sec 50C)

Normally, SDV considered on the date of registration but if date of agreement and registration are not same then assessee can take SDV as on agreement if he received consideration or part thereof by account payee cheque, account payee Demand draft or any e-mode upto the date of agreement.

Immovable property < capital asset - 50C - capital gain
Stock in trade - 43CA - PGBP

Note : sec 56(2)(x). Not Applicable if asset received as a gift or acquired for low consideration is a stock in trade It means 56(2)(x) is applicable only if asset received is a capital asset.

classmate
Date
Page

Q5 - page No. 101

Mr. A

Income from other sources

i) Gift of cash from Mr. B — 75000

(since aggregate money > 50,000, so it is fully taxable)

ii) movable property

(gift of bullion from friend Mr. B)

(since aggregate > 50,000. so it is fully taxable) — 60,000

iii) Immovable property (without consideration)

Gift of plot at Faridabad from Mr. B

(since per property SDV > 50,000, so it is fully taxable) — 500,000

iv) Immovable property (low consideration)

office building purchased

(SDV - consideration) > 50,000

(230,0000 - 200,0000) and — 300000

SDV > 110% of consideration

Since SDV > 110% of consideration & difference of SDV & consideration > 50,000. so difference is taxable)

∴ Income from other sources — 935000

Computation of capital gain	PY24-25 AY25-26
Fair value of consideration	7,00,000
(-) cost of acquisition [49(4)]	(500000)
STCG	2,00,000

Sec 56 (2)(x) is not applicable if asset acquisition and received as a stock in trade in the present question. Mr. A share dealer and he acquired shares from Mr. C as a stock in trade. so sec 56(2)(x) not applicable

Amendment by FA-22 with effect from AY 20-21

Sec 56(2)(x) not applicable in following cases, Money received :-

(i) by individual, from any person, for expense actually incurred on treatment of covid-19 related illness of him or any family member.

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

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

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

Note 1: family means spouse, children and dependent relative

Note 2: death should be within 6 months from date of testing covid positive

Amalgamation & Demerger (★)

Sec 2(1B) : meaning of amalgamation:

merger of 1 or more company with another company or merger of two or more companies to form one company

condition:

(1) all asset and liability of amalgamating company should be transferred to amalgamated company.

(2) shareholder holding minimum 75% equity shares in amalgamating company should become shareholders of amalgamated company.

Taxation in hands of amalgamating company:-

As per sec 47, amalgamation is not treated as transfer. so capital gain not applicable

Taxation in hands of amalgamated company (new company):-

(1) cost of acquisition of asset = COA of amalgamating company, previous owr

(2) period of holding of asset held by amalgamating & amalgamated co. both is considered

eg. Mr. Babu purchased shares of Idea ltd, 1000 shares @ 100 each in 2002. Idea ltd amalgamated with V1 ltd in 2022. And Babue received 1200 shares of V1. Babu transferred all shares of V1 on 10 Dec 2024 @ 300 per share. calculate capital gain.

=> Part A: when Babu received shares of V1 in exchange of shares of Idea ltd, it is not treated as transfer. so capital gain is not applicable

part B: computation of capital gain on sale of shares of V1

Mr. Babu.	PY24-25 AY25-26
Fair value of consideration	3,60,000
- COA (1000×100)	(100,000)
LTCG	260,000

Note: Assume sec 112A not applicable

meaning of demerger:-

It means undertaking transferred by demerged company to resulting company and following conditions are satisfied:

(1) all assets and liabilities of undertaking should be transferred to resulting company

(2) It should be transferred at book value

(3) transfer of undertaking on going concern basis

(4) shareholder holding min 75% of equity shares of demerged company should become shareholder of resulting co.

(5) shareholder of demerged company should receive shares from resulting company on proportionate basis

Tax treatment in hands of demerged company:

As per sec 47, demerger is not treated as transfer. so capital gain not applicable in hands of demerged company.

Tax treatment in hands of resulting company:

(1) cost of acquisition of asset = COA of demerged company / cost to previous owner

(2) period of holding of asset held by demerged & resulting company should be considered

eg. Mr. BB acquired 800 shares of RIL on 16/07/2020 for 500 per share.

Mr. BB got 800 shares of JFSL on 20/07/2023 due to demerger

COA of shares in JFSL = COA of shares in RIL × $\frac{\text{Net asset transferred in demerger}}{\text{Net worth of demerged company just before demerger.}}$

COA of shares of RIL = total cost - cost of resulting company shares

Note: period of holding of shares in JFSL shall be considered from the date on which Mr. BB acquired shares of RIL

2. Dividend

from domestic company — from foreign company

always taxable in hands of SH under IFOS and it is taxable as per normal tax rate (slab rate)

Deemed dividend:

sec 2(22)(a) – Any distribution of asset.

If any domestic company distributes its asset to SH in, it will be treated as deemed dividend to the extent of accumulated profits (capitalised or not) of company and taxable in hands of SH as dvd.

eg: BB virtuals pvt ltd

BIS

Sh. capital (bonus 200,000)	3,00,000	Assets	20,00,000.
RSS	10,00,000		
Liab	7,00,000.		

cases	BV of assets	FMV of assets	deemed dividend
1	7,00,000	13,00,000	12,00,000
2	700000	15,00000	12,00,000
3	700000	10,00,000	10,00,000
4	700000	7,00,000	7,00,000
5	700000	5,00,000	5,00,000

— continued on pg 34

Taxation of buyback [buyback upto 30/09/24]

In hands of company

[buyback price - issue price]

company required to pay tax within 14 days from date of buyback @ 20% + 12% + 4% HEC (surcharge always)

effective tax = 23.296%

In hands of shareholder

except u/s 10(34A)

↓

No tax treatment

eg - BB ltd issued 10,000 shares @ 40 per shares (FY10) on 19/7/20. company buyback 1500 shares @ 350 per share on 16/9/24

=> In hands of company :- (BB price - IP)

= 350 - 40

= 310 × 1500 shares = 465000

Tax liability = 465000 × 23.296%

= 108326.

In hands of shareholder :- Exempt u/s 10(34A)

Taxation of buyback wef 1/10/2024

In hands of company

No tax treatment

In hands of shareholder

Total buyback price treated as deemed dividend u/s 2(22)(f)

↓

taxable under IFOS in the year of BB

capital gain

FYOC - always Nil

(-) COA (xx)

STCL / LTCL

eg. Mr. BB acquired 1000 shares of BB virtuals @ 50 per share during PY20-21. BB virtuals buyback 300 shares @ 120 per share on 10/11/24. Mr BB sold 700 shares on 15/07/2025 @ 200 per share. Discuss tax treatment in hands of Mr. BB

=> (a) during PY24-25 ₹ 36000 (300 shares x 120) is treated as deemed dividend in hands of Mr. BB u/s 2(22)(f) and it is taxable under IFOS

(b) computation of capital gain on buyback

	PY24-25 AY25-26
Full value of consideration	Nil
(-) COA of shares (300 shares x 50)	(15000)
LTCL (in can be set off against any other LTCG or C/F for next and AY's)	15000

(c) computation of capital gain on sale of 700 shares

	PY24-25 AY25-26
Full value of consideration (700 x 200)	140000
(-) COA of shares (700 x 50)	(35000)
Gross LTCG	105000
(-) LTCL for last year	(15000)
Net LTCG taxable in AY26-27	90000

Taxation of liquidation

eg. Katoro pvt ltd

B/S as on date of liquidation 15/7/23

Share capital		Assets	2200000
[A, B, C, D, Z]	500000		
Reserves & surplus	1500000		
Liabilities	200000		
	2200000		2200000

Shares of company held by 5 shareholders - A, B, C, D, Z and acquired by SH on 19/7/2019 for 1,00,000 per SH.

on 15/7/23 company goes into liquidation & distribute assets to SHs on 15/12/24 as follows:-

cash	250000
assets (FMV)	450000
	700000 to each SH

∴ 700000 x 5 = 3500000.

=> part A: In this case, company distributed asset of total 35 lakh (ie 7 lakh x 5 SH) and accumulated profits (R&S) of company is ₹15 lakh on the date of liquidation. so ₹15 lakh is treated as deemed dividend under sec 2(22)(c) & taxable in hands of SH. so ₹3,00,000 is taxable as dividend in hands of each SH (15 lakh / 5 SH) under IFOS in PY 24-25 (in year of distribution)

part B : computation of capital gain in hands of shareholder PY 24-25

FVOC :	asset (FMV)	450000
	money	250000
	(-) deemed dividend u/s 2(22)(c)	(3,00,000)
		400000
	(-) ICOA (100000) - POH 19/7/19 till 15/7/23	
	$100000 \times \frac{348\ (23-24)}{289\ (19-20)}$	(120415)
	LTCG	279585

2(22)(a)(b)(c)(d)	2(22)(e)
[1] all companies → pvt ltd, public ltd, etc	[1] closely held company (unlisted)
[2] accumulated profits (capitalised or not)	[2] accumulated profits

Sec 2(22)(b) distribution of debentures / deposit certificate, etc

If any domestic company distributes debenture, debenture stock, deposit certificate to any shareholder or bonus share to preference shareholder, then it will be treated as deemed dividend to the extent of accumulated profit (capitalised or not) of company & taxable in hands of shareholder.

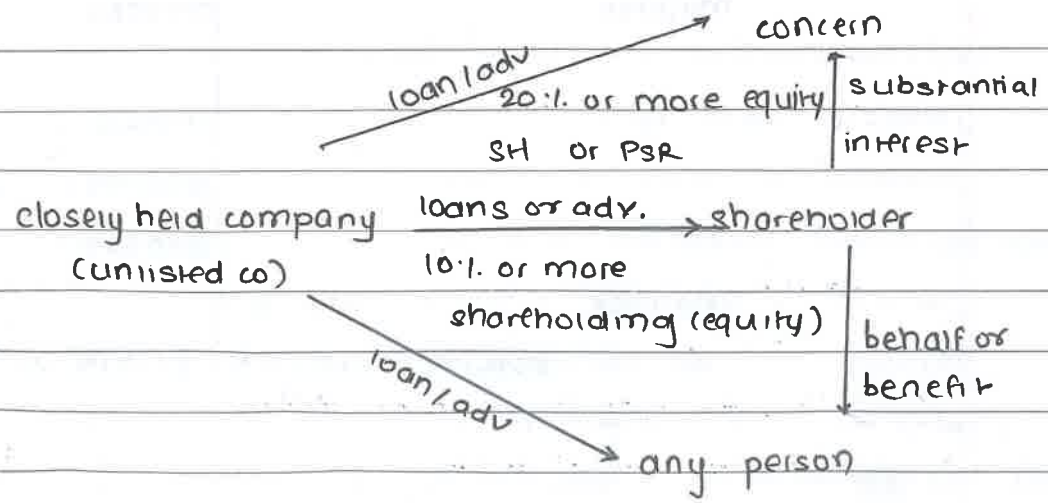
Sec 2(22)(c) distribution of assets on liquidation

If any domestic company distributes asset to shareholder on its liquidation, then it will be treated as deemed dividend to the extent of accumulated profit (capitalised or not) of company & taxable in hands of shareholder.

Sec 2(22)(d) Reduction in share capital

If any domestic company reduces its share capital and distribute asset (money) to shareholder, then it will be treated as deemed dividend to the extent of accumulated profit of company (capitalised or not) & taxable in hands of shareholder.

Sec 2(22)(e) Loan and advances by closely held company



In above cases, loan or advance is treated as deemed dividend to the extent of accumulated profits of company & is taxable in hands of shareholder

Notes :

1. Loan is repaid or company charges market rate of interest then also it is treated as deemed dividend
2. If any advance is given for business purpose (trade adv), then it is not treated as deemed dividend.
3. If company is engaged in money lending business, then loans or advances given in ordinary course of business shall not be treated as deemed dividend
4. If loan is treated as deemed dividend and after some time, if such loan is set off against actual dividend, then set off is not treated as dividend

Following incomes are taxable under IFOS

1. Gift - page 17 (covered)
2. Dividend - page 30 (covered)
3. Income from UTI / mutual fund - taxable
4. Income from winnings (lottery, crossword, puzzle, game show, horse races, online games) - taxable @ 30%.
5. Income of MP/MLC/MLA
   - salary - taxable under IFOS
   - daily allowance or constituency allowance ~~exp~~ exempt u/s 10(17).
6. awards
   - from government (bharat ratna) exempt u/s 10(17A)
   - from others taxable under IFOS

7. Agricultural income

from land in India	from land outside India
exempt u/s 10(1)	taxable under IFOS

8. Rental income - taxable
   (a) rent of asset (other than house property)
   (b) composite rent (if agreement not seperable)
   (c) rent of subletting of house property

9. Royalty - taxable
10. director fees for attending board meeting - taxable
11. paper checking, paper setting, seminar fees, received by professor from non employer organisation - taxable
12. Amount from keyman insurance policy

amount received by employer	amount received by employee	amount received by any other person
taxable under PGBP	taxable under salary	taxable under IFOS

13. family pension - taxable
    exemption u/s 57
    (i) $\frac{1}{3}$ of family pension xxxx
    (ii) 15000 p.a xxxx
    xxxx

Note 1: family pension received by legal heir of member of armed forces including paramilitary forces shall be exempt where death of such member occurred in course of operational duties

Note 2: family pension received by family member of person who was awarded with veerchakra, paramveer chakra or mahaveer chakra shall be exempt.

14. Interest received

- interest received from
  (i) gold bonds 1999
  (ii) deposit certificate issued under gold monetisation scheme, 2015
  (iii) public provident fund
  ↓
  fully exempt.
  (iv) interest on post office savings A/c
  ↓
  exempt upto 3000 p.a
  [in case of Joint A/c 7000 p.a]
- Interest on late compensation of compulsory acq of property =
  taxable amt = interest rate x 50%
  [50% std deduction u/s 57]
- other interest
  ↓
  taxable

15. advance money forfeited on ~~are~~ or after 1/4/2015 1/4/2014 - taxable under IFOS as per sec 56 (2)(ix)

17. compensation received on termination or modification of employment from non-employer organisation

Sec 57 : allowability of expenditure

	Income	Expenses
1.	Taxable	Allowed
2.	exempt	ignored
3.	winnings	ignored
4.	interes ton late compensation	ignore (50% standard deduction)
5.	Dividend income from UTI / MF.	only interest expenses allowed on loan taken for investment & that too upto 20% of dividend / income from UTI / mutual fund.

Sec 58 : following expenses not allowed

1. personal expenses
2. any expenses related to casual income (winnings)
3. payment made to relative to the extent unreasonable
4. cash expenditure more than 10,000 in single day to o single peison
5. Interest or salary paid o/s India on which TDS is not deducted or deducted but not paid to government.
6. Any expenditure paid to resident & if TDS not deducted or deducted but not paid to government, then 30% of such expenditure shall be disallowed

Question 2 (page 103)

Gani Bhai

computation of income from other sources P123-24 AY24-25

Particulars	₹	₹	₹
Director fees from company			10000
interest on bank deposit			3000
income from undisclosed sources			12000
Winnings from lottery			
$35000 \times \frac{100}{70}$			50000
Royalty on books		9000	
less: typing manuscript charges		(1000)	8000
lectures in seminars			5000
interest on loans to relative			7000
interest on debenture			3600
interest on post office savings bank A/c		500	
less: exempt upto 3500		(500)	Nil
interest on government securities			2200
interest on monthly income scheme of post office			33000
∴ Income from other sources			133800

Following incomes are exempt

1. sec 10(2) - share of income received by member of HUF,
2. sec 10(2A) - share of income received by partner from partnership firm.
3. sec 10(10BB) - Any amount received by Bhopal Gas victim (compensation)
4. sec 10(10BC) - any compensation received on amount of disaster from central govt, state govt or local authority.
5. sec 10(11A) - any amount received under sukanya samriddhi scheme account (including interest)
6. sec 10(16) - educational scholarship
7. sec 10(18) - any pension received by individual who was awarded with veerchakra, mahaveer chakra, paramveer chakra or other gallantry award

Clubbing of income [4-5 m]

[Income of other person included in total income of assessee]

Sec 64(1A) - Income of minor child

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

Exception : In following cases minor's income is taxable in hands of minor

(i) Income due to manual work

(ii) income due to skill and talent

(iii) minor child suffering from disability

Notes :

(i) If minor child's income is clubbed in hands of parent then exemption u/s 10(32) of ₹1500 p.a. per child [not applicable in 115BAC]

(ii) Once minors income is clubbed with one parent, it will continue to be clubbed with that parent only in subsequent years. AO may club the minor's income with other parent after giving an opportunity to be heard

(iii) where the marraige of the parents does not subsist, income of the mior will be included in income of that parent who maintains the minor child in the relevant PY.

(iv) clubbing provisions are attracted even in respect of income of minor married daughter.

(v) child in relation to an individual includes a step-child and an adopted child of that individual

Sec 64 (1)(iv) - asset transferred to spouse

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

Notes :

(i) The above provision is applicable only if relationship of husband and wife should exist at the time of transfer of asset as well as at the time of generating the income

(ii) This provision is not applicable if asset is transferred in connection with agreement to live apart.

(iii) If a house property is transferred by an individual to his spouse or minor child (not being a minor married daughter) for without / inadequate consideration then such individual is treated as deemed owner as per sec 27 & sec 64 shall not apply.

Question 5 (page 110)

Taxable income in hands of Mr. A in respect of minor children.

(i) Income of minor daughers (2000 x 2)	4000
(-) exemption u/s 10(32) (1500 x 2)	(3000)
	~~100000~~ 1000
(ii) Income of minor son (1200)	1200
less : exemption u/s 10(32)	(1200)
	Nil
∴ Net taxable income w/r minor children	1000

Note : transfer of house property by Mrs A to minor child for inadequate consideration shall not attract provision for clubbing of income u/s 64 (1) (iv) & Mrs A will be deemed owner of such house property. Thus, income derived from such house property will be taxable in hands of Mrs A.

Sec 64(1)(vi) : Asset transferred to son's wife

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

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

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

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

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

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

(i) Income should be in the nature of salary, commission, bonus, (remuneration)

(ii) Such remuneration should be received from a concern where assessee is having substantial interest.

concern - co | AOP | BOI | Firm

↓ remuneration

assessee & relative

spouse

[S.M.F.B.S.LA.LD]

Substantial Interest

company	firm/LLP/AOP/BOI
20% or more equity shareholding	20% or more profit sharing ratio

Exception: If remuneration is received by spouse due to technical or professional qualification & such remuneration is attributable to such qualification, then above provision not applicable

Note: where both husband & wife have substantial interest & both receive remuneration & both are not having any professional or technical qualification, then remuneration shall be clubbed in hands of that spouse whose total income other than remuneration is higher.

In this case, in subsequent year also, remuneration clubbed in that person's hands only, however AO may change

Sec 60: Income transfer without transfer of asset:

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

Sec 61: Revokable transfer

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

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

Sec 64(2) Asset transferred to HUF.

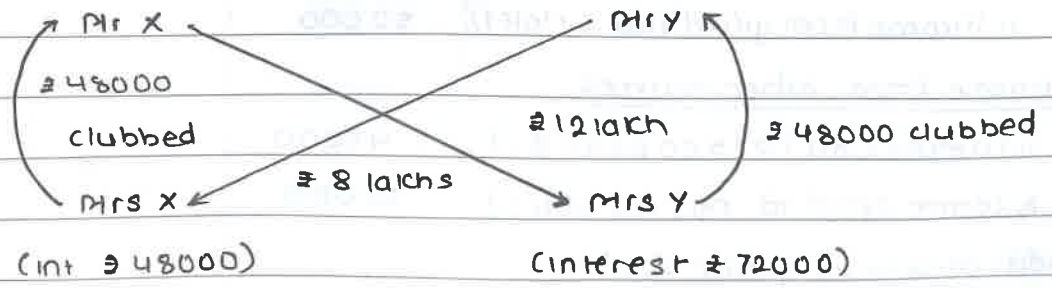
If any individual transfers any asset to his HUF without consideration or for low consideration, then income from such asset is received by HUF but tax on such income is paid by transferor.

Note: after partition of HUF, income from such asset received by spouse is taxable in hands of individual (member)

Notes:

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

eg - Mr. X gifted 12 lakhs to his brother's wife (Mrs Y) & his brother (Mr. Y) gifted ₹ 8 lakhs to Mrs X (Mr X's wife). Gifted amount deposited in banks @ 9% on 1/8/23



clubbing provisions will be applicable only to the extent of income on the matching amount of cross gifts in the above example, 3 & lakhs is matching amount.

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

$$\text{Income from business} \times \frac{\text{gifted by assessee}}{\text{capital of business on 1st day of PY (op. capital)}}$$

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

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

Q9 (page 113) AY24-25 AY25-26

computation of total income:

	Mr A	Mrs A	minor son
Income from salary			
1. pension (10,000 X 12)	120,000		
2. salary (20,000 X 12)		240,000	
Gross salary	120000	240000	-
less: std deduction u/s 16	(50,000)	(50,000)	
Net salary	70,000	190000	
Income from house property			
1. Income from gifted flat (Note 1)	52000	-	-
Income from other sources			
1. Interest on FD (5,00,000 X 9%)	45000		
2. Commission to Mrs A (Note 3)	25000		
Add: income of minor child (20,000 - 1500) (Note 4)	18500		
Income due to skill & talent			20,000
	210500	190000	20,000

Note 1: as per sec 27 if any HP is transferred by individual to his/her spouse for without consideration or low consideration then such individual is treated as deemed owner. In the present question, Mr. A gifted a flat to Mrs A, so Mr A is treated as deemed owner and income is taxable in hands of Mr. A

Note 2: As per sec 60, any income transferred w/o transfer of asset, such income is taxable in hands of transferor. In present case, interest on bank FD shall be taxable in hands of A.

Note 3: Any remuneration received by spouse from a concern where individual is having substantial interest & spouse is not having any professional or technical qualification, such remuneration is taxable in hands of assessee. In present case, commission of ₹25000 received by Mrs A is taxable in hands of A.

Note 4: As per sec 64 (1A), any income received by minor child shall be taxable in hands of parents whose income is more. In present case, income of minor child of ₹20,000 is clubbed with Mr A & shall be taxable in hands of Mr. A because his income his higher as compared to Mrs A.

Exemption u/s 10(32) available to Mr A of ₹1500 p.a, so only 18500 is shall be taxable

Any income of minor child due to skill and talent shall be taxable in hands of minor child only. In present case, ₹20,000 received due to skill & talent is taxable in hands of minor only.

Question 11 (page 114)

opening ~~Rani~~ of capital of smt Rani on 1/4/2023	300,000
add : gifted by husband on 10/4/2023	200,000
	500,000
add : profits for the year 23-24	150,000
capital as on 1/4/23 24	650,000

profit of PY 23-24 390,000

Taxable in hands of husband	Taxable in hands of Rani
profit × gifted money / opening capital	[390,000 - 120000]
390,000 × 200,000 / 650,000	= 270,000
= 120000	

profit of PY 23-24 not clubbed in hands of husband because gifted money not included in opening capital

Note : we have assumed that profit of PY 23-24 of ₹150,000 is not withdrawn by Rani from business. If it is withdrawn then capital as on 1/4/2023 shall be taken as ₹ 5,00,000

Question 3 (page 109)

capital as on 1/4/2023	500,000
loss of PY 23-24	(200,000)
	3,00,000
add : amount gifted by vaishaly on 1/4/2024	5,00,000
capital as 01/4/2024	8,00,000

profit for PY23-24 = 400,000

taxable in hands of vaishaly

profit x $\frac{\text{gifted asset}}{\text{opening cap}}$

$400,000 \times \frac{500,000}{8,00,000} = 250,000$

income taxable in hands of vaibhav

[4,00,000 - 250,000] = 150,000

Note : If vaishaly gave the amount as loan, then clubbing is not applicable, because clubbing provision is applicable only in case of gift or low consideration

Profit and gain from business or profession

Sec 28: charging section

following incomes are taxable under income tax

1. any profit or gain from business or profession carried on by assessee at any time during the PY
2. duty draw back or cash compensatory support (subsidy) received against export.
3. sale of import entitlement license
4. salary, commission, remuneration or interest received by partner by partnership firm / LLP
5. Any amount received under keymen insurance policy
6. any gift, perquisite, benefit received due to business or profession
7. non compete fees (not carrying out any business or profession)
8. any compensation received on termination or modification of business contract.
9. FMV of stock in trade converted into capital asset.

Speculative business

It means transactions in which contract for sale or purchase is ultimately settled by otherwise then actual delivery

following transaction are not treated as speculative

1) hedging contract
2) forward contract
3) derivatives (future & options)

Note: speculative business and normal business are treated as seperate business

sec 29: How to compute PGBP?

PGBP computed as per sec 30 to 43D

sec 30: Rent, rates, taxes, insurance & repairs and buildings

A - P&L के DR मे जायेगा

	rent	rates & taxes	insurance	rev. repair	capital repair
owner	NA	Allowed	A	A	NA } add in COA
tenant	A	A	A	A	NA

sec 31: Insurance repairs of Plant & Machinery / Furniture

	rent	insurance	Revenue repair	capital repair
owner	NA	Allowed	A	NA } add to cost of asset
tenant	A (sec 37)	A	A	NA

Notes

1. expenses u/s 30 and 31 - allowed only if asset is used for business and profession
2. capital repair incurred by tenant is treated as deemed building and depereciation allowed to tenant.

sec 32: depreciation

A) conditions

depreciation is allowed if 2 conditions are satisfied

1) asset should be owned by assessee (wholly or partly)

2) asset should be used by business or profession purpose

Notes

1) Depreciation is allowed if 2 conditions are satisfied and assessee is beneficial owner of asset
2) In case of hire purchase, assessee gets ownership only after the payment of last instalment but he can claim depreciation from beginning
3) In case of lease, depreciation is always allowed to lessor
4) depreciation is allowed from the date on which asset actually put to use and not from ready to use

B) class of asset.

Building	furniture	plant & machinery	Intangible asset
class I	class II	class III	(except goodwill) class IV

1) Intangible asset include know-how, parent, copyrights, trademarks, etc but does not include goodwill of business or profession
2) plant and machinery includes ship, aircraft, vehicles, surgical equipments, books used for business and profession but doesn't include live stock teabushes

c) method of depreciation

Business of power generation OR power generation & distribution → SLM or WDV	other asset → always WDV method

D) rate of depreciation (WDV method)

Sr No.	Assets	Rate
1.	Building (includes road, bridges, wells and tubewells)	
	i) residential use (except hotels)	5%
	ii) other use	10%
	iii) temperory or wooden structure	40%
2.	furniture and fittings (include electrical fittings like fans, wires, switches, etc)	10%
3.	plant and machinery	
	i) motor vehicles acquired & put to use betn 23108/19 to 31/3/20	30%
	ii) motor vehicles (cairres, busses, taxi) used in hire busin.	30%
	Acquired and put to use between 23108/19 to 31/3/20	45%
	iii) ship, vessels, speed boats	20%
	iv) aeroplanes & aeroengines	40%
	v) computer and computer softwares	40%
	vi) books (include annual publication or used in library)	40%
	vii) pollution controlled equipment	40%
	viii) windmills and its equipment installed before 1/4/14	15%
	~~ix)~~ windmills & its equipments installed on/after 1/4/14	40%
	ix) renewable energy devices (including e-vehicles)	40%
	x) oil wells	15%
	xi) other plant & machinery	15%
4.	Intangible assets	25%

Notes

1) computer accessories like printer, UPS, scanner, etc eligible for depreciation @40%.

2) mobile phones & EPABX are not computer so depreciation allowed @ 15%.

Notes

E) system of depreciation

SLM method — Individual asset system

WDV method — Block of asset system

group of asset = same class + same rent

Example

1. Building @10% = 5,00,000 I
2. furniture @10% = 100000 II
3. plant & machinery @15% = 200,000 III
4. patent @25% = 200,000 IV
5. car @15% = 200,000 III
6. computer @40% = 60,000 V
7. pollution control equipments @40% = 20,000 V
8. Books @40% = 10,000 V
9. plant and machinery @15% = 150,000 III
10. windmills @40% = 90,000 V

Blocks :

I] Building @10% = 5,00,000

II] furniture @10% = 100,000

III] plant & machinery @15% = 450,000

IV] intangible asset @25% = 200,000

V] plant and machinery @40% = 180,000

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

opening WDV of blocks of asset	3
Actual cost of asset acquired during previous year	
→ asset acquired put to used 180 days or more	xx
→ asset acquired put to use less than 180 days	xx
asset acquired but not put to use	xx
	xxx
less: sale value (money received)	(xxx)
written down value for depreciation *	xxx
less: depreciation actuall allowed	(xxx)
closing WDV	xxx

* WDV for depreciation

- asset acquired but not put to use → No depreciation
- asset acquired and put to use less than 180 days → half rate of depreciation
- Balance WDV → full rate of depreciation

Note:

If asset acquired during the previous year and put to use for less than 180 days for that previous year then depreciation is allowed at half rate

asset put to use upto 3 october 2024 - full rate

asset put to use on or after 4 oct 24 - half rate

ex.

Mr. BB

cost = 10,00,000 @ 15%

acq on 15/7/24 put to use 10/12/24.

dep PY 24-25

∴ depreciation $= 10,00,000 \times \frac{15}{2}\% = 75000$.

Mr. BB

cost = 10,00,000 @ 15%

acq on 15/7/24, put to use 10/12/25

PY 24-25: No depreciation

PY 25-26: 10,00,000 × 15% = 150000

Ex 1: opening WDV of block = 10,00,000

Asset acquired and put to use on 10/12/24 = 4,00,000

Asset sold on 15/11/2024 = 3,00,000

calculate depereciation to be allowed, Assume depericiation rate 15%.

=> opening WDV of block	10,00,000
add: actual cost of asset during previous year	
(-) put to use less than 180 days	4,00,000
	14,00,000
less: money received (sale price)	(3,00,000)
	11,00,000
(-) depreciation allowed *	(135000)
closing WDV	965000

* WDV for depreciation = 11,00,000

put to use less than 180 days

4,00,000 × 7.5% = 30,000

Balance

7,00,000 × 15% = 105000

Ex-2 : suppose in above example if sale value of asset is 1200000 instead of 3,00,000. calculate depreciation.

⇒ opening WDV of balance	10,00,000
add : actual cost of asset acq. during PY	
put to use less than 180 days	4,00,000
	14,00,000
(-) money received (sale value)	(1200000)
	200000
(-) depreciation allowed *	(15000)
closing WDV	185000

* WDV for depreciation

put to use less than 180 days	Balance
200000 × 7.5% = 15000	Nil

Q3 page 54

M/s A Dhawal (PY24-25 AY25-26)

Particulars	P&M @ 40%	furniture 10%
opening WDV of block	-	-
add : actual cost of asset acquired during PY		
→ put to use 180 days or more	60500	3,00,000
→ put to use less than 180 days	51500	-
	112000	3,00,000
(-) money received (sale price)	-	-
WDV for dep.	112000	300000
actual dep allowed (NOTE 1)	(34500)	(30000)
closing WDV	77500	270000

Note 1 WDV for dep = 112000

put to use less than 180 days

51500 × 20% = 10300

Balance

60500 × 40% = 24200

6) Additional depreciation [sec 32(1)(iia)]

1] Assessee

- assessee engaged in manufacturing, power generation, power distribution, power transmission

2] Add depreciation @ 20% allowed on plant and machinery except

- second hand plant and machinery
- any plant & machinery installed in office premises or residential accomodation
- ship, aircraft and transport vehicles
- plant and machinery on which 100% deduction allowed

3] Add depreciation allowed only in the first year in which asset first put to use. If put to use for less than 180 days then 10% depreciation is allowed in current year and remaining 10% in next year

4] Add depreciation is allowed only if assessee follow WDV method

5] Printing or printing and publication business is treated as manufacturing business and eligible for add depreciation

6] Forklift truck used in factory is not treated as transport vehicle so eligible for add depⁿ

Note: additional depreciation not allowed if assessee opted default taxation regime u/s 115 BAC

Q1 (page 54)

Mr. X PY24-25 AY25-26

computation of depreciation and additional depreciation.

	P&M @ 15%	P&M @ 40%
opening WDV of block	30,00,000	-
add: actual cost of asset acq. during PY		
put to use 180 days or more	20,00,000	-
put to use less than 180 days	8,00,000	3,00,000
WDV for depreciation	58,00,000	3,00,000
less: depreciation actually allowed		
- Normal depreciation	(8,10,000)	(60,000)
- additional depreciation		
[[(20,00,000 × 20%) + (8,00,000 × 10%)]	(4,80,000)	-
closing WDV	45,10,000	2,40,000

WDV for depreciation = 58,00,000

less than 180 days

8,00,000 × 7.5% = 60,000

Balance

5000000 × 15% = 750000

Q30 (pg 78)

Mr. Lights (PY 24-25 AY 25-26)

~~opening WDV of~~

	P&M @15%	P&M @40%
opening WDV of block		
add: actual cost of assets		
acquired during PY	578000	-
put to use for 180 days or more	11,00,000	250000
put to use less than 180 days	525000	-
	2203000	250000
(-) sale price (money received)	(310000)	-
WDV for depreciation	1893000	250000
less: actual depreciation		
(i) Normal depreciation	(244575)	(1,00,000)
(ii) additional depreciation	(192500)	(50000)
1] (250000 × 20%) for P&M @40%		
2] (8,00,000 × 20%) + (325000 × 10%)		
closing WDV	14 55925	1,00,000

WDV for depreciation = 1893000

less than 180 days

525000 × 7.5% = 39375

Balance

1368000 × 15% = 205200

H) Actual cost - sec 43(1)

cost of price (purchase price)	xxx
add : 1) transportation expenses	xxx
2) Installation charges	xxx
3) Trial run expenses	xxx
4) taxes and duties (If ITC is not available) (input tax credit)	xxx
5) Interest on loan (upto date on which asset put to use)	xxx
Total	xxx
less : 1) Sale of trial run product	(xxx)
2) government grant for acquisition of asset	(xxx)
Actual cost	xxx

Notes :

1) If any payment is made in relation to the acquisition of the asset more than ₹10,000 by any mode other than A/c payee cheque. A/c payee demand draft . ECS to a single person in a single day then such expenditure not included in actual cost.

2) If any building which was used for any other purpose now brought into business.

Actual cost	
cost of building	xxx
(-) notinal dep at current rate	(xxx)
Actual cost	xxx

* notinal = deemed.

ex- Mr. BB purchased a building on 19/12/20 for ₹ 10,00,000. on 15 July 2024, he brought such building into business use calculate actual cost

Actual cost:

cost of building	10,00,000
(−) Normal depreciation	
PY 20-21 @ 5%	(50000)
21-22 @ 10%	(95000)
22-23 @ 10%	(85500)
23-24 @ 10%	(76950)
Actual cost	692550

The above provision is applicable only for building and not for any other asset, so if any other asset brought into the business actual cost shall be cost of which such asset were acquired

3) If any asset acquired by way of gift or will.
actual cost = cost to previous owner − dep. actually allowed to previous owner

4) If any stock-in-trade is converted into capital asset and such capital asset used in the business then actual cost shall be FMV as on date of conversion

Rohan Builders

→ converted into capital asset → add into block of asset value = 1200000 ↓ Actual cost.

FMV = 12,00,000
(taxable under PGBP)

5) If any asset is acquired at higher value to claim depreciation on higher cost then actual cost of such asset shall be determined by assessing officer (income tax officer) with the prior approval of Joint commissioner

6) If any asset transfer by assessee and after sometime reacquired same asset by same assessee then actual cost shall be:

i) WDV at time of original transfer.	xx
ii) reacquisition cost	xx
Actual cost	xx

7) If any asset is acquired from any person and lease back to same person then actual cost shall be WDV of the seller

I) sec 50: sale of asset / WDV method / block of asset

Particulars	Full block transfer				Part block transfer			
Block can be Nil but never negative	₹	No	₹	No	₹	No	₹	No
opening WDV	6,00,000	5	6,00,000	5	6,00,000	5	6,00,000	5
purchase	200,000	2	200,000	2	200,000	2	200,000	2
	8,00,000	7	8,00,000	7	8,00,000	7	8,00,000	7
less: sale value	SP = 1130000 (8,00,000)	7	SP = 650,000 650,000	7	SP = 910,000 8,00,000	4	540,000	4
WDV for depreciation	–		150000		–	3	260,000	3
WDV	×		✓		×		✓	
asset	×		×		✓		✓	
depreciation	×		×		×		✓	
CG	✓		✓		✓		×	
capital gain								
FVOC	1130,000		650,000		910,000		–	
(-) cost of acq (WDV)	(8,00000)		(8,00000)		(800,000)		–	
STCG / STCL	330000		(150000)		110,000.		–	
							–	

classmate
Date
Page

Q33 (page 81)

Part A

	₹	Asset No.
1) opening WDV of block	770,000	4
add: actual cost of asset acquisition during year	610000	1
	1380000	5
less: sale value (money received)	(1000000)	2
	380000	3
less: depreciation actually allowed	(28500)	
closing WDV	351500	

WDV for depreciation = 380000

put to use less than 180 days	Balance
380000 x 7.5% = 28500	Nil

2) Part B

In this case capital gain is not applicable since the block of asset continue to exist

3) Part c

computation of capital gain	₹
Fair value of consideration	15,00,000
(-) cost of acquisition [WDV = opening + purchase]	1380000
STCG	120000

J) asset partly used in business and partly for personal purpose
Ms. sailee

60% business purpose
40% ~~business~~ purpose personal

depreciation 40,00,000 x 15% = 6,00,000 < allowed = 60% = 360000
NA = 40% = 240000

opening WDV	4000000
(+) purchase	-
(-) sale value	-
WDV for depreciation	4000000
(-) depreciation	(360000)
closing WDV	3640000

If asset not exclusively for business or profession purpose then proportionate expenditure toward business and profession use only allowed

K) Sale of asset / SLM method / power unit / Individual asset system

cost = 100
dep rate = 10% SLM
3rd year asset sold

cost = 100	
(-) dep 1st yr	(10)
WDV	90
(-) dep 2nd yr	(10)
WDV	80

sale price = a) 72, (b) 89, (c) 117.

a) SP 72
WDV (80)
(8) - terminal dep. allowed
(P&L Dr side)

b) SP 89
WDV (80)
9 - taxable under PGBP

c) SP 117
WDV (80)
37 < 20 - normal profit - balancing charge taxable u/ PGBP u/s 41(2)
17 (real profit)
SP > cost - STCG

Sec 35: Scientific research

Part A: Inhouse research (research for assessee's business)

- research during the course of business
  - revenue expenditure
    - 100% deduction
    - 35(1)(i)
  - capital expenditure
    - land
      - No deduction
    - other capex
      - 100% deduction
- research before commencement of business [max 3 yrs before commencem of business]
  - revenue exp 35(1)(i)
    - material & salary
      - 100% deduction
    - other
      - No ded.
  - capital exp 35(1)(ii)
    - land
      - No ded.
    - other
      - 100% deduction

Part B: donation / contribution to outsiders [N.A in 115BAC]

- to approved
  R - research association
  I - Institute
  C - college
  U - university
  - 35(1)(ii) scientific research
    - 100% deduction
  - 35(1)(iii) social & statistical research
    - 100% deduction
- to IIT or national lab for scientific research
  - 100% deduction
  - 35(2AA)
- to approved Indian company engaged in R&D - scientific research
  - 100% deduction
  - 35(1)(iiia)

classmate
Date
Page

Notes

1. Depreciation is not allowed if deduction u/s 35 is claimed
2. If land and building is purchased together, cost of L & B shall be bifurcated and deduction not allowed in case of cost of land.
3. Deduction shall not be denied if approval of institution is withdrawn after payment by assessee
4. If assessee opted 115BAC default tax regime, deduction given in part B (donation) not allowed

Q5 (page 55) Mr. Pravin Kumar PY24-25 AY26-25

A] If assessee opted default tax regime u/s 115BAC

SNO	Particulars	section	amt donated	deduction
1	payment to K research ltd	35(1)(iia)	20L	NA
2	payment to LMN college	35(1)(ii)	15L	NA
3	payment to OPQ college	–	10L	NA
4	payment to national lab	35(2AA)	8L	NA
5	material purchase	35(1)(iv)	25L	25L
6	salary to research staff	35(1)(i)	12L	12L
	Total deduction			37,00000

B] If assessee shifted out of default tax regime u/s 115BAC

SNO	Particulars	section	amt donated	deduction
1	payment to K research ltd	35(1)(iia)	20L	20L
2	payment to LMN college	35(1)(ii)	15L	15L
3	payment to OPQ college	–	10L	NA
4	payment to national lab	35(2AA)	8L	8L
5	material purchase	35(1)(iv)	25L	25L
6	salary to research staff	35(1)(i)	12L	12L
	Total deduction			80L

classmate
Date
Page

Q4 (pg 55) Mr Gama

computation of depreciation and additional depreciation

opening ~~WDV~~	-
add : actual cost of asset acquired in PY	
P&M - used in scientific research	
(120 cr - 15 cr)	105 cr
(-) sale value	-
WDV for dep	105
- normal dep (105 x 15%)	(15.75)
- additional dep (85 x 20%)	(17)
Cl. WDV	72.25 cr

Note : as per sec 35(1)(iv) capex incurred for scientific research is eligible for 100% deduction , so depreciation not allowed

sec 35D : preliminary expenses

1. preliminary expenses means:-
   (1) preperation of project report, feasibility study report
   (2) market survey
   (3) drafting and printing of MOA, AOA
   (4) engineer services
   (5) legal charges
   (6) expenditure on public issue on shares and debentures.
2. preliminary expense are allowed only to resident assessee who incurred such expenses before commencement of business or after commencement or extension or setting up new unit
3. limit.

Indian company	resident other assessee
i) eligible preliminary exp xxx	i) eligible preliminary expense
ii) COP / CE x 5% xxx	ii) COP x 5%

allowed in 5 equal instalments

COP : cost of project
CE : capital employed

> COP means : amount invested in fixed asset of new project or extension or for new unit as per books of account on last date of previous year
> capital employed : share capital + debenture + long term borrowings for new projects or for extension or for new unit (reserve and surplus are not convered in capital employed)
> audit is mandatory for the year in which expenses are incurred (other than company & co-operative)

Q10 (pg 59)
allowable preliminary expenses

	₹	
i) preliminary expenses	900000	
ii) 5% of COP / CE	175000	(35,00,000 x 5%)
whichever is lower	175000	

cost of project = 30,00,000
capital employed = 35,00,000
35,00,000

allowed in PY24-25 = $\frac{175000}{5 yrs}$ = 35000 per year from PY24-25

sec 35DDA : Expenses on VRS compensation

- This deduction is allowed to all assessee
- This deduction is allowed in 5 equal instalments

Note for sec 35D and 35DDA

- If there is amalgamation and demerger then remaining deduction is allowed to amalgamating company or resulting company

sec 35AD : specified business.

No.	Business under this section @ 100% allowed for capital asset / expenses	commencement on / after
1.	setting up and operating a cold chain facility	01/04/2009
2.	setting up and operating a warehousing facility for agri produce	01/04/2009
3.	laying and operating cross country pipeline for distribution of petroleum, oil, natural gas	Natural gas - 01/04/2007 petrol - 01/04/2009
4.	Building & operating a hotel of 2 star or above	01/04/2010
5.	Building & operating a hospital within 100 patient beds	01/04/2010
6.	developing & Building housing project under slum development.	01/04/2010
7.	developing and building a housing project under ~~slum develop.~~ affordable housing scheme	01/04/2011
8.	production of fertilizers in India	01/04/2011
9.	setting up and operating inland container depot or container freight station	01/04/2012
10.	Beekeeping and production of bee's honey & wax	01/04/2012
11.	setting up and operating a warehousing facility for sugar	01/04/2012

12.	Laying and operating a slurry pipeline for transportation of iron ore	01/04/2014
13.	setting up & operating a semi-conductor wafer fabrication manufacturing unit	01/04/2014
14.	Developing or maintaining and operating or developing, maintaining and operating a new infrastructure facility	01/04/2017

Notes & conditions

1. above businesses should be new it should not be split up or reconstruction of existing business
2. Plant and machinery required should be new. Exception:-
   (a) 20% of plant & machinery being 2nd Hand
   (b) any imported 2nd hand plant & machinery shall be treated as new for this section
3. Under this section, 100% deduction allowed for all capital expense except:
   (a) Land
   (b) Goodwill
   (c) Financial Instruments
4. Deduction is allowed only if more than ₹10,000 in single day to a single person paid by cheque or A/c payee demand draft or any mode of electronically clearing system
5. depreciation not allowed if deduction claimed u/s 35AD
6. Expenditure incurred before commencement of business is allowed as deducted in year in which business commenced.
7. Loss from specified business can be set off only against income from specified business & remaining losses can be carry forward for unlimited period

8. petroleum and natural gas pipeline business and new infrastructure facility business should be owned by Indian company or group of Indian company and it is approved from prescribed authority.

9. In case of hotel, if operation is transferred to any other person, then also deduction allowed u/s 35AD.

10. New infrastructure facility means road, toll road, bridge, rail system, highway project, water supply project, water treatment system, irrigation system, sanitation system, solid waste management, port, airport.

11. If any asset is sold (on which deduction claimed u/s 35AD) then selling price of such asset is taxable under head PGBP

12 Deduction u/s 35AD not allowed if assessee opted 115BAC

Q7 pg 57

Income from PGBP from specified business		~~61,00,000~~
- warehousing facility for food grain	16,00,000	
- warehousing facility for sugar	16,00,000	
	30 ~~57~~,00,000	
less: deduction u/s 35AD		
- for warehousing for food grain (30+20)		(50,00,000)
- for warehousing for sugar (65 + 20)		(35,00,000)
		(~~28,00,000~~
loss on specified business		(5500,000)

Income from PGBP under business of warehousing of edible oil

Income from PGBP		3,00,000
(-) dep u/s 32		
Building (50-30)	20,00,000	
add: extention	10,00,000	
depreciation @ 10%	(30,000)	(30,0000)
PGBP		2800,000

Note: losses from specified business can only be set off against PGBP from specified business.
Thus loss of 55,00,000 cannot be set off against profit of 28,00,000

~~Q8 (pg 57)~~

If any asset acquired for specified business should not be transferred to non specified business within 8 years from the year of acquisition
If it is transferred within 8 years then following shall be taxable under the head PGBP

Amount of deduction claimed u/s 35AD earlier	xxx
less: depreciation allowable if sec 35AD not there	(xxx)
PGBP income	xxx

For non specified business following shall be added to block of asset.
(actual cost)

cost of asset	xxx
less: depreciation allowable if such asset used for non specified business from acquisition	(xxx)
Actual cost.	xxx

if asset transferred to non specified business after 8 years or asset acquired under gift, amalgamation, demerger, & previous owner already claimed deduction u/s 35AD, then actual cost of such asset is Nil

classmate
Date
Page

Q9 pg 58 Mr Amav PY23-24 AY24-25

computation of PGBP

deduction claimed u/s 35AD	5,00,000
less: depreciation allowable if sec 35AD not there in PY 22-23 @10% (50,00,000 × 10%)	(500,000)
PGBP income	45,00,000

In non specified business

cost of asset	5,00,000
less: depreciation allowable if asset used in non specified business from its acquisition	(500,000)
Actual cost	45,00,000

sec 36(1) : certain deduction u/s 36(1)

1. Insurance premium for stock in trade – allowed
2. Health insurance premium for employee – allowed if premium not paid in cash
3. animals used in business (other than stock in trade) – deduction is allowed in the year in which such animal died or become permanently useless.
   Amount of deduction: cost of animal – scrap value
4. Bad debts [36(1)(vii)]

actual bad debts → related to sale → allowed
actual bad debts → related to loan → not allowed
exception – money lending business

provision for bad debts → not allowed

There is no need to prove that debt is bad. for claiming bad debts, assessee should write off debtors

Sec 41(4): Bad debts recovery: If deduction of bad debts is already allowed, then recovery of bad debts will be taxable in year in which it is recovered even if assessee not doing the same business

Recovery is taxable only if assessee who claimed bad debts & recovered is same

eg- Mr. BB sold goods to Kashish at ₹ 5,00,000. in PY 22-23, Kashish refused to repay the amount. AO allowed 3,00,000 ₹ bad debts. In PY 24-25, recovery of bad debts is ₹ 350000 in final settlement.

∴ Taxable amount = recovery amount - discount earlier

= 350000 - 200000

= 150000

B. Note: suppose in above example, if recovery is only 160000, how much amount would be taxable?

Taxable amount = recovery amount - discount earlier

= Nil

If examiner provides that recovery is in final settlement, nothing is taxable and 40,000 further bad debts will be allowed

5. Bonus and commission to employees - allowed
[as per sec 43B, it is allowed only if it is actually paid upto due date of return filing.

6. employer contribution

→ Statutory provident fund (SPF)
→ Recognized provident fund (RPF)
→ approved gratuity fund (AGF)
→ approved superannuation fund (ASF)
→ fund as per law
↓
allowed

→ unrecognized provident fund (URPF)
→ unapproved gratuity fund (UAGF)
→ unapproved superannuation (ASF)
→ any other funds
↓
not allowed

[As per sec 43B, it is allowed only if it is actually paid upto due date of return filing] - ~~of IT Act~~

7. Atal pension / National pension scheme / New pension scheme [80CCD]
[employer contribution u/s 80CCD]
deduction allowed:
actual cost xxx
14% of salary xxx → [Basic + DA(T)]
[as per sec 43B, it is allowed only if it is actually paid upto due date of return filing]

8. If any sum received by employer from employee as a contribution to PF (provident fund) or super annuation or ESI (employee state insurance), etc. has to be deposited by employer upto the due date of such fund otherwise it will be treated as PGBP income of employer
Note: PF due date is 15th of subsequent month

PF

9. Family planning expenditure of employee

deduction allowed only to company

revenue expenditure
100% deduction

capital expenditure
allowed in ~~first~~ 5 equal instalment

10. Discount on zero coupon bonds [ZCB] - bond issued at disc. redeemed at par

It is allowed as deduction on pro-rata basis over the life of bonds (calender month)

eg- reliance industries ltd issued 1,00,000 ZCB @ 80 per bond on 1/11/2024. [FV = 100] ZCB are redeemable after 12 months

calculate discount allowed for PY24-25

=> Total discount = 20 × 1,00,000 = 2000,000 ₹.

monthly discount = $\frac{2000000}{12 m.}$ = 1,66,667 ₹.

discount allowed in PY24-25 = 1,66,667 × 5 months [NOV - March]

= 8,33,333 ₹

11. Interest on loan

loan for business / profession

loan for personal purpose
↓
Not allowed

loan from scheduled bank (co-op bank), Public financial institution (SFC), state industrial investment corporation, NBFC
↓
allowed

loan from others
↓
int. paid 10% - allowed

As per sec 43B - allowed only if it is actually paid upto due date of return filing

12. Security transaction tax and commodity transaction tax (STT, CTT)
It is allowed as deduction if assessee engaged in shares or commodity trading business.

Sec 37: General deduction

1. any expenditure not covered u/s 30 - 36, shall be allowed as deduction u/s 37 if following conditions are satisfied
(1) expenditure should be wholly or exclusively for business and professional purpose
(2) expenditure should be revenue in nature
(3) expenditure should be legal
Note: Following expenses are treated as illegal and are not allowed:
(a) for any purpose which is an offense / prohibited under any law in India or outside India
(b) to provide any benefit or perquisite to any person & acceptance of such benefit by such person is a violation of any law, rule, regulation, or guidelines (freebies to doctors)
(c) to compound any offense under any law

examples :-
(1) salary - allowed
(2) salary to working partner - allowed
(3) salary to sleeping partner - not allowed
(4) salary to directors - allowed
(5) advertisement expense - allowed
(6) advertisement in newspaper of political party - not allowed
[If advertisement in newspaper, pamplets, brochures, etc of any political party is not allowed]
(7) Diwali pooja expenses / new office opening expenses - allowed (customary expenses)

(8) gift to employee / customer - allowed

(9) keyman insurance policy premium paid - allowed

(10) free samples by pharma company to doctors - not allowed

(11) corporate social responsibility expense (CSR) - ~~allowed~~ not allowed

(12)

taxes -	Tax	Interest	Penalty
direct tax (income tax)	Not allowed	Not allowed	Not allowed
indirect tax (GST)	Allowed	Allowed	Not allowed

Sec 43B: allowed only if it is actually paid upto due date of return filing

Note: penalty for breach of law: Not allowed

penalty for breach of contract: Allowed

(13) other expenses - allowed if incurred for business / profession

→ telepone exp.

- printing & stationery
- audit fees
- travelling expenses
- sundry expenses, etc.

sec 40: amount specifically disallowed

1. sec 40(a)(i): payment made to non-resident or foreign company

amount paid / credited to non-resident / foreign company shall be 100% disallowed if:-

a) TDS not deducted in previous year

b) TDS deducted in PY but not paid to government upto due date of return filing

2. sec 40(a)(ia): payment made to resident

amount paid / credited to resident shall be 0% disallowed if:-

a) TDS not deducted in PY or

b) TDS deducted in PY but not paid to government upto the date of return filing

Note: If TDS deducted in sub-sequent year or deducted in PY but deposited to government after due date of return filing then such expenses (100% / 30%) shall be allowed in PY in which TDS has been paid to government.

Exception to above sections.

If any amount paid / credited and TDS not deducted but payee

a) taken into account such amount in total income and,

b) has paid taxes to government on total income and,

c) filled his return of income and,

d) payer has furnished a certificate from CA (from 26A), then whatever amount (100% / 30%) disallowed earlier shall be allowed in PY in which payee furnishes his return of income

example no. 1

BBYPL paid ₹ 5,00,000 to AK sir as professional fees on 29/07/2024 without deducting TDS. AK sir considered this amount in his income he paid taxes to government and he has filled his return on 30/8/25. BBYPL obtained a certificate from CA.

a) ₹ 1,50,000 (5,00,000 x 30%) expenses disallowed in PY 24-25

b) 150,000 expense allowed in PY 25-26 (year in which AK sir filed his return)

3. sec 40(a)(iii) TDS on salary payment o/s India or to a NR

Any salary paid outside India or to NR in India and if

a) TDS is not deducted

b) TDS is deducted in PY but not paid to government upto due date of TDS payment, then such salary shall be ~~allowed~~ disallowed.

Note : If TDS deposited late even by one day then also salary not allowed

4. sec 40(a)(v) : Tax on non-monetary perquisite of employee

If any tax on non-monetary perquisite of employee is paid by employer from own pocket then such tax is not allowed to employer

5. <u>sec 40A(2) : payment to relatives (specified person)</u>

If any payment made to relative then AO can disallow excessive or unreasonable amount.

Assessee	Relative
1] Individual	spouse, mother, father, sister, brother, lineal ascendant, lineal discendant.
2] HUF / AOP / BOI	Members and their relatives
3] firm / LLP	partners and their relatives
4] company	directors and their relatives

5] substantial interest

(relative) Assessee (any person & relative) ↔ (relative) Any other person & relative

substantial interest

company → 20% or more equity shareholding

firm / LLP / AOP / BOI → 20% or more PSR

6]

Holding company (TATA) → subsidiary company (TCS)

↕ relatives

Holding company (TATA) → Subsidiary company (TITAN)

6. <u>Sec 40 A(3): cash payment more than ₹10000 to a single person in a single day.</u>

If assessee makes payment for any expenditure to single person in a single day more than 10,000 by any mode other than account payee check, A/c payee demand draft, electronic clearing system then such expense shall be disallowed

<u>Note</u>:

1. If payment made to transporter then limit is ₹35000
2. If any expenditure already claimed in earlier year on accrual basis and if such expenditure is paid subsequently by cash, bearer cheque or cross cheque more than 10000 the deduction claimed earlier shall be withdrawn and taxable as PGBP in the year in which the payment is made

Exception.

In following cases cash payment is allowed

1. payment made to government, banks, LIC, RBI.
2. payment to producer of agriculture product, forest product, poultry product, fish product, live stock, etc.
3. payment by book entry (adjustment)
4. payment of retirement benefits upto ₹50,000
5. payment made where banking facility not available
6. payment of salary to employee who is posted at any other place or ship for 15 days or more other than his normal place of business
7. payment made by authorised dealer or money changer for ~~product manufacture without~~ purchase of foreign currency.

8. payment for product manufacturer without aid of power in cottage industry
9. payment made to agent who is required to make payment in cash for goods or service on behalf of assessee.

7. Sec 40A(1) provision for gratuity → not allowed
Note :- only payment of actual gratuity or contribution to approve gratuity fund is allowed as deduction

8. Sec 43B : Expenses allowed on payment basis
Following expenses are allowed only if it is actually paid upto the due date of filing u/s 139(1)
1) Bonus and commission to employee
2) Any taxes, duties, cess, fees (indirect tax)
3) employer contribution to SPF, RPF, AGF, ASP, NPS, any fund under law
4) Interest on loan taken from schedule bank including co-operative bank, public financial institution, state financial corporation, state industrial investment corporation, NBFC
5) leave salary (Encashment of unutilised leave)
6) any sum payable to Indian railway for use of railway asset.

Notes
1) If above payment is made after due date then expenditure is allowed in the year in which actual payment is made

2) any outstanding interest is converted into loan, debentures or any instruments then it is not treated as actual payment. Interest shall be allowed as deduction in the year in which such installment is paid.

Continued on pg 90

How to solve PGBP ?

direct method ↓

Receipt payment A/c

Income as per sec 28/4/	xxx
(-) expenses allowed	
u/s 30	(x)
31	(x)
32	(x)
35	(x)
35D	(x)
35DDA	(x)
35AD	(x)
36	(x)
37	(x)
profit/gain from business and profession	xxx

Indirect method ↓

Profit and loss A/c ↓

NP as per P&L A/c	xxx
add: disallowed / item considered seperately	xxx
less: allowed / items considered seperately	(xxx)
PGBP	xxx

Question 28 (pg 76)

Mr Raju PY24-25 AY25-26

computation of total income as per 115BAC

Particulars		₹	₹
Income from house property			
Interest on housing loan from self occupied property			
[Note: Since assessee opted sec 115BAC, interest on housing loan in case of self occupied property not allowed]			
Profit and gain from business & profession			
Net profit as per profit & loss A/c		5,00,000	5,00,000
Add: Disallowed items considered seperately			
(i) SGST penalty		5000	
(ii) depreciation as per books of accounts		200,000	
(iii) commission to brother (Note 2)		10,000	
(iv) Interest on bank term loan (Note 3)		40,000	
			255000
			755000
Less: Allowed items considered seperately			
(i) dividend		(15000)	
(ii) agricultural income		(180000)	
(iii) depreciation as per income tax rules (Note 4)		(223500)	
(iv) salary to staff (4000x12) (Note 5)		(48000)	
			(466500)
PGBP			288500
Income from other sources			
Dividend from domestic company		15000	
agriculture income	180000		
exempt u/s 10(1)	(180000)	Nil	15000
Gross total income			303500
deduction u/s VI A			Nil
Net taxable income			303500

Note 1: dep as per income tax law.

WDV of 31/3/24	14,00,000
(-) dep for PY23-24	210000
opening WDV as on 01/04/24	1190000
Add: actual cost of asset acquired	
(i) put to use 180 days or more	200,000
(ii) put to use less than 180 days	200000
WDV for depreciation	1590000
(-) dep. actually allowed	
(200,000 × 7.5) + (1390000 × 15.1)	(223500)
closing WDV	1366500

Note 2 : commission to brother.

As per sec 40A(2), any payment made to relative shall be disallowed to the extent unreasonable. In the present question, commission to brother is unreasonable. so ₹ 10,000 disallowed

Note 3 : As per sec 43B, interest on loan taken from bank is allowed as deduction only if interest is actually paid upto due date of return filing. In the present question, interest of ₹ 40,000 paid in Nov 2025, is not allowed as deduction in PY24-25.

Note 4 : As per sec 43A(3), any payment of expenditure, of more than ₹10,000 in single day to a single person is disallowed. Provided that payment to transport ~~carrier~~ carrier ~~of~~ upto ₹ 35,000 is allowed if such payment is made through other than account payee cheque, a/c payee demand draft, or ECS. In present case, 33,000 is paid in cash is fully allowed.

Note 5: Salary of ₹ 4000 per month paid to staff has not been recorded in books of accounts due to genuine mistake, so it will be allowed as deduction

Question 26 (pg 73)

M Sivam PY24-25 AY25-26

computation of profit and gain from business profession

Particulars	₹	₹
Net profit as per profit and loss A/c		50,000
Add: disallowed / items considered seperately		
(i) donation to public charitable trust (Note 1)	2000	
(ii) depreciation as per books of accounts	105000	
(iii) loss on sale of shares (Note 2)	8100	
(iv) stock omitted to be recorded	18000	
(v) salary to brother (Note 3)	2000	
(vi) printing and stationery (Note 5)	23200	158300
less: allowed / items seperately considered		
(i) stock omitted to be recorded.	(9000)	
(ii) income from UTI	(2400)	
(iii) depreciation as per income tax law (Note 6)	(66000)	(77400)
Profit / gain from business and profession		130900.

Note 1: according to sec 35, donations to scientific research are allowed. But since donation to public charitable trust are not business expense, hence they are not allowed.

Note 2: Since loss on shares (short term) is included in the head "capital gain" u/s 111A, it shall not be allowed under PGBP.

Note 3 : as per sec 40A(2) any payment to relative which is unreasonable shall be disallowed. In present question salary to brother is unreasonable to the extent of 2,000 ₹, thus such amount is disallowed.

Note 5 : as per sec 43A(3), any payment of expenditure to a single person in a single day in excess of ₹10,000 in any mode other than A/c payee cheque, A/c payee demand draft or electronic clearing system shall be disallowed. In the present question, payment of ₹ 23200 has been made to a single person in single day in cash. Thus, such amount shall be disallowed

Note 6 : Depreciation as per income tax law.

WDV of plant & machinery as on 31.3.2024 (opening WDV)	4,20,000
add : actual cost of asset acquired	70,000
less : sale value	(50000)
WDV for depreciation	4,40,000
(-) depreciation actually allowed (440,000 × 15%)	(66000)
closing WDV	374000

Note 7 : As per sec 44AD, PGBP = 1,12,11500 × 6% = 672690

sec 43B (h) : goods or service purchase or procured from micro and small enterprise

If any sum payable to micro or small enterprise shall be disallowed if it is paid after time limit prescribed u/s 15 of MSME Act, 2006. This sum will be allowed in the year in which actual payment is made

Time limit u/s 15 of MSME Act, 2006

- Written agreement betn supplier & buyer → date agreed in agreement
- No agreement → 15 days from acceptance of goods & services

meaning of micro & small enterprise

	Micro	Small
Investment in plant machinery equipment	upto 1 cr	upto 10 cr
AND		
Turnover	upto 5 cr	upto 50 cr

eg 1 BB ltd purchased goods from ABB ltd (small enterprise) for ₹ 1500,000 on 2nd March 2025. As per written agreement payment is to be made upto 30th April 2025. However payment is made as follows:-

2,00,000 paid on 30 March 2025

400,000 paid on 6 April 2025

3,00,000 paid on 15 April 2025

6,00,000 paid on 6 May 2025.

Soln :

As per sec 15 of MSME Act, 2006 payment should be made within time agreed in agreement or 45 days whichever is earlier. In the present question due date is 16 April 2025 payment of ₹ 9,00,000 made till 16 April 2025. is allowed in current PY 24-25 and remaining 6 lakh will be allowed in the PY25-26 that is year in which actual payment is made

eg.2 Suppose in example 1 there is no agreement between parties

- payment should be made within 15 days - no payment made so expenditure allowed in year in which actual payment is made - 2,00,000 allowed in PY24-25 and 13,00,000 allowed in PY25-26

This section is not applicable when we purchase the goods or service from medium enterprise

Sec 43A: Asset acquired from foreign country.

If any asset acquired from outside india through foreign currency loan or supplier credit any loss or gain at the time of actual payment shall be adjusted with block of asset

eg. BB ltd acquired plant & machinery of 100000 $ on 16 July 2024 on credit. Payment of 50000 $ made on feb 2025 and remaining 50000 $ on 15 July 25.

compute depreciation for PY 24-25 & 25-26

foreign exchange rate	$	₹
16/7/2024	1	60
19/2/2025	1	72
15/7/2025	1	57

calculation of dep. for PY 24-25

opening WDV of balance	–
Add: actual cost of asset (100000 × 60)	60,00,000
add: loss due to sec 43A (50000 × 12) [72 - 60]	6,00,000
less: sale value	–
	66,00,000
less: depreciation (66,00,000 × 15%)	(9,90,000)
closing WDV.	56,10,000

classmate
Date
Page

calculation of depreciation for PY25-26

opening WDV of block	56,10,000
less: gain due to sec 43A ($50000 x 3) [60-57]	(150000)
	5460,000
less: sale value	–
less: depreciation @15%	(819000)
closing WDV.	4641000

Sec 41: Deemed Income

Sec 41(1): recovery of any deduction claimed earlier
If assessee claim any expenditure or loss or trading liability and subsequently assessee got refund or remission shall be taxable under the head PGBP
eg. GST refund, waiver of electricity bill, stock destroyed by fire and insurance compensation received

Note:- waiver of working capital loan (principal amount) then sec 41(1) is applicable and taxable under the head PGBP

Sec 41(2) Balance charge - already covered in depreciation

Sec 41(3) sale of scientific research asset

Sale without use in business
A] i) sale value
ii) ded^n claimed u/s 35
} taxable u/s 41(3) PGBP
B] If SP > cost - capital gain

Sale after use in business
A] add to block of asset by Nil value
B] sale → sec 50 apply (part block / full block transfer)

Sec 44AA: compulsory maintainance of books of accounts
Part A: specified profession
in this case assessee is required to maintain specified booked if gross receipt is more than ₹150000 in all 3 years preceeding the PY (or likely to more than 150000 in case of new profession) otherwise assessee is

required to maintain normal books of accounts from which AO can complete the assessment.

specified profession (MALEFJTCO)

M medical
A Accountancy, architech, authorised representative
L legal
E Engineering

F film artists
J interior decorator / JT professional
T Technical consultant

CO co. secretary.

Specified books

1. cash books
2. Journal
3. Ledger
4. carbon copies of bill more than ₹25
5. original bill of exp. more of ₹50
6. In case of medical profession daily case register & stock register has to be maintained

part B : other assessee (business)
In this case any of the last 3 previous year if PGBP more than 120000 turnover more than 10,00,000 (likely to be more in case of new business) then assessee is required to maintain normal books of accounts from which AO can complete the assessment otherwise assessee not required to maintain any book

In case of individual or HUF PGBP more than ₹ 250000 and turnover more than 25,00,000.

Note : as per sec 270 A if assessee fails to maintain books of account then penalty ₹ 25000 may attract

<u>Sec44AB : compulsory audit for books of account (tax audit)</u>

1) In case of business audit is compulsory if turnover of PY is more than 1 crore
Note : turnover limit is 10 cr if :-
a) cash receipt out of total receipt is upto 5% in PY <u>AND</u>,
b) cash payment out of total payment is upto 5% in PY

* cross cheque, bearer cheque is treated as cash only.

2) In case of profession audit is compulsory if gross receipt of profession in more than 50 lakh in PY

3) Audit can be done only by CA holding COP

4) due date of audit is month before of due date return filing
ex: suppose due date of RF is 31 October 2025, then audit due date is 30 September 2025

5) If assessee fails to get account audited then penalty u/s 271B is applicable
i) 0.5% of TTO or gross receipt
ii) 150000
whichever is lower

Presumptive taxation

Sec 44AE: presumptive taxation for transporter
- If assessee engaged in the business plying, hiring, leasing of goods carraiged vehicles (transporter) then PGBP shall be computed

A) Heavy goods vehicle [Gross vehicle weight > 12 tons (12000 kgs)]
₹ 1000 per ton of gross vehicle weight or unladen weight as the case may be for every month or part of month.

B) other vehicles: ₹ 7500 every month or part of the month.

Notes:
1) this section is applicable if assessee owns maximum 10 vehicles
2) If assessee owns more than 10 vehicles at any time during the PY then this section NA
2) Income is calculated even if vehicle is not put to use but owned by assessee.
3) If gross vehicle weight is not available then assessee can take unladen weight

4) Assessee can declare higher income in his return of income
5) If assessee opting this section then he is not required to maintain books of accounts and get it audited. However if assessee declares lower income then he is required to maintain BOA and get it audited
6) deduction u/s 30 to 37 not allowed (assume it is deemed to be already allowed)
7) partner remuneration and interest u/s 40(b) allowed against income computed u/s this section

Q 19 (pg 64) PY24-25 AY25-26

Mr X

computation of PGBP

No.	No. of vehicles	Date of acquisition	calculation	income
1	2	10/4/24	7500 x 2V x 12m	180000
2	1	15/3/25	7500 x 1V x 1m	7500
3	3	16/7/24	7500 x 3V x 9m	202500
4	1	02/01/25	7500 x 1V x 3m	22500
5	2	29/08/24	15000 x 2V x 8m	240000
6	1	23/02/25	15000 x 1V x 2m	30000
	Profit/gain from business or profession			682500

Note: No, ans. will not be changed as income is computed for the month in which vehicle are own by assessee

Q No. 32 (pg 80)

No.	vehicles	acquisition date	calculation	income
1	1	21061 2023	7500 x 1V x 12m	90000
2	1	15105 2023	15000 x 1V x 12m	180000
3	1	04108 2023	7500 x 1V x 12m	90000
4	1	20104 2024	7500 x 1V x 12m	90000
5	1	15105 2024	14000 x 1V x 11m	154000
	Profit / gain from business / profession			604000

Sec 44AD: presumptive taxation for business

resident — individual / HUF / firm (LLP)
↓
Business — turnover upto 2cr. in PY
↓
PGBP = T/O × 8%

(turnover realised by A/c payee cheque / demand draft) ECS upto due date of return filing → Turnover x 6%.)

1) eligible assessee :- resident individual / HUF / firm (other than LLP)
2) this section is applicable if assessee engaged in business (except: profession, sec 44AE, agent business. commission & brokerage business)
3) This section is applicable if T/O is upto ₹ 2 crore
If amount received during previous year in cash is upto 5% of total turnover then limit is 3 crore insted to 2 crore
4) PGBP = turnover x 8%.
If turnover realised by A/c payee cheque, DD, ECS upto the due date of return filing then PGBP = T/O x 6%.

Assessee can declare higher income. If assessee declare income as per this section then he is not required to maintain books of accounts and get it audited

If assessee declares lower income and his taxable income is more than basic exemption then he is required to maintain books of accounts.

If assessee declare income as per this section in any previous year and he does not declare income as per section 44AD in any of the "5" consecutive previous year then he shall not eligible to claim benefit of sec 44AD for 5 year subsequent to the year in which assessee did not declare income as per sec 44AD

sec 44ADA: presumptive taxation for profession

1) eligible assessee: resident individual / firm exclude LLP
2) This section is applicable only if profession having gross receipt is upto 50 lakhs.
   Note: If amount received during PY in cash is upto 5% of the gross receipt of such previous year then limit is 75 lakh instead of 50 lakh
3) PGBP = gross receipt × 50%
4) assessee can declare higher income
5) If assessee declare lower income and his NTI is more than basic exemption then he is required to maintain books of accounts & get it audited.

common points for sec 44AD & 44ADA

1) deduction u/s 30 to 37 not allowed (assumed it is deemed to be allowed)
2) partner remuneration & interest not allowed

sec 40(B) remuneration and interest by firm (LLP) to partner.

firm →

remuneration / interest → partners

1) remuneration < working partner ✓
sleeping partner ✗

2) interest – W/S partner ✓

3) remuneration / int → deceased / deed

4) prospectus ✓

interest → partner → capital $ loan → maximum 12% p.a S1

case-1	case 1	case 2	case 3
actual interest	15%	9%	13%
deed	18%	15%	8%
maximum	12%	12%	12%
	12%	9%	8%

Remuneration

Book profit (PGBP income just before remuneration)

upto 6 lakhs → Book profit × 90% OR 30,000 → xxx

Balance book profit × 60% → xxx

xxx → maximum allowable remuneration

Interest and remuneration by firm / LLP to partners shall be allowed if following conditions are satisfied

1) remuneration paid to only working partner.
2) remuneration and interest should be authorised by partners deed
3) remuneration and interest should relate to period following after the date of partnership deed it means it should be prospective and not retrospective
4) Interest on partner capital and loan allowed maximum 12% p.a simple int.
5) remuneration allowed on book profit basic

<u>calculation of book profit</u>

Net profit as per PGBP	xxx
add : remuneration (if debited to P&L)	xxx
less : depreciation of cy + unabsorbed depreciation	(xxx)
	xxx

Q15 (pg 61) Firm PY 24-25 AY 25-26

computation of PGBP income

Net profit	700,000
add: remuneration to partner A	60000
Interest to partner D (12% disallowed)	18000
$\left(\frac{36000}{150000} \times 100\right) = 24\%$	778000
add: Remuneration to partner B and C (80000 + 90000)	170000
Book profit (profit before remuneration)	948000
less: remuneration as per sec 40(b)	
i) actual remuneration 170000	
ii) max allowable 748800	(170000)
PGBP	778000

Book profit (948000)

first 6,00,000 × 90% = 540000 | Balance BP

30,0000 | 348000 × 60%

540000 | = 208800

maximum allowable

= 748800.

computation of PGBP of partners

	A	B	C	D
remuneration	exempt	80000	90000	-
Interest	-	-	-	18000
	-	80000	90000	18000

Q14 (pg 61) Rao and Jain (PY 24-25 AY 25-26)

Net profit		7,00,000
less : i) depreciation as per sec 32		150000
ii) interest on loan (500000 x 12%)		60000
Book profit		490000
less : remuneration as per sec 40(b)		
(i) allowable remuneration		
first 6,00,000 x 90% or 300000 (higher)		
490,000 x 90%	441000	
ii) actual remuneration		
(20000 x 12 x 2)	480000	(441000)
	PGBP	49000

Interest to partners

	partners	interest received on	sec 40(b) limit
1.	individual capacity	individual capacity	sec 40(b) apply (max 12% allowed)
2.	individual capacity	representative capacity	sec 40(b) Not allowed full interest allowed
3.	representative capacity	representative capacity	sec 40(b) apply (max 12% allowed)
4.	representative capacity	individual capacity	sec 40(b) not allowed full interest allowed

sec 145(1) method of accounting

for computing IFOS & PGBP assessee can follow cash method or accrual system of accounting

SET OFF AND CARRY FORWARD OF LOSSES (4-7m)

Sec 70: Intra head adjustment

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

Exceptions:

1. specified business loss (sec 35AD) can be set off against only income from specified business
2. speculative business loss can be set off only against speculative business income
3. long term capital loss can be set off only against long term capital gain
4. loss from owning and maintaining from race horses can be set off only against income from owning and maintaining race horses

Sec 71: Inter head adjustment.

It means loss under one head of income can be set off against income from another head or income but in same PY

Exceptions:

1. specified business losses (sec 35AD) can be set off against only income from specified business
2. speculative business losses can be set off against speculative business income
3. long term capital loss can be set off only against long term capital gain
4. loss from owning & maintaining race horses can be set off only against income from owning & maintaining race horses.

5. short term capital loss can be set off only against STCG/LTCG.
6. losses from business cannot be set off against salary

Mind map

Income from salary → losses not possible

Income from house property →

losses from house property → Intra head adjusment
→ Inter head adj (max 200000)
→ c/F

PGBP

i) loss from specified business (35 AD) → income from specified business
→ c/F

ii) loss from speculative business → income from speculative busin.
→ c/F

iii) other business loss → Intra head adj
→ Inter head adj (except salary)
→ c/F

capital gain.

i) LTCL → set off against LTCG
→ c/F

ii) STCL → set off against STCG or LTCG
→ c/F

JFOS

i) loss from owning & maintaing race horses → set off against owning & maintain. Race horses
→ c/F

ii) other losses of JFOS → Intra head adjustment
→ Inter head adjustment
→ c/F not allowed

Note:

1 The loss from HP can be set off against any other head of income is max ₹ 2,00,000 if assessee opt out of 115BAC. If assessee opts sec 115BAC. then house property head losses not allowed to set off against any other head of income.

2 It is to be remembered that once loss is carry forworded, it can be set off only against income from same head (Inma-head) in subsquent years.

Carry forward and set off of losses

section	losses to be carryforword	B/F losses set off against	Time limit	return file on time
71B	losses from house property	Income from HP	8 years	No
72	Normal business losses	Business Income	8 years	Yes
73	speculative business loss	speculative business Income	4 years	Yes
73A	specified business loss	specified business income	unlimited time	Yes
74	Short term capital loss	STCG / LTCG	8yrs	Yes
	long term capital loss	LTCG	8yrs	Yes
74A	losses from owning & mainiaing race horse	Income from owning & maintaining race h.	4 yrs	Yes
32	unabsorbed depreciation	Any income other than salary	unimited time	No

Notes:

1. losses from any lottery, card game, horse races, etc etc. not eligible to set off and carry forward. and any other losses cannot be set off against income from lottery, card game, etc.
2. Any losses cannot be set off against deemed income u/s 68, 69, 69A, 69B, 69C, 69D (undisclosed income)
3. Brough forward losses from business can be set off even if that business is discontinued
4. order of set off :-
   A) current year depreciation
   B) brought forward business losses
   C) unabsorbed depreciation
5. If there is income under any head and eligible loss under any other head, then such losses shall be first set off against the income before set off against brought forward losses

Q12 (pg 128) Mr. Srivatsan PY 24-25 AY 25-26

computation of total income

Particulars		₹	₹
Income from salary		220,000	
loss from house property		(190000)	
		30,000	30,000
income from betting			45000
Income from speculative business		30000	
loss from cloth business (240000 - 30000)		(30,000)	Nil
Long term capital gain on sale of urban land		250,000	
less: loss from cloth business		(210,000)	40000
Gross total income			115000
less: deduction u/c (VI-A)			
80C [LIP premium]	45000		(30,000)
Net taxable income			85000

losses to be carry forwarde to AY26-27

Specified business losses u/s 35AD 20000

Note 1: losses from card game not allowed to set off & c/f

2: any losses Not allowed to be set off against betting income

3: deduction u/c VI-A N.A against betting income & LTCG

so deduction is restricted to salary income (30,000) in present question.

Q7 (pg 124) Mr. Sobhan PY24-25 AY25-26

computation of gross total incomes

Particulars	₹	₹
Income from salary	3,00,000	
(-) loss from house property	(40000)	
	260,000	260000
Income from sugar business	50,000	
(-) loss from iron ore business (120000 - 50000) 70000	(50000)	Nil
Long term capital gain	40000	
(-) short term capital loss (60,000 - 40,000)	(40000)	Nil
Income from other sources		
Dividend	5000	
Lottery	50000	
Card game	6000	
Bank FD interest	5000	66000
gross total income		326000

losses to be carry forwarded to AY26-27

loss from iron ore business	70000
STCL	20000
STCL u/s 111A	10000
	100000

classmate
Date
Page

Q8 (pg 125)

Mr Batra PY24-25 AY25-26

computation of total income

Particulars	₹	₹
Income from salary	100,000	
less: loss from house property	(40000)	60,000
Income from textile business	50,000	
less: loss from textile business	(50,000)	Nil
Income from LTCG	30,000	
less: Long term capital loss (100,000 − 30000)	(30,000)	Nil
Income from short term capital gain		140000
Income from owning and maintaing race horses	15000	
loss from owning and maintaing race horse	(15000)	Nil
Gross total income		200,000

Losses carry forward to AY 26-27

LTCL	70000
loss from speculative business	60,000
loss from owning & maintaing horse	10000

Note: Business losses can be carry forward for maximum 8 years
Loss from textile business incurred in PY16-17 can be carry forwarded only till PY 24-25 (ie, current year). Thus, after PY 24-25, any loss from PY 16-17 shall be lapsed. Thus, ₹10,000 cannot be carry forward to AY 26-27 (PY 25-26)

> losses from owning & maintaining race horses can be set off only against income from owning & maintaing race horses
Thus, ₹15000 is set off in CY & remaining 10,000 CIF to NY.

> loss from speculative business can be set off only against income from speculative business. In present case, there is no income from speculative business. So, it has to be carry forward.

> LTCL can be set off only against STCG. In the present question, LTCG is only ₹ 30,000, so remaining 70,000 shall be carry forward.

Q10 (pg 197)

Mr Aditya — PY24-25 AY25-26

computation of total income

Particulars	₹	₹
Income from salary	3,00,000	
less: loss from house property	(200,000)	150000
Income from trading business	45000	
less: loss from trading business	(5000)	40,000
Income from speculative business	5000	
loss from speculative business	(5000)	Nil
Income from sale of urban land	200,000	
less: loss on sale of shares	(75000)	
loss on sale of listed shares	(102000)	23000
Gross taxable income		163000

losses to be carry forward to AY 26-27

loss from house property	50,000
loss from speculative business	20000
loss from specified business	20,000
loss from owning & maintaining race horses	2000

Q15 (pg 131) M.C.P RY 23-24 AY 24-25

computation of Total income

Income from salary		18000	
			18000
Income from business		80,000	
less: unabsorbed depreciation (8000 + 9000)		(17000)	63000
Income of speculative business		12000	
less: loss from speculative business		(12000)	Nil
LTCG on sale of land		15800	
less: short term capital loss		(7800)	8000
Income from house property			
Net annual value	70000		
less: std deduction u/s 21	(21000)	49000	49000
Net total income			138000

losses to c/f to AY 26-27

loss from speculative business	4000
loss on maintenance of race horse	9000
loss on ~~sale~~ gambling	8000

classmate
Date
Page

~~Q13 (pg 128)~~ ~~Q9 (pg 126)~~

Q6 (page 123) Mr F PY24-25 AY25-26

computation of gross total income

Income from house property		125000
Income from P.G.B.P	135000	
less: current year depreciation	(26000)	
less: bought forward business loss	(45000)	
Income from tea growing & manufacturing (120,000 x 40%)	48000 →	112000
Short term capital gain		56000
Income from other sources		80000
Gross total income		373000

Losses to be carry forwarded

Long term capital loss	90,000

Income from salary

Sec 15 : Charging section.

Income is taxable under the head "salary" if there is an employee - employer relationship (master-servant relationship)

contract of service - salary

contract for service - PGBP.

Salary received by MP, MLA, MLC - taxable under IFOS.

Salary received by partner from partnership firm - taxable under PGBP.

Note :

1) salary is taxable on basis of due or received whichever is earlier.
2) salary taxable even in case of part time job like employee working with 2 employer
3) salary foregone - taxable since it is application of income
4) salary surrendered to CG - not taxable
5) any amount received before joining job or after leaving job - taxable undre the head salary. & it is known as profit in lieu of salary
6) In this topic we have to find out salary income of employee

classmate

Date
Page

Statement of salary

Particulars	PY23-24 AY25-26 ₹
Basic salary (Note 1)	xx
Dearness allowance (Note 2)	xx
commission (Note 3)	xx
Bonus (Note 4)	xx
Advance salary / Arrears salary (Note 5)	xx
Gratuity (Note-6)	xx
Pension (Note-7)	xx
Leave salary (Note-8)	xx
Allowances (Note 9)	xx
Provident fund (Note-10)	xx
Voluntary retirement compensation (Note 11)	xx
Super annuation fund (Note-12)	xx
Retrenchment compensation (Note-13)	xx
perquisite (Note-14)	xx
Gross salary	xx
less: deduction u/s 16	xx
1. professional tax (Note-15)	xx
2. Entertainment allowance (Note-16)	xx
3. Standard deduction (Note-17)	xx
Net salary	xx

classmate
Date
Page

Note 1: Basic Salary

It is a base salary of employee. It is fully taxable. If net basic salary is given, convert it into gross basic salary.

Note 2: Dearness allowance (DA)

DA is fully taxable whether it is "in terms" or not in terms.
DA in terms means DA forming part of retirement benefit calculation.
In all the retirement benefit calculation formulas, DA is considered only if it is in terms.
If nothing is given about DA in question, assume it is not in terms.

Note 3: Commission

It is fully taxable whether commission is based on turnover or not.

Note 4: Bonus

It is fully taxable on receipt basis. If only bonus declared is given, it should be ignored. If in the question, nothing is provided about bonus, assume it to be received and it is taxable

Note 5: Advance / Arrear Salary

Advance salary: It means salary received in advance. It is taxable on receipt basis. If advance against salary or any advance is given, then it should be ignored as it is treated as loan
Arrear salary: It means salary under dispute or increase of salary retrospectively. It is taxable in year of receipt.

Note 6: Gratuity.

- received during employment
  - ↳ taxable for all employee
- received during retirement
  - government employee
    - ↳ fully exempt u/s 10(10)
  - Other employee
    - ↳ exempt u/s 10(10)

payment of gratuity during retirement to other employee

POGA employee
(covered by payment of gratuity Act, 1972)
↓
exempt

1) 15/26 x salary p.m x No. of years of completion of service
2) Actual amount received
3) max 20,00,000

Salary p.m is calculated as:

latest basic salary	xxx
DA (both)	xxx
	xxx

Non-POGA employee
↓
exempt

1) 1/2 x avg salary pm x no. of years of completion of service
2) actual amt recd
3) maximum 20,00,000.

avg. salary is calculated as:

Avg basic salary of last 10 months	xxx
Avg DA of last 10 month (in terms)	xxx
avg T/O commission of last 10 months	xxx
	xxx

Note:

1) In case of POGA employee, if fraction of month > 6 months, round it off to subsequent year
   eg 26 year & 7 months = 27 years
   26 year & 6 months = 26 years.
2) In case of Non-POGA employee, fraction should be ignored
   eg. 26 year & 11 months = 26 years.
   26 year & 4 months = 26 years.

classmate
Date
Page

Q4 (pg 21)

part A: He is a private employee covered by POGA, 1972

computation of taxable gratuity

		PY24-25 AY25-26
Actual gratuity received		15,00,000
exempt u/s 10(10)		
(1) 15/26 x salary p.m x No. of yrs of completion of service [15/26 x 60,000 x 27 yrs]	934615	
(2) actual amount received	15,00,000	
(3) maximum limit	20,00,000	934615
∴ taxable amount		934615

Salary p.m:-

Basic salary	50000
DA (both)	10,000
	60,000

part B: He is a private employee not covered by POGA, 1972

computation of taxable gratuity

		PY24-25 AY25-26
Actual gratuity received		1500,000
(-) exempt u/s 10(10)		
(1) 1/2 x salary (avg) x no. of yrs of completion of service [1/2 x 66,000 x 26]	858000	
(2) actual amount received	1500,000	
(3) maximum limit	20,00,000	858000
∴ taxable amount.		642000

avg salary p.m :-

avg basic salary of last 10 months	50,000
avg DA (T) of last 10 months	6000
avg T/O commission of last 10 month	10000
	66000

part c: he is government employee

actual gratuity received	15,00,000
less: exempt u/s 10(10)	1500000
	Nil

Note

1) If gratuity received from more than one employer in the same PY then maximum exemption to be claimed is ₹ 20,00000.

2) If gratuity already received by employee from earlier employer in earlier PY & in current PY he received gratuity from other employer, then limit of ₹ 20,00,000 is ~~exemption~~ reduced by exemption claimed earlier.

Note 7: pension

- uncommuted pension (monthly pension)
  - taxable for all employee
- commuted pension (lumpsum pension)
  - government employee
    - fully exempt u/s 10(10A)
  - other employee
    - gratuity also received
      - exemption: total pension × $\frac{1}{3}$ u/s 10(10A)
    - gratuity not received
      - exemption: $\frac{\text{total pension}}{2}$ u/s 10(10A)

classmate
Date
Page

Q3 (pg 21) Mr Sagar PY23-24 AY24-25

Part A: He is a government employee : pension is fully ~~to~~ exempt u/s 10(10A).

uncommuted pension :

1/10/24 to 31/1/25 - 5000 p.m x 4 months		20,000
1/2/25 to 31/3/25 - 2000 p.m x 2 months		4000
uncommuted pension		24000
computed pension	3,00,000	
(-) exempt u/s 10(10A)	3,00,000	Nil
Taxable		24000

Part B: private employee & gratuity received

uncommuted pension (as per part A)		24000
commuted pension	300000	
less : exempt u/s 10(10A) $\left[\frac{500000}{3}\right]$	(166667)	133333
Taxable		157333

Part C: other employee and did not receive gratuity

uncommuted pension (as per part A)		24000
commuted pension	3,00,000	
less : exempt u/s 10(10A) $\left[\frac{5,00,000}{2}\right]$	(250000)	50,000
Taxable		74000

Notes: Leave Salary

It means encashment of unutilised leave

1. Leave salary during employment - fully taxable for all employees
2. Leave salary at the time of retirement.

exempt u/s 10(10AA)

- government employee → fully exempt
- other employee → exempt amount
  - (i) Leave credit × avg. salary p.m
  - (ii) 10 months × avg salary p.m
  - (iii) actual amount received
  - (iv) maximum ₹25,00,000

[average last 10 months upto date of retirement]

Average salary p.m

Avg basic salary of last 10 months	xxx
avg D.A (in terms) of last 10 months	xxx
avg turnover commission of last 10 months	xxx
	xxx

Leave credit = leave allowed - leave taken

↓

[Max 30 days for every completed year]

classmate
Date
Page

Q5 (pg 21) Mr Gupta PY24-25 AY25-26

part A: He is a govt employee

leave salary received		5,00,000
– exempt u/s 10(10AA)		5,00,000
		–

part B: Non govt employee

leave salary received		5,00,000
– exempt u/s 10(10 AA)		
(i) leave credit × avg salary p.m	26400	
(ii) 10 months × avg salary p.m	66000	
(iii) actual amount received	500000	
(iv) maximum limit	25,00,000	(26400)
Taxable leave salary		473600.

Leave credit = leave allowed – leave taken

= (20 yrs × 30 days) – 480 days

= 120 days

= 4 months.

avg salary p.m

avg basic salary of last 10 months	4800
avg DA (in terms) of last 10 months	1800
avg commission (T/O) of last 10 m	–
avg salary p.m	6600

Class example: Mr Babu retired from RIL on 31/02/2025 after redering service of 20 yrs. His avg salary of last 10 month is ₹17000 p.m. company paid leave salary of ₹8,00,000 for leave credit of 12 months. As per company policy, employee is allowed 1.5 month leave for every completed year. Compute taxable leave salary.

=> Mr Babu

		PY24-25 AY25-26
Actual amount received on leave salary		8,00,000
less: exempt u/s 10(10AA)		
(i) leave credit x avg salary p.m (2 month x 17000)	34000	
(ii) 10 months x avg salary p.m (10 month x 17000)	170000	
(iii) actual amount received	8,00,000	
(iv) maximum limit	2500000	(34000)
∴ Taxable salary		766000

Leave credit = leave allowed - leave taken
= maximum 1 month - 18 months
= 20 - 18 = 2 months

Note: as per company policy, leave allowed is 1.5 month for completed year. Maximum allowed leave is 30 days for completed year
∴ We can compute leave taken as per company policy as below:
leave credit (as per policy) = leave allowed (as per policy) - leave taken
∴ (12 months x 30 days) = (1.5 months x 30 days x 20 yrs) - leave taken
∴ leave taken = 900 - 360 days
= 540 days
= 18 months.

Note 9: Allowances [C3UTA TC UDHAR HAI]

	Allowances	Exempt u/s 10(14)
1.	commutation / transport allowance [office → ghar, ghar → office] C	max ₹3200 p.m (in case of blind/ deaf & dumb or handicapped)
2.	children education allowances C	Max ₹100 p.m per child (max 2 child)
3.	children hostel allowance C	Max ₹300 p.m per child (max 2 child)
4.	underground allowance (mines) U	Max ₹800 p.m
5.	tribal area allowance T	Max ₹200 p.m
6.	allowance to employee of transport undertaking A	amount received x 70% OR 10000 p.m
7.	travelling or tour allowance T	exempt amount = amount spent.
8.	conveyance allowance C	
9.	uniform allowance U	
10.	Daily allowance D	
11.	Helper allowance (office purpose) H	
12	Research / academy allowances R	

13. House rent allowance (HRA) H

exempt u/s 10(13A)

(i) 40% or 50%* of salary [BS + DA(T) + T/O commission]

(ii) actual amount received

(iii) rent paid − 10% of salary [BS + DA(T) + T/O commission]

* 50% if metro cities (mumbai / delhi / chennai / kolkata).

40% for other cities.

14. All other allowances = fully taxable

Question 1 (pg 20)

Mr Rajkumar — PY23-24 AY24-25

Computation of taxable HRA

HRA received (15000 p.m x 12 months)		180000
less: exempt u/s 10(13A)		
(i) 40% of salary [40% x (480000 + 172000 - 552000)]	220800	
(ii) actual amount received	180000	
(iii) rent paid - 10% of salary (192000 - 55200)	136800	(136800)
Taxable HRA		43200

Class example :

From following particulars, compute gross salary of vaishnovi

Basic salary	20000 p.m
DA (40% of basic salary) - 60% in terms	~~8000~~ 96000
turnover commission	700 p.m
children hostel allowance [for 3 children]	600 p.m
children education allowance [for 3 children]	400 p.m
tiffin allowance [actual amt spent = 9600 p.a]	1200 p.m
helper allowance [actual amt spent = Nil]	1000 p.m
HRA [actual rent paid in Amravati = 12000 p.m]	15000 p.m
commutation allowances [amt spent = 1000 p.m]	1700 p.m
Daily allowance [actual amount spent = 6000 pa]	600 p.m

Assume assessee not opted 115BAC.

⇒ ~~Gross~~

Gross salary of vaishavi.

Basic salary (20,000 x 12)		240000
Dearness allowance		~~8000~~ 96000
turnover commission (700x12)		8400
children hostel allowance (600 x 12)	7200	
less: exempt ~~u/s~~ (200 p.m x 12)	(2400)	4800
children education allowance (400 x 12x)	4800	
less: exempt (100 p.m per child)	(2400)	2400
tiffin allowance (1200 x 12)		14400
helper allowance (1000 x 12)	12000	
less: exempt: amt actually spent	(Nil)	12000
HRA (15000 x 12)	180000	
less: exempt u/s 10(13A)		
(i) 40% of salary		
[40% x (240,000 + 57600 + 8400)]	122400	
(ii) actual amount received	180000	
(iii) rent paid - 10% of salary		
(12000 x 12) - 30600	113400	113400 113400 66600
commutation allowance (1700 x 12)		20400
less: exempt - amt actually spent		(12000) 8400
Daily allowances (600 x 12)		7200
less: exempt - amt actually spent		(6000) 1200
~~Net~~ Gross salary		454200

Note 10: provident fund

a) Statutory provident fund (SPF)

Employee contribution (ignore) deduction u/s 80c allowed → SPF

Interest (exempt) → SPF

Employer's contribution (exempt) → SPF

SPF → lumpsum amount received by employee on retirement → exempt u/s 10(11)

b) Recognised provident fund (RPF)

Employee contribution (ignore) deduction u/s 80c allowed → RPF

Interest (exempt upto 9.5% p.a) → RPF

employer contribution (exempt upto 12% of salary) [Basic + DA(T) + T/O comm] → RPF

RPF → lumpsum amt received by employee on retirement → exempt u/s 10(12)

Notes: Lumpsum amount received from RPF is exempt u/s 10(12) if employee has rendered service of 5 years or more, if employee rendered service less than 5 years then exemption allowed in respect of employers contribution and interest shall be withdrawn.

However in following cases, exemption shall not be withdrawn even though service is less than 5 years

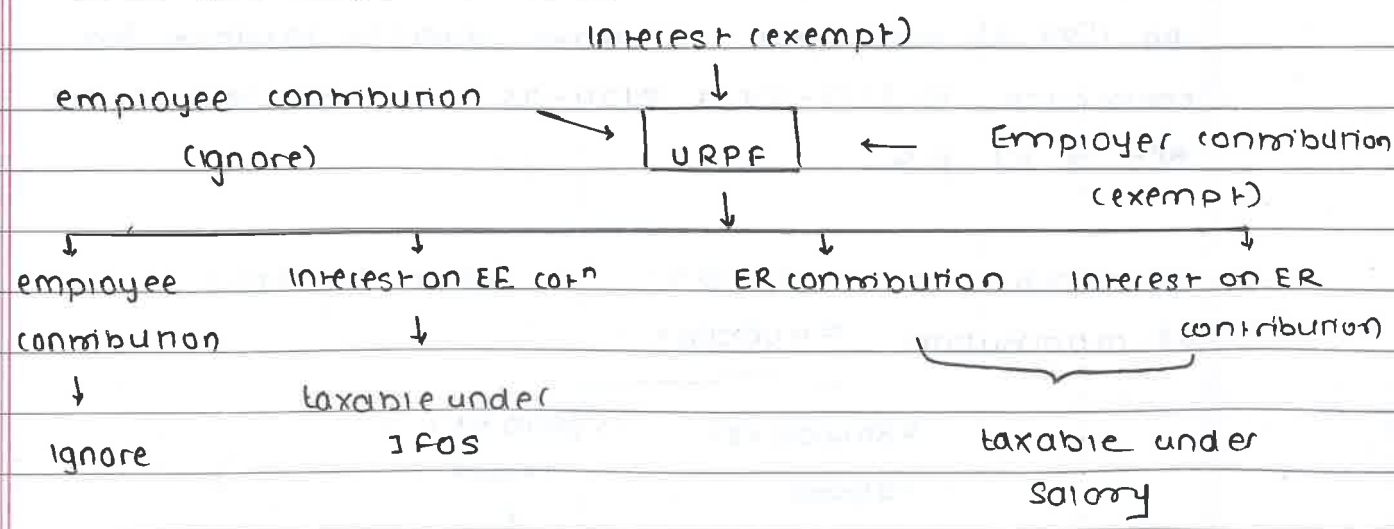
1. employee retired due to ill health
2. employee retired due to shut down of employer's business
3. employee has retired with the instruction that his balance in RPF should be transferred to new employer or to NPS A/c referred u/s 80CCD.

→ Ammendment by FA-21 : Interest on EE's contribution towards SPF/RPF exemption u/s 10(11) or 10(12) not available for interest accrued during the PY to the extent it relates to the contribution made by that person / employee exceeding ₹ 250,000 in any PY in that fund, on or after 01/04/21

→ If in that fund employer not made any contribution, then, a higher limit of ₹ 5,00,000 would be applicable

→ It may be noted that interest accrued on contribution to such funds upto 31/03/21 would be exempt without any limit, even if the actual of income is after that date.

c) unrecognized provident fund



Question 7 (pg 22)

Mr B	PY24-25	AY25-26
Basic salary (10,000 x 12)		120000
Dearness allowance (8000 x 12)		96000
commission on turnover (50,00,000 x 0.1%)		5000
Bonus		40,000
Gratuity (assumed to be during employment)		25000 ~~20,000~~
Employee contribution to RPF	20,000	
less: exempt u/s 80C	(20,000)	Nil
Employers contribution to RPF (120000 x 20%)	24000	
less: exempt u/s 80C [12% x (120000 + 48000 + 5000)]	(20760)	3240
Interest on RPF @ 13% p.a	13000	
less: exempt upto 9.5%	(9500)	3500
Gross salary		292740

Class example:

Mr. M joined job at RJL on 1/04/2023 on salary of 24,00,000 p.a. employee & employer, both contributed 10% of salary to RPF on 1/04 of every year. calculate interest taxable for employee in PY23-24 & PY24-25. Assume interest on RPF is 8% p.a

ER contribution = 4,00,000 x 8% = 32000 (exempt)

EE contribution = 4,00,000 x

2500000 x 8% = 20000 → exempt

150000 x 8% = 12000 → taxable

PY 24-25

tax free RPF		taxable RPF	
ER cont. & int = 432000		EE cont & int	= 162000
EE cont & int = 270000			
~~cy contribution~~			
~~ER contribution~~			
op. balance	~~720000~~ 702000		162000

tax free A/c 702000 × 8% = 56160 = exempt

taxable A/c 162000 × 8% = 12960 = taxable

cy contribution

ER cont = 4,00,000 × 8% = 20000 exempt

EE contribution = 4,00,000 < 250000 × 8% = exempt
150000 × 8% = taxable

Note 12 - ~~ap~~ Super annuation fund

a) approved super annuation fund

interest (exempt)

employee contribution (ignore) → ASF ← employer contribution exempt upto 750000 p.a [as per sec 17(2)(vii)]

lumpsum amount received on retirement - exempt u/s 10(13)

b) unapproved super annuation fund - treatment same as URPF

Note 14 - perquisite

It means extra benefits offered by employer to employee. It may be monetary or non-monetary

difference between allowance & perquisite

(a) allowance :- It means monthly fixed amount received by employee from employer whether actual expenditure is incurred or not. It is a part of salary, eg HRA, medical allowance, etc

b) perquisite :- It means benefits or facility provided by employer. It is received when actual expenditure is incurred, eg. medical facility, car facility, etc

1. Leave travel concession (LTC) - Exempt u/s 10(5)

travelling by Air (exempt)
- (i) actual expense xx
- (ii) economy class fair xx

travel by any other mode

Railway facility available (exempt)
- (i) actual expense xx
- (ii) 1st class railway A/c fare xx

Railway not available

recognised transport facility available
- exempt: (i) actual exp xx
- (ii) ordinary class bus fare xx

Not available
- exempt: (i) actual exp xx
- (2) 1st class railway

Notes:

1. LTC exemption is available for the travel of employee, his spouse, children* and dependent relative - (mother, father, brother, sister)

* exemption of LTC is available only for 2 children born on or after 1/10/1998

1) 1st time = 1 child 2nd time = twin

Total 3 children = exemption allowed to all 3 children

2) 1st time = twins 2nd time = 1 child

Total 3 children = exemption allowed to only 2 children.

2. LTC exemption is available for 2 years during the block of 4 years (current block is 2023-26)

2. Medical facility

a) Treatment in India

- treatment in govt. hospital
- treatment in Employee's own hospital
- Treatment in govt recognised hospital
  - ↓ fully exempt
- otherwise
  - ↓ fully taxable

b) Treatment outside India

- benefit of treatment
- benefit of stay

  exempt upto limit prescribed by RBI
- benefit of travel
  - ↓ fully exempt if GTI is upto 2,00,000.
  - otherwise - fully taxable

similar distance

Notes :

(i) medical insurance premium is fully exempt

(ii) exemption for treatment is allowed for employee, spouse, children and dependent relative (mother, father, brother, sister)

(iii) exemption of stay & travel is allowed only for one patient and one attendant

(iv) exemption allowed in respect of any illness relating to COVID-19, subject to such conditions as the CG may notify

The employee shall submit the following documents to the employer-

(i) The COVID-19 positive report of the employee or family member

(ii) all necessary documents of medical treatment of the employee or his family members for COVID-19 or illness related to COVID-19 suffered within 6 months from the date of being determined as COVID-19 positive, and

(iii) a certification in respect of all expenditure incurred on treatment.

3. Gift to employee

(a) gift in cash = taxable

(b) gift in kind = if FMV of gift is less than 5000 p.a – fully exempt, otherwise – fully taxable

4. ESOP: employee stock option plan

It means company offers shares to employee at concessional rates

taxable amount = *FMV of shares – issue price of shares

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

5. loan given to employee without interest or at concessional rates

taxable amount = loan amount × (SBI interest rate - actual int rate)

Notes:-

(i) loan amount is upto 20,000 then interest benefit is not taxable

(ii) If loan is taken for treatment of specified disease then interest benefit is not taxable even if loan amount is more than 20,000.

6. Use of movable assets

a) computer / laptop - fully exempt

b) other asset (TV, AC, etc)

owned by employer → taxable amount = 10% of cost

hired by employer → taxable amt = hire charges paid by employer.

7. transfer of movable assets

computer / laptop → taxable amount = WDV - consideration → depreciation @ 50% on WDV method

car → taxable amount = WDV - consideration → depreciation @ 20% on WDV method

any other asset → taxable amount = WDV - consideration → depreciation @ 10% on SLM method

Note: depreciation should be computed for every completed year

eg. SS ltd acquired a car for ₹6,00,000 on 10/12/2020. car is transferred to employee, Mr. Ved on 07/07/2024 for ₹30,000. calculate value of perquisite in hands of Mr. Ved.

Taxable perquisite = WDV - ~~depreciation~~ consideration

= 307200 - 30000

= 277200

cost of car	600,000
less : 1st yr dep	(120000)
	480000
less : 2nd yr dep	(96000)
	384000
less : 3rd yr dep	(76800)
WDV	307200

8. Lunch facility : It is exempt upto ₹ 50 per meal, if lunch is provided in office peremises or through paid voucher.
Note : (i) tea, coffee, or breakfast provided in office – Not taxable
(ii) lunch is provided in remote area – Not taxable

9. Question 14 (pg 25) Mr X PY23-24 AY 25-26

computation of gross total income		
Income from salary		
Basic salary (20000 x 10 months)		200,000
DA (50% of basic salary)		100000
Gratuity	6,00,000	
less : exempt u/s 10(10) (Note 1)	(519231)	80769
~~Leave salary~~ Pension (uncommuted) (5000 x 2 m)		10,000
commuted pension received	3,00,000	
less : exempt u/s 10(10A) (Note 2)	(150000)	150000.
Leave salary received	3,30,000	
less : exempt u/s 10(10AA) (Note 3)	(220000)	130,000
car transfer to employee (Note 4)		56000
Gift voucher		6000
Gross salary		732769
less : standard deduction u/s 16		(50000)
Net salary / GTI		682769

classmate
Date
Page

Note 1: gratuity exempt u/s 10(10) [POCA EE]

exemption:-

(i) 15/26 x salary p.m x no. of yrs of completion	519231	
(ii) actual amount received	6,00,000	
(iii) maximum limit	20,00,000	519231

Note 2: commuted pension

exemption = pension x $\frac{1}{3}$ = $\frac{450000}{3}$ = 150000.

Note 3: leave salary

(i) leave credit x avg. salary p.m		
11 month x 20000	220000	
(ii) 10 months x avg salary p.m		
10 month x 20000	200000	
(iii) actual amt received	330000	
(iv) max limit	2500000	200,000

avg salary p.m = avg of basic salary of last 10 months = 20,000

Note 4: car transfer to employee

taxable perquisite = WDV of car − consideration

= 256000 − 200000

= 56000

cost of car	500000
less: dep@ 20%	
1st yr	(100,000)
2nd yr	(80000)
3rd yr	(64000)
	256000

Note 5: Gift of TV not taxable under the head salary as it is not received from employer. It is not taxable under IFOS either as it is not covered in definition of property

Note 6: In present question, nothing is given about DA, so assume it is not in terms.

9. House facility (rent free accomodation)

- government employee
  - taxable as per license fees decided by government [given in question]
- other employee
  - owned by ER
    - taxable amt = * 5% / 7.5% / 10% of salary (BDBACM)
  - hired by employer
    - taxable amt = (i) 15% of salary (ii) hire charges paid by ER

furniture also provided

- owned by employer
  - 10% of cost
- hired by employer
  - hire charges

Notes:

1) * population upto 15 lakhs = 5%
population 15L – 40L = 7.5%
population > 40L = 10%

2) meaning of salary - BDBACM

B - basic salary

D - dearness allowance (T)

B - bonus

A - allowances (taxable)

C - commission

M - monetary income (excluding perquisites)

3) for computing BDBACM, perks should not be considered

4) BDBACM should be calculated on due basis, means salary of current period should be considered.

Advance salary, arrears salary - ignored

5) for computing BDBACM, retirement benefit should not be considered, ie gratuity, pension, leave, salary, VRS, retrenchment provision.

6) BDBACM should be considered for the time for which assessee had occupied such house

7) employer contribution towards PF & interest on PF should also not be considered.

8) If employee is provided (on his transfer from one place to another) ~~then~~ house, at the new place of posting while retaining the house at other place, the taxable amount shall be determined for one house having lower perquisite value for a period upto 90 days and thereafter, the value of perquisite should be charged for bothe the houses.

10. Hotel benefit

Taxable amount = (i) 24 % of salary (BDBAcm)
(ii) hire (rent) paid by employer.

Notes :

1. If hotel facility is provided at the time of transfer of employee & if it is upto 15 days then it is not taxable
2. In house facility & hotel facility if employer recover any rent from employee then such rent should be deducted from above taxable amount

Question 12 (pg 24)

Mr C PY24-25 AY25-26

a) computation of taxable value of perquisite

taxable amount = 10% of salary [73000×10%] 7300

Basic salary = 62500 (12500×5m)

Dearness allowance = 3000 (600×5m)

Bonus = 7500 (1500×5m)

∴ Total salary = 73000

b) Mr. C required to pay 1000 p.m rent

∴ value of perquisite 7300

less: rent by EE (1000×5m) (5000)

Taxable perquisite 2300

c) Hire charges paid by ABC ltd (1200×5m) 6000

salary ×10% 7300

6000

less: rent by employee (5000)

Taxable perquisite 1000

d) computation of value of furnished accomodation

value of house	7300	
add: benefits of TV		
(2) [cost × 10% × 3/12]	625	
benefit of AC		
[400 × 2 AC × 5m]	4000	
	11925	
less: rent paid by employee (1000 × 5m)	(5000)	
Taxable amount of perquisite		6925

e) If employee is a government employee,

license fees decided by government (700 × 5m) 3500.

Note: If house is provided for more than 1 PY, then value of perquisite shall not be more than

value calculated for 1st PY × $\frac{\text{index of current PY}}{\text{index of first PY}}$

11. car facility

a) car is used for fully office purpose - fully exempt

If employer maintains records of each journey & employer issue a certificate that car is used exclusively for office purpose

b) car is used for fully personal purpose

car is owned by employer

10% of cost	xx
drivers salary (ER)	xx
Running & maintainance (by ER)	xx
	xx

car is hired by employer

hire charges by ER	xxx
driver salary (if paid by employer)	xxx
Running & maintainance charge (paid by ER)	xxx
	xxx

c) car is used for partly office and partly personal purpose (POPP)

POPP

- car owned by employee
  - running & maintainance charges by
    - employee → No benefit ∴ No taxable
    - employer → taxable amount = running & maintainance charges paid by ER XX (-) 1800 pm / 2400 pm (XX)
      - upto 1600 cc → XX
      - > 1600 cc → XX
- car owned by employer
  - running & maintainance charge by
    - employee → 600 pm / 900 pm
      - upto 1600 cc
      - > 1600 cc
    - employer → taxable amt = 1800 pm / 2400 pm
      - upto 1600 cc
      - > 1600 cc

Note :

1) If employer also provided driver, then ₹900 pm should be added to above taxable amount

2) If more than one car is provided for POPP then one car is taxable according to above standard amount & other car shall be taxable on the assumption that it is fully used for personal purpose.

12. Transport facility for transport employee (free tickets)
(i) for airlines and railway employee - airlines & railway facility is fully exempt
(ii) for other employee - fully taxable.

13. Gas, electricity & water supply - taxable

14. Free servent - fully taxable

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

16. any other perquisite - fully taxable.

Note: Perquisite no 11 to 15 are taxable only if employee is specified employee.
If employee is non specified employee, it is fully exempt.
specified ~~salary~~ employee = employee having salary more than ₹50,000 p.a and director employee and employee having substannial interest in business of employer.

following perquisite are fully exempt:

1. telephone or mobile bill paid or re-imbursed by employer
2. scholarship to employee's children
3. goods sold to employee by employer at reasonable price
4. tax on non-monetary perquisite paid by employer
5. personal accidental policy premium paid by employer.

Note 17: Standard deduction u/s 16 (ia)

115BAC
- (i) salary
- (ii) 75000

Not opted 115BAC
- (i) salary
- (ii) 50,000

Note 15: professional tax

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

PT paid by

employer
- add to statement (taxable)
- then deduction u/s 16

Employee
- deduction u/s 16

classmate
Date
Page

Question 23 (pg 33)

Mr Balaji

	PY24-25	AY25-26
computation of salary income taxable		
Basic salary [(50,000 x 7) + (60,000 x 5)]		650,000
Dearness allowance @ 40% of basic salary		260,000
Bonus allowed [50,000 + (50,000 x 40%)]		70000
contribution of employer to recognized PF	104000	
less: 12% exempt	(78000)	26000
Professional tax paid by employer		2000
Motor car facility (2400 x 5 months)		12000
Gross salary		1020000
less: deduction u/s 16		
(i) standard deduction	50000	
(ii) professional tax	2500	(52500)
Taxable salary		967500

Note:

1) We have assumed that DA is not forming part of retirement benefit
2) facility of computer and laptops is fully exempt in hands of employee
3) motor car is owned by employer & running & maintenance charge also paid by ER ∴ taxable amount = 2400 p.m since car is more than 1600 cc (1.6 litre)
4) professional tax paid by employer is ₹2000, first taxable under salary & after deduction allowed under section 16
5) as per sec 10(5), facility of leave travel concession within India is fully exempt, provided, employee travelled in economy class & restriction of 2 children is not applicable, if multiple birth after birth of one child.

Pay scale

Mr Anurag joined Indian Railway on 1/8/2019 on pay scale of 20000 - 1000 - 23000 - 2000 - 29000 - 2500 - 34000.
Compute salary for PY24-25

1/8/19 → 31/07/20 : 20000 p.m
31/7/22 → 31/7/23 : 23000 pm
1/8/20 → 31/7/21 : 21000 p.m
1/08/23 → 31/8/24 : 25000 pm
1/8/21 → 31/7/22 : 22000 pm
1/08/24 → 31/8/25 : 27000 pm

∴ salary from 1/4/2024 to 31/8/24 = 25000 × 4m
= 1,00,000

salary from 01/08/24 to 31/03/25 = 27000 × 8 m
= 216000

∴ total salary for PY 24-25 = 3,16,000.

Question 24 (pg 34) Mr X PY24-25 AY25-26

computation of taxable salary

Basic salary [(20000 × 9m) + (21000 × 3 m)]		243000
dearness allowance (10 % of Basic salary)		24300
Bonus (salary of March)		21000
Employer contribution to RPF (15 % of 267300)	40095	
less: exempt upto 12 % of 267300	(32076)	8019
Facility of laptop		Exempt
Medical treatment of brother		25000
Housekeeper facility (1000 × 12m)		12000
Gift voucher		10000
conveyance allowance (1000 × 12)	12000	
less: exempt actual expense)	(12000)	-

Telephone allowances (500 x 12m)	6000
premium for personal accidential premium	exempt
gross salary	349319
less: deduction u/s 16	(50000)
Taxable salary.	299319

Note 11: voluntary retirement scheme [10(10C)]

(i) salary p.m x 3 months x No. of years of service

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

(iii) actual amount received

(iv) maximum 5,00,000

Note 13: retrenchment compensation

exempt u/s 10(10B)

(i)* compensation as per industrial disputes Act

(ii) maximum ₹ 5,00,000

* $\frac{15}{26}$ x avg salary of last 3 months x No. of yrs of completion of service

Question 8 (22) Mr Dutta PY24-25 AY25-26

Voluntary retirement compensation received		7,00,000
less: exempt u/s 10(10C)		
(i) salary p.m x 3 months x No. of yrs of completion of service [25000 x 3 x 30]	= 2250,000	
(ii) salary pm x no. of remaining months of service [25000 x 72 months]	= 18,00,000	
(iii) actual amt received	= 7,00,000	
(iv) maximum	= 5,00,000	(5,00,000)
Taxable amt		200,000

classmate
Date
Page

Note 16: entertainment allowance

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

(i) 20% of basic salary
(ii) Actual amount received
(iii) Maximum ₹ 5000

eg. Mr. C received retrenchment compensation of ₹10,00,000 after 30 years 4 months of service. At the time of retrenchment he was drawing basic salary of ₹ 20000 pm. and dearness allowance ₹ 5000 p.m. compute taxable retrenchment compensation

Mr C org PY24-25 AY25-26

computation of taxable retrenchment provision

compensation received		10,00,000
less: exemption u/s [10(10B)]		
(i) compensation as per Industrial dispute Act		
$\frac{15}{26} \times 25000 \times 30$ yrs	346154	
(ii) maximum limit	5,00,000	(346154)
Taxable compensation		653846

Question 19 (pg 29)

Mr Hari — PY24-25 AY25-26

computation of total income & tax liability

Income from salary (computed)	1020000
arrear salary received in current PY	1345000
	1365000

Tax liability

upto 300000	–	–
> 300000 upto 500000	5%	10000
> 500000 upto 1000000	20%	100000
> 1000000 upto 1365000	30%	109500
		219500
add: HEC @ 4%		8780
		~~228280~~
		~~210720~~ 228280

rebate u/s 89 (Note 1):

~~Sp~~ step 1 – step 2		
~~120640~~ 107640 – 92185		(15455)
		212825

Note 1: [step 1 – step 2]

step 1: tax on CY income including arrear salary	228280
less: tax on CY income excluding arrear salary	(120640)
	107640

step 1:

upto 300000	–	–
> 300000 – 500000	5%	10000
> 500000 – 1000000	20%	100000
> 1000000 – 1020000	30%	6000
		116000
add: HEC @ 4%		4640
		120640

Step 2: computation of total income and tax liability of years of arrear salary

		PY11-12 (58 yrs)	PY12-13 (59 yrs)	PY13-14 (60 yrs)
	Total income including arrear salary	813000	942000	1075000
A]	Tax on total income incl. arrear salary	100837 (Note 1)	138638 (Note 3)	151925 (Note 5)
	Total income excluding arrear salary	710000	825000	950000
B)	Tax on total income excl. arrear salary	78280 (Note 2)	102485 (Note 4)	118450 (Note 6)
	Step 2 (A - B)	22557	36153	33475

Note 1: Tax on 813000

upto 160000	-	-
>160000 - 500000	10%	34000
>500000 - 800000	20%	60000
> 800000 - 813000	30%	3900
		97900
add: HEC @ 3%		2937
		100837

Note 2: tax on 710000

upto 160000	-	-
>160000 - 500000	10%	34000
> 500000 - 800000	20%	42000
		76000
add: HEC @ 3%		~~30+2281~~
		78280

Note 3: tax on 942000

>180000	-	-
>180000 - 500000	10%	32000
>500000 - 800000	20%	60000
>800000 - 942000	30%	42600
		134600
add: HEC @ 3%		4038
		138638

Note 4: tax on 825000

upto 180000	-	-
>180000 - 500000	10%	32000
>500000 - 800000	20%	60000
>800000 - 825000	30%	7500
		99500
add: HEC @ 3%		2985
		102485

Note 5: tax on 1075000		
upto 250,000	-	-
>250000 - 5,00,000	10%	25000
>5,00,000 - 10,00,000	20%	1,00,000
>10,00,000 - 1075000	30%	22500
		147500
add: HEC @ 3%		4425
		151925

Note 6: tax on 950,000		
upto 250000	-	-
250,000 - 5,00,000	10%	25000
5,00,000 - 950,000	20%	90000
		115000
add: HEC @ 3%		3450
		118450

Benefit not available when assessee opted 115BAC

1. HRA exemption u/s [10(13A)]
2. exemption of LTC (leave travel concession) - 10(5)
3. exemption of allowance u/s 10(14) [CUTA TC UDHR HA]

4. except: DTDC
   - D - commutation for divyang employee
   - T - traveling on tour allowance
   - D - daily allowance
   - C - conveyance allowance
4. deduction for professional tax & entertainment allowance u/s 16
5. exemption for free meal upto 350.

Sec 17(2)(vii) - Perquisite taxable

Employer contribution towards RPF, ASF, NPS

Employer contribution towards recognized provident fund (RPF), New pension scheme (NPS), referred u/s 80CCD, approved super annuation fund (ASF) in excess of 7,50,000 is treated as perquisite in hands of EE and is taxable

Sec 17(2)(viia) : Annual accretion by way of interest / dividend / similar amount on contribution of more than 750,000 by ER also treated as perquisite in hands of EE and is taxable

calculation of annual accretion of interest, divided, etc in PY

$$TP = \left(\frac{PC}{2}\right) \times R + (PC_1 + TP_1) \times R$$

TP = taxable perquisite u/s 17(2)(viia) for current PY

PC = amount or aggregate of amounts of ER's contribution in excess of 750,000 to RPF, NSF, ASF during PY

PC_1 = employer contribution in excess of ₹ 750000 to RPF, NSF, ASF, for PY or years commencing on or after 1/4/20 other than current PY

TP_1 = aggregate of taxable perquisite u/s 17(2)(viia) for PY or years commencing on or after 01/04/20 other than current PY

R = I / Favg.

I = Income from RPF / NPS / ASF. in CY

Favg = aggregate balance of RPF / NPS / ASF on 31/3/24 + avg bal. of RPF / NPS / ASF on 31/3/25 / 2

Question 9 (pg 23)

Mr X — PY 23-24 AY 25-26

for PY 22-23 (AY 23-24)

Basic salary (6,00,000 × 7 months)	4200000
DA (8% of salary)	336000
	4536000
ER contribution to RPF (10% of 4536000)	453600
∴ less: exempt	(453600) —

since ER contribution < 750,000 p.a, nothing is taxable u/s 17(2)(vii) and 17(2)(viia) in PY 22-23

for PY 23-24 (AY 24-25)

Basic salary (6,00,000 × 12)	7200000
DA (8% of salary)	576000
	7776000
ER contribution to RPF (7776000 × 10%)	777600
less: exempt	(750000)
Taxable u/s 17(2)(vii)	27600.

Taxable u/s 17(2)(viia) $= \frac{PC}{2} \times R + (PC_1 + TP_1) \times R$

$= \frac{27600}{2} \times \frac{206711}{1862092}$ * * $= \underline{\underline{1532}}$

* Interest from RPF for PY 23-24

closing bal	2743048
- op. bal	(981137)
	1761911
less: ER & EE contribution (777600 + 777600)	(1555200)
∴ Income (I) =	206711

$f_{avg} = \frac{\text{op bal} + \text{cl. bal}}{2}$

$= \frac{981137 + 2743048}{2}$

$= 1862092$

classmate
Date
Page

for PY 24-25 (AY 25-26)

Basic salary (6,00,000 x 12)		7200000
D.A (8% of 7200000)		576000
ER contribution to RPF (10% of basic salary + DA)	777600	
less: exempt	(750000)	
Taxable u/s (17(2)(vii)	27600	
Taxable u/s 17(2)(viia)		

$\frac{PC}{2} \times R + (PC_1 + TP_1) \times R$

$= \frac{27600}{2} \times 0.0947 + (27600 + 1532) \times 0.0947$ 4066 → 31665

R = * $\frac{\text{income from interest in PY 23-24}}{f_{avg}} = \frac{350307}{3695801} = 0.0947$

* I =

closing balance (PY 24-25)	4648555
less: op. balance	(2743048)
	1905507
less: ER contribution	(777600)
EE contribution	(777600)
∴ I	350307

$f_{avg} = \frac{\text{op bal} + \text{cl. bal}}{2} = \frac{4648555 + 2743048}{2} = 3695801$

classmate

Date
Page

Salary definition

entertainment allowance	Gratuity (POGA)	Gratuity (NON POGA)	House & Hotel facility
Basic salary	Basic + DA (both)	HRA	↓
		leave salary	BDBA cm
		ER conm to RPF	
		VRS →	
		Basic + DA (T) + T/O	
		commission	

Deduction u/s VI - A.

Deduction u/s 10AA: Special provisions for newly establish units SEZ

1. In computing total income of an undertaking which begins to manufacturing or produce article or thing or computer software in any SEZ

Deduction under this section is available only if the SEZ unit has received the necessary approval upto 31.03.2020 and begins manufacture or production of articles or things or providing service upto 31.03.2021

Amount of deduction

For first 5 AY's	100% of export profit
For Next 5 AY's	50% of export profit
For Next 5 AY's	Amt credited to SEZ reinvestment allowance reserve A/c OR 50% of export profit

2. Export profit = PGBP of unit located in SEZ × export turnover / total turnover *

* Export turnover means consideration in respect of export brought into India in convertible foreign currency within 6 months from end of PY or time permitted by RBI

Notes:

1. Sales proceeds deemed to have been received in India if such amount is credited to a seperate A/c maintained by assessee outside India with approval of RBI
2. Amount credited to SEZ reinvestment allowance reserve A/c should be utilised for acquiring new P&M and put to use within 3 years from the end of PY in which reserve was created.

If amount mis-utilised or un-utilised then deduction claimed earlier shall be taxable as PGBP.

Deemed Income

> If reserve has been utilised for non-specific purpose: of the year in which wrongly utilized

> If reserve has not been utilised till expiry of time limit: of the year immediately following the period of 3 years

3. Export T/O or total T/O does not include freight, telecommunication charges, insurance or expense for providing service outside india

> Further export T/O shall not include cash compensatory support, duty drawback and profit on sale of import entitlement license

> Total T/O shall not include CCS, DD and profit on sale of import entitlement license

4. deduction u/s 10AA available after claiming all deductions u/c VI-A from GTI

Q25 (pg 157)

Export profit = PGBP of SEZ × $\frac{\text{export TO}}{\text{total TO}}$ = 80,00,000 × $\frac{50,00,000}{100,00,000}$ = 1500000

Since PY24-25 is 5th year of operating business, so deduction u/s 10AA, allowed is 100% of export profit, ie 15,00,000.

Deduction u/c VI-A / Deduction from GTI

1) deduction u/c VI-A is restricted to GTI and deduction cannot be carry forward

Income from salary	50000
Income from HP	20000
Income from PGBP	–
Income from CG	–
IFOS	–
Gross total income	70000
(–) deduction u/c VI-A	
Life insurance premium	(70000)
120000	×

2) deduction u/c VI-A is not allowed against LTCG, LTCG 112A, STCG 111A and special rates of tax income, ie winnings or deemed income

eg.

PGBP	90000
LTCG	200000
STCG u/s 111A	150000
Winnings	50000
Gross total income	490000
(–) deduction u/c VI-A	(90000)
Net taxable income	4,00,000

3. deduction u/s VI-A not allowed if assessee opted 115BAC default taxation regime except 80CCD(2), 80CCH(2), 80JJAA.

Payment Related deductions

Sec 80C : Specified investments

> eligible assessee : individual & HUF

> Amount of deduction : Max 150000 ₹

> eligible investments:

1) Life insurance Policy (LIP)

for individual : self, spouse, children

for HUF : any member.

> policy taken before 1/4/2012

(i) premium paid xx

(ii) 20% of policy value xx

> Policy issued on or after 1/4/2012

(i) premium paid xx

(ii) 10% of policy value xx

> policy issued on or after 1/4/13 for person with disability (u/s 80U) or person suffering from specified disease (u/s 80DDB)

(i) premium paid xx

(ii) 15% of policy value xx

2) amount deposited in public provident fund (PPF)

(for individual : self, spouse, children,

for HUF : any member)

3) Employee's contribution to statutory provident fund, recognised provident fund or approved superannuation fund (SPF, RPF, ASF).
4) amount invested in NSC (national saving certificates) as well as interest accrued on NSC
5) Repayment of loan taken from banks or financial institution for purchase or construction of house and housing loan (Principal amount)
6) fixed deposit in a scheduled bank or post office for 5 years or more
7) Tuition fees paid for education of children [Max 2 children for full time education in India]
8) Deposit in Notified bonds of NABARD.
9) Deposit in senior citizen saving scheme
10) contribution towards unit linked insurance plan (ULIP)
11) Notified units of mutual funds or UTI (unit trust of India)
12) Notified pension scheme of UTI or MF
13) deposit in Sukanya Samridhi scheme A/c [for any girl child of individual or girl child for whom such individual is a legal guardian]
14) Stamp duty, registration fees for acquisition of house property
15) By employee of CG as a contribution to a specified amount of the pension scheme referred to in sec 80CCD for a fix period of 3 years or more (NPS Tier - II)
16) contribution to national housing bank (tax saving) term deposit scheme, 2008.
17) investment in equity linked saving scheme [ELSS]

sec 80CCC : contribution pension fund of LIC or other insurance company

1) Eligible assesse : individual
2) amount of deduction : Max 150000.

Q2 (pg 141)

Date of Issue	person insured	actual capital sum assured	insurance prem Paid in 24-25	working	deduction
30/3/2012	self	8,00,000 (20%)	48000	(i) 1860000 (ii) 48000	48000
01/05/2018	spouse	150000 (10%)	20000	(i) 15000 (ii) 20000	15000
01/06/2021	Handicapped son (80U)	4,00,000 (15%)	80000	(i) 60000 (ii) 80000	60000
					123000

Sec 80CCD: contribution to pension scheme of central government / National pension scheme (Atal pension Yojana)

- eligible assessee: Individual
- Amount of deduction: max ₹ 150000.

Sec 80CCD(1)

Salaried employee
(i) employees contribution xx
(ii) 10% of salary xx

other individual
(i) assessee contribution xx
(ii) 20% of GTI xx

sec 80CCD (1B): Additional deduction upto ₹ 50000 shall be allowed other than contributions covered u/s 80CCD(1)

Example: Assessee's contribution - ₹ 140000 towards NPS & GTI is ₹ 550000, in this case, assessee can claim ₹ 1,10,000 (20% of GTI) u/s 80CCD(1) and remaining ₹ 30000 u/s 80CCD(1B) or He can first claim u/s 80CCD (1B) of ₹ 50000 and remaining ₹ 90000 u/s 80CCD(1).

Sec 80CCD(2) : employer's contribution to NPS for the benefit of employee.

Employer's contribution is first taxable under the head salary in hands of employee and then he gets deduction u/s 80CCD(2)

(i) employer's contribution ××

(ii) 10% (14%)* of salary ××

* 14% where such contribution made by CG or SG or EE opted 115BAC

Notes

1. For the purpose of sec 80CCD (1) and (2), salary means = Basic salary + DA (in terms)
2. As per sec 10(12A) any payment received by assessee on closure of his account is exempt to the extent of 60% (40% is taxable) of total amount payable to him at the time of closure. In case of employee or non-employee, any amount received ~~b~~ from NPS by the nominee legal heir on death of an assessee is fully exempt
3. Subscribers from recognized provident funds and super annuation funds would be able to transfer thier corpus from these funds to NPS without any tax implication.
4. In case of partial ~~exemption~~ withdrawal from NPS by an employee, payment shall be exempt upto 25% of total contribution made by him (fully taxable for non-salaried employee [Sec 10(12B)].

Sec 80CCE : Aggregate deduction u/s 80C + 80CCC + 80CCD(1) is restricted to max ₹150000

Q3 (pg 142)

Part A: Employee opted out of sec 115BAC.

(1) employer contribution to NPS

(1200,000 X 15%) - taxable under head salary 180000

(2) deduction u/s 80CCD(1) and 80CCD(1B)

(i) 80CCD(1):

(a) Employee contribution 180000

(b) 10% of salary (1200,000 + 240000) 144000

144000

(ii) 80CCD(1): [180000 - 144000] 36000

Alternatively, 80CCD(1B) : 50000

80CCD(1) : 130000

∴ total deduction = 180000 u/s 80CCD(1).

(3) deduction u/s 80CCD(2)

(i) ER contribution 180000

(ii) 10% of salary 144000

∴ total deduction u/s 80CCD(2) 144000

Part B: EE opted 115BAC.

deduction u/s 80CCD(1) and 80CCD(1B) N.A.

deduction u/s 80CCD(2):

(i) employer contr 180000

(ii) 14% of salary 201600

∴ deduction allowed u/s 80CCD(2) 180000

classmate
Date
Page

Sec 80CCH: contribution to Agnipath scheme (added by FA 23 with effect from AY 24-25)

> eligible assessee: Individual enrolled in Agnipath scheme subscribing to the Agniveer corpus fund on or after 1.11.2022

> sec 80CCH (1): 100% of his contribution to Agnipath corpus fund

> sec 80CCH (2): 100% of CG contribution to Agnipath corpus fund (first it is taxable under salary and then EE can claim deduction u/s 80CCH(2))

> sec 10(12C): Any amount recieved by assessee or his nominee from Agnipath fund is exempt from tax.

Note: As per agneepath scheme 30% of monthly package should contributed to Agnipath fund by assessee and CG will also contribute matching amount.

Sec 80D: Medical insurance premium, CG health scheme, preventive health check up and medical treatment.

> Eligible assessee: Individual & HUF

> for whom: Individual - self, spouse, parents and dependent children
HUF: Any member of HUF.

> Mode of payment - any mode other than cash, but payment of preventive health check-up can be made in cash

> amount of deduction

Particulars	Individual		HUF
	self, spouse, children	parents	
i) medical insurance prem	Yes	Yes	Yes
ii) CG health scheme	Yes	No	No
iii) preventive health checkup	Yes	Yes	No
general deduction [i+ii+iii]	25000 max	25000 Max	25000 Max
+			
additional deduction (when medicaim taken for senior citizen - age 60 or more	max 25000	Max 25000	Max 25000

	Particulars	Individual		HUF
		Self, spouse	Parents	members
B	Medical expense of senior citizen (age 60 or more) and mediclaim premium not paid for such person	max 50000	max 50000	Max 50000
	Maximum deduction (A+B)	max 50000	max 50000	max 50000

Notes: aggregate payment for preventive health check up of self, spouse, dependent children & parents cannot exceed ₹ 5000/-

> where the medical insurance premium is paid in lumpsum for more than 1 year, deduction for each year shall be:

$$\frac{\text{Lumpsum premium}}{\text{PY in which insurance in force}}$$

Q6 pg 144 Mr. Y PY24-25 AY25-26

computation of deduction u/s 80D

a) For self, spouse & dependent children	Actual amt	max ded^n
(i) Health insurance premium	22000	22000
(ii) CG health scheme	6000	3000
	28000	25000
b) for parents		
(i) Health insurance premium	33000	33000
(ii) medical treatment	20000	17000
		50000
∴ maximum deduction		75000.

classmate
Date
Page

Sec 80U : Deduction for handicapped assessee.

> eligible assessee : resident individual

> amount of deduction : (i) normal disability : ₹75000
(ii) severe disability
(80% or more disability) = ₹125000.

Sec 80DD : Medical treatment & maintainance of handicapped dependent relative

> eligible assessee : resident individual & HUF

> amount of deduction : (i) normal disability ₹75000
(ii) severe disability ₹125000.

Notes :

i) above deduction is flat deduction irrespective of actual expenses

ii) deduction under this section is allowed if assessee incurred expense on medical treatment or deposit any amount for maintainance of handicapped dependent relative

iii) relative : individual - spouse, children, mother, father, brother, sister
HUF - Any member of HUF.

Sec 80DDB : Deduction in respect of medical treatment of specified disease

> eligible assessee : resident individual & HUF.

> amount of deduction :

(i) actual expenses on treatment	xx
(ii) maximum* ₹40000 / ₹100000	xx
whichever is lower	xx
less : insurance claim recieved	(xx)
amount of deduction	xx

* Normal case - ₹40,000
Senior citizen patient - ₹1,00,000

> assessee should incure expenditure on the treatment of specified disease for :-
Individual - self or dependent relative
HUF - any dependent member of HUF.

Sec 80E : Interest on Education Loan for higher education (any course after 12th) in India or abroad.

> Eligible assessee : individual

> Amount of deduction : interest amount for a period of 8 consecutive years starting from the year in which assessee starts paying interest

> deduction is allowed if loan taken for education of self, spouse, children or any student for whom assessee is a legal guardian

Sec 80EE : Deduction in respect of interest on housing loan

> Eligible assessee : individual

> amount of deduction : Max ₹ 50,000

> conditions :

(a) Loan should be taken from bank or financial institution for acquisition of residential property.

(b) Purchase price of house upto ₹ 50 lakhs

(c) Loan should be sanctioned between 1/4/2016 to 31/3/2017

(d) Loan amount upto ₹ 35 lakh

(e) Assessee does not own any residential house on the date of sanction of loan

(f) first deduction should be claimed u/s 24(b) of house property (up to 200,000) & remaining int. deduction u/s 80EE

Sec 80EEA : Deduction in respect of interest on housing loan

> Eligible assessee : Individual (other than covered u/s 80EE)

> Amount of deduction : Max ₹ 150000

> conditions :

(a) Loan should be taken from banks or financial institution for acquisition of residential property

(b) Stamp duty value of house property should be upto ₹ 45 lakhs.

classmate
Date
Page

(c) Loan should be sanctioned between 1/4/2019 to 31/3/2022

(d) Assessee does not own any residential house property on the date of sanction loan.

(e) If deduction allowed for any interest here then deduction shall not be allowed in respect of such interest under any other provision.

(f) First deduction should be claimed u/s 24(b) of house property & remaining interest deduction u/s 80EEA.

Sec 80EEB: Deduction in respect of interest on Electric vehicle Loan

> Eligible assessee : Individual

> Amount of deduction : Max ₹ 150000.

> Conditions:

(a) Loan taken from Bank or financial institution incl. NBFC

(b) Loan sanctioned betn 1/4/2019 to 31/3/23

(c) If deduction allowed for any interest here then deduction shall not be allowed in respect of such interest under any other section.

Question 9 (pg 146)

M/s A — PY 24-25 AY 25-26

Interest deduction for PY 24-25

Total interest : 430000 × 9% = 387000

Int u/s 24(b)	Int u/s 80EEA
200,000	150000

M/s B

Interest deduction for PY 24-25

Total interest 4500000 × 9% = ~~450000~~ 405000

Int u/s 24(b)	Int u/s 80EEA :
200,000	N.A.

Mr C

Interest deduction for PY 24-25

Total interest payable (20,00,000 x 10%) = 200,000

less: deduction u/s 80EEB (150000)

50000

Mr D

Interest deduction PY 24-25

Total interest payable (15,00,000 x 10%) = 15,0000

Loan sanction before 1/4/2019, ∴ sec 80EEB N.A.

Sec 80G: Donations

> Eligible assessee: All assessee

> Eligible donations:

> Part A: Unlimited category

100% unlimited

(1) national defence fund

(2) P.M National Relief fund

(3) P.M Armenia Earthquake relief fund

(4) CM. Relief fund & Lieutenant government relief fund

(5) Zilla Saksharta Samiti

(6) National sports funds

(7) National childrens fund

(8) National cultural fund

(9) Swach'h Bharat kosh

(10) Clean Ganga fund

(11) National fund for control of drug abuse

(12) PM citizen assistance & relief fund

(13) fund for Army

50% unlimited

P.M Drought Relief fund

> Part B: Limited category

100% limited	50% limited
(a) Donation to govt or local authority or approved institution for promoting family planning (F)	(a) Donation to Housing development (H)
(b) Donations by company to Indian olympics Associations or any other institution for development of infrastructure for sports in India (O)	(b) Donation for renovation or repair of temple, gurudwara, mosque or church, etc (T)
	(c) donation to public charitable trust (C)
	(d) Donation for promoting minority community in India (M)

Under limited category, there is a limit for donation.

F.O.	xx
H.T.C.M	xx
Total donation	xx
10% of ATI *	xx
Eligible donation	xx

* ATI - adjusted Total income calculation:-

GTI (excluding LTCG 112 / LTCG 112A / STCG 111A)	xx
(-) all deduction u/s VI-A (except 80G)	(xx)
ATI	xx

Notes:

(1) deduction under this section is not allowed if donation made in cash is more than ₹ 2000

(2) If donor made donation to any trust / institution then deduction shall be allowed only if such trust / institution is registered u/s 80G(5).

(3) Donation paid in kind not eligible

classmate
Date
Page

Sec 80GG : Rent paid of House Property (HRA not received)

> Eligible assessee: Individual

> Amt of deduction

(i) 5000 p.m

(ii) 25% of adj. GTI

(iii) Rent paid - 10% of adj. GTI

> assessee or his spouse or minor child or HUF should not own any house at the place of his duty

> Adjusted GTI = GTI - all deduction u/c VIA (except u/s 80GG)

Sec 80GGA : Donation for scientific research or rural development

> Eligible assessee : all assessee (except assessees having income under the head PGBP)

> Amount of deduction : 100% donation

> If donation amount is more than ₹ 2000 then should be made other than cash

Sec 80GGB / 80GGC : Donation to Political parties or Electoral trust

> Eligible assessee : 80GGB - Indian company

80GGC - Any other person

> Amount of deduction : 100% of donation

Note : No deduction if donation made in cash

~~Income Based Deductions ["VI - A Part - C" income in respect of certain income]~~

~~General points regarding income based deductions~~

1. ~~Deduction u/s 10AA/ chapter VI - A part C shall not be allowed if NOT claimed in return~~

Advertisement in news paper / brochure of political party

Indian company	Other assessee
PGBP	No deduction	No deduction
Deduction	80GGB	
u/s VI-A	100% deduction	

Sec 80JJAA: Deduction in respect of employment of new employees

> Eligible assessee : Any assessee engaged in business & to whom sec 44AB applies

> Amount of deduction: 30% of additional employee cost (deduction for 3 consecutive years)

> Additional employee cost: Total emolument paid or payable to additional employees employed during the PY.

In case of existing ~~members~~ business, additional employee cost shall be Nil, if

- There is no increase in Total Number of employees
- Emoluments paid otherwise than by A/c payee cheque, DD or ECS.

eg:-

> Additional employees do not include -

- Employee whose emoluments > ₹ 25000 p.m
- Employee employed for less than 240 days in PY (in case of manufacture of apparel or footwear of leather products then 150 days)
- Employee does not participate in RPF.
- Employee for whom the entire contribution paid by government under employees pension scheme notified in accordance with the provision of the employees PF & Misc. Provisions Act, 1952

> Notes:

1. If an employee is employed during PY for less than 240/150 days but is employed for a period of 240/150 days in next year, he shall be deemed to have been employed in next year. Accordingly, assessee entitled for deduction of 30% of additional employee cost in the next.
2. Deduction under this section allowed only if BOA is audited of assessee and audit report should be submit upto date given u/s 44AB

Q13 (pg 147)

(1) computation of deduction u/s 80JJAA

Additional employee's cost

(2400 pm × 12 months × 75) 21600000

less: deduction u/s 80JJAA: 30% (648000)

Notes 1) Since casual workers do not participate in RPF, so deduction not allowed on salary to casual worker.

2) Employee employed on 01/05/2024 are not eligible for deduction because salary p.m > 25000

3) 100 regular workers employed on 01/09/2024, have worked for less than 240 days hence not considered as additional employees.

(2) In case of footwear business

If mr A engaged in manufacture of footwear then 100 regular employee employed on 01/09/2024 shall be treated as additional employee as they worked for more than 150 days & are eligible for deduction u/s 80JJAA.

Additional EE cost = ₹ 38400000

(21600000 + (100 × 24000 × 7))

deduction u/s 80JJAA (30%) = 11520000

Sec 80QQB : Royalty from Books of literary, artistic, scientific nature

> Eligible assessee : Resident individual

> Amount of deduction :

(i) Eligible Royalty received — xx

(ii) Max ₹ 3,00,000 — xx

— xx

Eligible Royalty : In case of lumpsum Royalty - amount received as royalty

otherwise - max 15% of value of book sold

Sec 80RRB : Royalty from patent.

> Eligible assessee : resident individual

> Amount of deduction :

(a) Royalty received — xx

(b) Max ₹ 3,00,000 — xx

> ~~Note for 80~~

Note for 80QQB and 80RRB : If Royalty is earned outside India then deduction is allowed only if such royalty amount is brought in India in convertible foreign exchange within 6 months from the end of PY or time allowed by RBI

Sec 80TTA : Interest on saving A/c from Bank / co-op Bank & Post office

> Eligible assessee : Individual & HUF

> Amount of deduction :

(i) Interest amount — xx

(ii) Max 10000 — xx

Note : Deduction under this section N.A to Senior citizen eligible for deduction u/s 80TTB.

Sec 80TTB : Interest on deposits from Bank, co-op Bank & Post office

> Eligible assessee : Resident senior citizen

> Amount of deduction :

(i) Interest Amount xx

(ii) Max ₹ 50000 xx

xx

Alternate Minimum Tax (AMT)

AMT is applicable for all assessee except a company.

Sec 115BJC : Income tax payable by any person, higher of:

(i) Income tax payable as per Normal provision of income tax — xxx

(ii) 18.5% of Adjusted Total income (ATI) — xxx

whichever is higher. — xxx

add: surcharge (if applicable) + 4%.

Notes:

1. Calculation of Adjusted Total income

Total income (NTI) as per normal provision of income tax	xxx
Add: (i) Deduction u/s 10AA (SEZ)	xxx
(ii) Deduction u/s 35AD (Special 14 Business)	xxx
(iii) Deduction u/c VI-A (80JJAA, 80QQB, & 80RRB)	xxx
	xxx
less: depreciation allowable as per sec 32 assuming that deduction u/s 35AD was not allowed on the assets on which deduction u/s 35AD is claimed	(xx)
ATI	xxx

2. AMT shall not be applicable if ATI (Adjusted total income) is upto ₹ 20 lakhs in case of individual / HUF / AOP / BOI / AJP.
The provision of AMT apply only if assessee is claiming deduction u/s 10AA, 35AD, 80JJAA, 80QQB or 80RRB.

3. AMT not applicable if assessee follows section 115BAC

Sec 115JD : AMT credit.

1) If AMT > Normal income tax then excess shall be treated as AMT credit

2) AMT credit can be c/f and set off for 15 yrs.

3) credit can be set off in the year in which regular tax is more than AMT.

4) The credit allowed to be set off will be restricted to the difference between the regular income tax computed under normal provision of IT & the AMT.

5) Assessee can claim AMT credit in such subsequent PY, even if AMT is not applicable in subsequent PY.

AY	Normal Tax	AMT	Assessee req. to pay	AMT credit adjusted	Actual paid	AMT credit
AY 21-22	5,00,000	8,00,000	800,000	–	8,00,000	3,00,000
AY 22-23	7,00,000	850,000	850000	–	850000	450000
AY 23-24	6,00,000	4,00,000	6,00,000	200,000	4,00,000	250000
AY 24-25	900,000	10,00,000	10,00,000	–	10,00,000	350000
AY 25-26	18,00,000	9,00,000	1200,000	3,00,000	9,00,000	60000
AY 26-27	650,000	400000	650000	50000	6,00,000	Nil

Question 12 (page 206)

Mr X PY23-24 AY25-26

Part A: Assessee opt out from 115BAC

Computation of total income

	₹	₹
Profit and gain from Business & profession		
warehousing of food grain	10500000	
less: deduction u/s 35AD		
(75,00,000 - 10,00,000)	(6500000)	4000000
Profit from SEZ unit		4000000
		80,00,000
less: deduction u/s VI-A u/s 10AA		
100% of export profit		
PGBP of SEZ × Export TTO / Total TTO		
= 40,00,000 × 8000000 / 10000000		(3200000)
		48,00,000

Calculation of tax liability

upto 250000	-	
250000 - 500000	5%	12500
500000 - 10,00,000	20%	100000
1000000 upto 48,00000	30%	1140000
		1252500
add: HEC @ 4%		50100
Tax as per normal provision		1302600

Calculation of AMT

Calculation of adjusted total income

Net income	4800000
add: deduction u/s 10AA	3200000
deduction u/s 35AD	6500000
	1450000
less: depreciation allowable (65,00,000 x 10%)	(650000)
ATI	13850000

Calculation of AMT

Tax on ATI (13850000 x 18.5%)	2562250
add: surcharge @ 15%	384338
	2946588
add: HEC @ 4%	117864
AMT (Net tax liability)	3064451

AMT credit (3064451 − 1302600) = 1761851

Part B: Assessee opted sec 115BAC

Computation of total income

Income from PGBP	
(i) warehousing facility	10500000
less: depreciation u/s 32	(650000)
	9850000
(ii) SEZ unit	4000000
GTI / NTI	13850000

Tax liability:

upto 3,00,000	-	-
> 3,00,000 - 700000	5%	20000
> 700000 - 10,00,000	10%	30000
> 1,00,0000 - 12,00000	15%	30000
> 1200,000 - 15,00,000	20%	60000
> 15,00,000 - 13850000	30%	3705000
		3845000
add: surcharge @ 15%		576750
~~add~~:		4421750
add: HEC @ 4%		176870
Net tax liability		4598620

Since default tax regime, Assessee has to pay 4598620 $

in case of normal tax regime, Assessee has to pay

₹ 3064451.

Thus, tax liability in sec 115BAC is higher, so assessee should opt out from sec 115BAC.

classmate
Date
Page

Advance Tax

1. Advance tax means tax paid in the financial year immediately preceeding the AY (ie PY)
2. Advance shall be calculated by estimating the current year income then applying tax rates. TDS, TCS, AMT credit, relief credit shall be deducted to arrive at Advance Tax liability
3. Assessee is required to pay advance tax if his liability for advance tax is ₹10000 or more.

Exceptions: Resident senior citizen not having income under PGBP shall not be required to pay advanced tax

4. Due dates of advance tax for all assessee

Due date	Amount of advance tax	Important.
upto 15 June of PY	upto 15 % of advance tax	If assessee opts for sec
upto 15 Sept of PY	upto 45 % of advance tax	44AD / ADA (presumptive
upto 15 Dec of PY	upto 75 % of advance tax	PGBP) then due date is 15
upto 15 Mar of PY	upto 100 % of advance tax	March of PY (100 % of
Note: Tax paid upto 31 March of PY = advance tax.		advance tax in 1 instalment.

Notes:

1) However as per supreme court decision in Dr Prannoy Roy, credit will be given of self-assessment tax, if it is paid upto due date of return filing.

Sec 234B: Interest for non/short payment of advance tax.

This interest is not applicable if assessee paid 90 % or more of advance tax payable

Advance tax short paid as per RO1	×	rate (1 % per month or part of a month)	×	period (from 1 April of AY till date of actual payment of tax)

Sec 234C : Interest for deferment of advance tax instalments

deferred amount × 1% p.m or part of a month × 3m for all instalment except last instalment.

(for last inst. int is applicable always for 1 month] [16/3 to 31/3]

Notes:

1) Interest u/s 234C always calculated on tax as per ROI

2) Interest u/s 234C shall not be levied for 1st or 2nd instalment deferment, if assessee has paid advance tax upto 12% in 1st instalment upto 36% in 2nd instalments.

3) Advance tax in case of capital gain, winnings, dividend, PGBP first time assessee is not able to estimate capital gains or winnings or income under PGBP accrues first time or dividend so advance tax on such income shall be paid in remaining instalment by assessee after receipt of such income. If no instalment is due [income recd during 16/3 to 31/3] then advance tax shall be paid upto 31/3 of PY.

In case of above income interest u/s 234C applicable only from the quarter in which income is received.

Sec 243A : Interest for delay in return filing

Tax as per ROI (after adjustment of TDS / TCS / advance tax / AMT credit / relief] ie, Tax remaining unpaid of 1 April of AY)	×	Rate (1% per month or part of a month)	×	Period (from the date after due date of ROI till the date of actual filing of return)

eg. Mr BB is a resident individual. age 35 years having total income of ₹ 1200000 for PY 24-25 (AY25-26)

TDS deducted of ₹ 20000

Advance tax paid

12/6/24	25000
15/9/24	30000
15/12/24	10000
15/3/25	10000
31/3/25	5000
	85000

Due date of return filing : 31/7/25. He actually filed the return on 10/10/25 & paid taxes. Interest and fees on the date of filing of return.

Calculate interest u/s 234A/234B/234C. Assume he opted out of sec 115BAC

=> calculation of tax liability

250000 - 5,00,000	5%	12500
5,00,000 - 10,00,000	20%	100,000
10,00,000 - 1200000	30%	60000
		172500
add : HEC @ 4%		6900
		179400
less : TDS deducted		(20000)
less : advance tax paid		(85000)
		~~74400~~ 74400
		~~79500~~ 79400
Add : interest u/s 234A	(note 1)	2382
234B	(note 2)	5558
234C	(note 3)	2980
fees u/s 234F		5000
Net tax payable		95320

note 1: interest u/s 234A.

tax payable as per ROI × rate (1% p.m) × period (1/08 to 10/10/25)

= 79400 × (1%) × 3 month

= 2382

note 2: interest u/s 234B

advance tax short × rate (1%) × period [1/04/26 to 10/10/25]

= 79400 × 1% × 7 months

= 5558

note 3: interest u/s 234C

deferred amt × 1% × 3m for all instalment except last instalment

due date	adv tax payable		min requirement		paid	defered	int
15/6/24	15%	23910	12%	19128	25000	–	–
15/9/24	45%	71730	36%	57384	~~30000~~ 55000	16730 ~~2384~~	16700×1%×3 = 501
15/12/24	75%	119550	75%	119550	65000	54550	54500×1%×3m = 1635
15/03/24	100%	159400	100%	159400	75000	84400	84400×1%×3m = 844
							(16mo - 31 mar)

∴ Total int = 2980.

classmate

Date
Page

Return filing and self Assessment.

Sec 139(1): filing of return of income (ROI) [Normal Return]

(A) For company and partnership firm (including LLP) - return filing is compulsory

(B) For other assessee - If GTI (before claiming exemption u/s 54, 54B, 54D, 54EC, 54F) more than basic exemption, then return filing is compulsory.

(C) Following persons compulsory required to file the return

(1) (a) Resident individual - resident (other than R but NOR)

"A"
→ beneficial owner of any asset (incl. financial interest) located o/s India
→ has signing authority in any account outside India

"B"
→ beneficiary of any asset (incl. financial interest located outside India)

Note: If income already included in the income of person "A" then "B" not required to file ROI.

→ Beneficial owner - individual providing consideration for the asset directly or indirectly for the immediate or future benefit for himself or any other person

→ Beneficiary - individual deriving benefit from the asset, consideration for which has been provided by any other person

eg: case 1: Mr Ram (115BAC)

PGBP	200000
IFOS	120000
GTI	320000
(-) deduction u/s 80C	(100000)
NTI	220000

Tax - Nil

Return filing - Yes

case 2:

PGBP	150000
IFOS	220000
GTI	220000
less: deduction	-
NTI	220000

Tax - No

Return filing - No.

case 3:

PGBP		200000
LTCG	4000000	
(-) u/s 54	(4000000)	Nil
GTI		200000
(-) deduction u/c VI-A		Nil
NTI		200000

Tax → NO

Return filing - Yes

2. person (other than company and firm) not covered in above points required to file ROI, if

(a) assessee has deposited an aggregate amount exceeding ₹ 1 crore in one or more current A/c maintained with a bank or co-operative bank or deposited ₹ 50 lakh or more in one or more savings account.

(b) Assessee has incurred foreign travel expenditure of an aggregate amount exceeding ₹ 2 lakh for himself or any other person

(c) Assessee has incurred expenditure of an aggregate amount exceeding ₹ 1 lakh towards consumption of electricity

(d) Assessee's total sales, turnover, or gross receipts as the case may be, in the business exceeds ₹ 60 lakh during the PY or total gross receipts in profession exceeds ₹ 10 lakh during the PY

(e) Assessee's aggregate of TDS and TCS during the PY is ₹ 25000 or more (in case of senior citizen ₹ 50000)

Due dates of return filing

Assessee	Due dates
Person require to furnish transfer pricing audit report u/s 92E including the partners* of the firm	30th Nov of AY
→ company other than above	
→ person whose books of accounts are required to be audited under any law	31st Oct of AY
→ partner* of a firm, where firm's books of accounts are required to be audited under any law	
person other than above	31 July of AY

* or the spouse of such partner if the provisions of section 5A applies to such spouse.

Note: As per sec 5A if individual govern by Portuguese civil code of 1860 in Goa, Daddra and Nagar Haveli and Daman Diu then income shall be equally distributed between husband and wife except salary

Sec 139(1C): central government may exempt class of person to file ROI

central government may by notification specify such class or classes of persons who will be exempted from the requirement of filing of return.

Sec 139(3): Loss return

As per sec 80, assessee required to file the return upto due date u/s 139(1) carry forward of following losses:

→ Business loss u/s 72(1)

→ speculation business u/s 73(2)

→ loss from specified business u/s 73A(2)

→ loss under capital gains u/s 74(1)

→ loss from activity of owning and maintaining race horses u/s 74A(3)

Note :

1. Loss can be set-off even if return filed after due date
2. House property losses and unabsorbed depreciation can be carry forworded even if return late filed.
3. condition stipulated / enumerated in sec 80 applies only for the year in which the loss was sustained / incurred. It does not apply to the ROI of the year in which carry forword is claimed.

Sec 139 (4): Belated return

If assessee fails to file return within due date then he can file belated return with in following time limit:

→ before three months prior to end ~~the~~ of the relevant AY (31 Dec 25 for AY25-26) OR

→ before completion of assessment

whichever is earlier

consequence of belated return

→ No carry forward of specified loss as per sec 80

→ No deduction of certain income u/s VI-A (80JJAA, 80QQB, & 80RRB) and u/s 10AA

→ interest u/s 234A ie. 1% p.m or part of the month.

→ Late filing fees u/s 234F i.e., ₹5000 / 1000.

~~Sec 139(9): Defective Return~~

~~Return shall be considered as~~

Sec 139(5): Revised return

Any person filed return u/s 139(1) or 139(3) or 139(4), if discover any ommission or wrong statement in such ROI filed earlier, then such person can file revised return within following time limit:-

→ before the three months prior to end the of the relevant AY (31 Dec 25 for AY25-26) OR

→ before completion of assessment

whichever is earlier.

Notes :

(1) Belated return filed u/s 139(4) can be revised u/s 139(5)

(2) Revised return substitutes original return from the date the original return was filed

(3) Assessee can revise return any no. of times within time limit

Advance Tax, TDS, TCS.

Question 11 (page 164)

In hands of X (seller)

House property at Bangalore:-

Computation of capital gain	PY 24-25 AY 25-26
Fair value of consideration [SDV × 110% of consideration ∴ SDV treated as FVOC]	8500000
less: Brokerage expense	-
Net consideration	8500000
less: cost of acquisition	4000000
STCG	4500000

Note: Rural agricultural land is NOT a capital asset so capital gain is not applicable.

In hands of Y (Buyer)

A) Bangalore HP:-

Since immovable property acquired for low consideration, difference between SDV and consideration is more than 50000 & SDV > 110% of consideration, so difference taxable under IFOS u/s 56(2)(x).

In present case, difference of ₹2500000 taxable under IFOS in hands of Mr Y.

B) Sec 56(2)(x) applicable only if asset acquired is a capital asset. Since rural agriculture land is not a capital asset so 56(2)(x) Not applicable

C) TDS u/s 194IA applicable in case of Bangalore house, so TDS @ 1% is applicable on SDV or consideration, whichever is higher.

TDS amount = 8500000 × 1% = 85000.

D) TDS u/s 194IA Not Applicable for rural agriculture land.

classmate

Date
Page

Chapter 13: Total income & tax liability.

Question 1 (page 181)

A] assessee opting default tax regime u/s 115BAC

Income from salary

Basic salary (50000 x 12m)		6,00,000
Transport allowance (15000 x 12m)		180000
HRA received (20000 x 12m)		240000
Gross salary		1020000
less: deduction u/s 16		(75000)
		945000.
House property income		–
Gross total income		945000
less: deduction u/c VI-A		–
Net taxable income.		945000

computation of tax liability.

income upto ₹ 3,00,000	–	–
income > 3,00,000 upto ₹ 6,00,000	5%	20000
income > ₹ 6,00,000 upto ~~9,00,000~~ 9,45,000	10%	24500
		44500
add: Health & Education cess	4%	1780
∴ Net tax liability		46280

B] Assessee opting out of default tax regime u/s 115BAC.

Income from salary (Basic salary)			6,00,000
Transport allowance		~~180000~~	180000
House rent allowance		240000	
less: exempt u/s 10(13A)			
(i) 50% of salary	3,00,000		
(ii) actual amt received	240000		
(iii) rent paid – 10% of salary (3,00,000 – 60000)	240000	(240000)	Nil

Gross salary			780000
less: standard deduction u/s 16(ia)			(50000)
Net salary			730000.
House property income			
Net annual value		Nil	
less: standard deduction u/s 24(b)			
(i) 30% of NAV		Nil	
(ii) interest on loan (restricted to 200000)		(200000)	(200000)
(Note: House property losses can be set off against salary income)			
Gross total income			530000
less: deduction u/c VI-A			
~~80CA~~ 80C: public provident fund		150000	
80CCD: contribution to national pension scheme		50000	
80D: medical insurance premium			
self and spouse	32000		
maximum	25000	25000	
parents (senior citizen)	55000		
maximum	50000	50000	(275000)
Net taxable income			255000.

Tax liability:

upto 250000	-	-	
>250000 upto 500000	5%	~~12500~~ 250	
		250	
add: ~~Health & education cess 4%~~		~~10~~	
Net ~~tax liability~~		~~260~~	
less: rebate: 250 / 12500		(250)	
NTL:		—	

Note:

1. Since tax liabilty under old tax regime is less compared to tax liabilty as per sec 115BAC, it is beneficial for assessee to opt for old tax regime
2. If assessee follows default tax regime, then deduction u/c VI-A & HRA exemption N.A.

Q3 (183) Dr Niranjana PY 24-25 AY 25-26

Part A: computation of total income as per default tax regime u/s 115BAC

Income from Salary		
Basic salary (75000x12m)	90000	
less: standard deduction u/s 16	(75000)	15000
Net salary		15000
Income from house property.		
Gross annual value	27000	
less: municipal taxes	(2000)	
Net annual value	25000	
less: standard deduction u/s 24		
(i) 30% of NAV	(7500)	
(ii) Interest on loan	-	17500
Net income from HP.		17500
Income from profession / Business.		
Net profit as per P&L	440400	440400
add: expenses in P&L disallowed		
~~Income tax refund~~		
Rent paid for residential house in surat	30000	
Amount paid to scientific research association (N.A u/s 115BAC)	150000	
municipal taxes included in admin exp	2000	182000

less: allowed /items considered seperately.		
income tax refund	5450	
dividend from UTI	10500	
winning from lottery	35000	
rent of house property	27000	
depreciation on clinic equipments. WN1.	90000.	(16950)
Net income from PGBP.		454450.
Income from other sources.		
interest on income tax refund	450	
Dividend from UTI	10500	
winning from lottery	50000 →	60950
IFOS.		60950
Gross total income		547900
less: deduction u/c VI-A		–
Net total income.		547900
part B: computation of total income as per normal regime		
GTI as per 115BAC		547900
add: deduction u/s 16		25000
less: donation to scientific research		150000
GTI		422900
less: deduction u/c VI-A.		
80C : tution fees	100000	
80D : medical insurance premium	28000	
80E : interest on education loan	55000	(183000)
NTI as per normal provision		239900

WN1. calculation of depreciation

opening WDV of block	500000
add: actual cost of asset acquired	200000
WDV for depreciation.	700000.
(i) depreciation	
(i) put to use less than 180 days	
(200000 x 7.5%)	15000.
(ii) Balance amount	
(500000 x 15%)	75000
Total depreciation	90000