

- 1. Part I comprises Multiple Choice Questions (MCQs)**
- 2. Part II comprises questions which require descriptive type answers.**

Section A – Income Tax
Part 1

Case Scenario

Mr. Arvind is a salaried employee & working with BBVPL. On 15th May 2024, he gifted ₹ 12 lakhs to his wife, Mrs. Kavya, who is a homemaker. She used ₹ 5 lakhs out of this amount to start a small catering business and earned a net profit of ₹ 80,000 for the financial year 2024-25. The remaining ₹7 lakhs was invested by her in a Fixed Deposit on 1st June 2024, which fetched an interest income of ₹56,000 during the year.

Additionally, Mr. Arvind gifted ₹ 2 lakhs to his minor son, Aditya, on 1st July 2024. This amount was invested in equity mutual funds, which earned a short-term capital gain (STCG) of ₹ 18,000 during the year.

Mr. Arvind's total salary for the year (after standard deduction) amounts to ₹ 9,50,000. His wife, Mrs. Kavya, does not have any other sources of income apart from the catering business and interest income.

Both Mr. Arvind and Mrs. Kavya have opted for the default tax regime under section 115BAC.

Question 1

As per the clubbing provisions of the Income-tax Act, in whose hands would the interest income of ₹ 56,000 from the fixed deposit be taxed?

- a) In the hands of Mrs. Kavya, as she is the recipient of the gift
- b) In the hands of Mr. Arvind, as the gift was given by him
- c) In the hands of both Mr. Arvind and Mrs. Kavya, proportionately
- d) Not taxable, as it is an exempt income

Question 2

The profit of ₹ 80,000 from the catering business run by Mrs. Kavya would be taxable in the hands of:

- (a) Mr. Arvind, since he gifted the money to start the business & included in opening capital
- (b) Mrs. Kavya, as it is earned from her own business
- (c) Both Mr. Arvind and Mrs. Kavya, proportionately
- (d) Not taxable, as it falls under an exemption

Question 3

In whose hands will the Short-Term Capital Gain (STCG) of ₹ 18,000 from the investment in mutual funds by Aditya (minor son) be taxed?

- (a) In the hands of Aditya
- (b) In the hands of Mr. Arvind & income clubbed ₹ 18,000
- (c) In the hands of Mrs. Kavya & income clubbed ₹ 18,000
- (d) In the hands of Mr. Arvind & income clubbed ₹ 16,500

Question 4

What will be the total taxable income of Mr. Arvind for A.Y. 2025-26, considering the clubbing provisions?

- (a) ₹ 10,22,000
- (b) ₹ 10,26,000
- (c) ₹ 11,04,000
- (d) ₹ 9,50,000

Question 5

Suppose Mr. Arvind's minor son, Aditya, earned ₹ 50,000 from a special talent competition. As per the Income Tax Act, 1961, this income will be clubbed with:

- (a) The income of Mr. Arvind
- (b) The income of Mrs. Kavya
- (c) Mr. Arvind or Mrs. Kavya, whoever's income is higher
- (d) It will not be clubbed and taxable in hands of Aditya only

[2 marks x 5 Q's = 10 Marks]

Question 6

As per the Income Tax Act, 1961, in case of loss, a partnership firm may claim a deduction in respect of remuneration paid to partners under Section 40(b) to the extent of:

- (a) ₹ 3,00,000
- (b) ₹ 3,00,000 or actual remuneration paid, whichever is lower
- (c) ₹ 3,00,000 or 90% of book profit, whichever is lower
- (d) Nil

[2 marks]

Question 7

Mr. BB, a resident individual, regularly files his income tax returns on time. He has opted for the default tax regime under Section 115BAC of the Income Tax Act, 1961, for the Assessment Year 2025-26. During the Previous Year 2024-25, he withdrew the following sums in cash from his savings bank account maintained with Kotak Bank (Kotak Bank is not a co-operative bank):

- 20th June 2024: ₹ 1.50 Crore
- 25th September 2024: ₹ 1 Crore

Which of the following statements is correct in this case?

- (a) There is no tax/TDS implication in this case
- (b) Kotak Bank will need to deduct TDS at the rate of 2% in excess of 1 crore of cash withdrawal
- (c) Kotak Bank will need to deduct TDS at the rate of 5% in excess of 1 crore of cash withdrawal
- (d) Kotak Bank will need to deduct TDS at the rate of 1% total cash withdrawal

[2 marks]

Question 8

Mr. Nitin purchased a laptop for ₹ 50,000 on 01.04.2021 for personal use. He started using this laptop exclusively for his business purposes from 02.05.2024. On that date, the market value of the laptop was ₹ 40,000.

Assuming the rate of depreciation is 40%, what will be the amount of depreciation allowable to Mr. Nitin under the Income Tax Act, 1961 for the Financial Year 2024-25 (A.Y. 2025-26)?

- (a) ₹ 20,000
- (b) ₹ 16,000
- (c) ₹ 7,200
- (d) ₹ 2,880

[1 marks]

SECTION A – INCOME TAX PART II

Descriptive

Question 1

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

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

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

- (i) The expenses on Employees' Remuneration & Benefits includes:
 - (a) Family Planning expenditure of Rs. 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.
 - (b) Payment of salary of Rs. 25,000 per month to sister-in-law of Mr. Ashish, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is Rs. 20,000 per month.
- (ii) Amount received by Mr. Ashish as Employees' Contribution to EPF for the month of February, 2025 - Rs. 10,000 was deposited after the due date under the relevant Act relating to EPF.
- (iii) Medical Expenses of Rs. 80,000 as appearing in the Income & Expenditure was expensed for the treatment of father of Mr. Ashish. His father was 72 years old and was not covered by any health insurance policy. The said payment of Rs. 80,000 was made through account payee cheque.
- (iv) General expenses as appearing in the Income & Expenditure A/c, includes a sum of Rs. 25,000 paid to Ms. Anjaleen on 5th January, 2025 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.
- (v) Written down value of the depreciable assets as on 1st April, 2024 were as follows: Professional Books Rs. 90,000
Computers Rs. 35,000
- (vi) The new Furniture as appearing in the Income & Expenditure A/c was purchased on 31st August, 2024 and was put to use on the same day. The payment was made as under:

- Rs. 18,000 paid in cash at the time of purchase of new furniture on 31/08/24.
- Rs. 19,000 paid by account payee cheque on 05/09/2024 as balance cost of new furniture and
- Rs. 11,000 paid in cash on 31/08/24 to the transporter as freight charges for the new furniture.

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

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

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

Compute the total income and tax liability of Mr. Ashish for A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Ignore provisions relating to AMT.

[15 Marks]

Question 2 (a)

Mr. Rahul, aged 60 years, retired from a private company on 1st February, 2025. He served as a General Manager in this company for 25 years and 6 months. He was drawing a basic salary of Rs. 95,000 p.m. since 1st January, 2023, dearness allowance of 12% of basic salary (30% forms part of the salary for retirement benefits). He received the following emoluments upon retirement:

(i) Gratuity: Rs. 25,00,000 (he is covered by the Payment of Gratuity Act.)

(ii) Leave Salary: Rs. 12,00,000

(He was entitled to 2 months leaves per year of service. He took a total of 12 months leave).

(iii) Commuted pension: Rs. 4,50,000

You are required to compute his income chargeable under the head 'Salary' for the Assessment Year 2025-26 assuming he opted of default tax regime under section 115BAC of the Income Tax Act, 1961.

[6 Marks]

Question 2 (b)

Mrs. Parul sold her commercial plot (land) on 1st January, 2025 for Rs. 86,00,000. Value determined for the purpose of stamp duty is Rs. 80,00,000.

Such plot is acquired on 1st April, 2006 for Rs. 1,05,000. Brokerage paid on purchase and transfer of said land are Rs. 5,000 and Rs. 86,000 respectively.

On 1st March, 2025, Mrs. Parul purchased Power Finance Corporation (PFC) Limited bonds off 60,00,000.

You are required to compute income taxable under the head 'Capital Gains' for Assessment Year 2025-26 in the hands of Mrs. Parul. Assuming Mrs. Parul exercise the option of shifting out of the default tax regime provided under section 115BAC of the Income Tax Act, 1961.

Cost inflation index for the various financial years are as under:

2005-2006 : 117

2006-2007 : 122

2007-2008 : 129

2024-2025 : 363

Indicate clearly the reasons for treatment of each item.

[4 Marks]

Question 3 (a)

Mr. X a resident individual submits the following information, relevant to the previous year ending March 31, 2025:

S. No.	Particulars	Amount (Rs.)
(i)	Income from Salary (Computed)	2,22,000
(ii)	Income from House Property	
	- House in Delhi	22,000
	- House in Chennai	(-) 2,60,000
	- House in Mumbai (self-occupied)	(-) 20,000
(iii)	Profit and gains from business or profession	
	- Textile business	18,000
	- Cosmetics business	(-) 22,000
	- Speculative business-1	(-) 74,000
	- Speculative business-2	46,000
(iv)	Capital gains	
	Short term capital loss from sale of property	(-) 16,000
	Long term capital gains from sale of property	15,400
(v)	Income from other sources (Computed)	
	- Income from betting	34,000
	- Income from card games	46,000
	- Loss on maintenance of race horses	(-) 14,600

Determine the gross total income of Mr. X for the assessment year 2025-26 and the losses to be carried forward assuming that he does not opt to be taxed under section 115BAC.

[6 marks]

Question 3 (b)

Mr Aman engaged in retail trade of stationary items, reports a turnover of Rs. 2,99,00,000 for the financial year 2024-2025. Amount received in cash during the previous year 2024-2025 is Rs. 13,50,000 and balance through prescribed electronic modes on or before the due date for filing the return specified in section 139(1) of the Income Tax Act, 1961.

His income from the said business as per books of account is Rs. 14,50,000 computed as per the provisions of Chapter IV-D, Profit and gains from business or profession of the Income Tax Act, 1961.

Retail trade is the only source of income for Mr Aman. Assessment year 2024-2025 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation under section 44AD.

Decide whether Mr Aman is eligible for presumptive determination of his income chargeable to tax for the assessment year 2025-2026.

If so, determine his income from retail trade as per the applicable presumptive provisions.

Indicate clearly the reasons for treatment of each item.

[4 marks]

Question 4. (a)

Mr. Ram, a resident individual, aged 46 years, owns 2 residential house properties of which, one is used for own residential purpose and the other is let out for a monthly rent of Rs. 65,000. He bought these houses by taking housing loan from a nationalised bank. During the financial year 2024-25, he paid interest on housing loan amounting to Rs. 2,10,000 each for both the houses and total principal repayment of Rs. 2,50,000 for each house.

Mr. Ram is doing iron business by name Mis Ram Enterprises in which his income (Computed) amounts to Rs. 9,60,000. You are required to calculate total taxable income and tax liability of Mr. Ram for the assessment year 2025-26 under the default tax regime under section 115BAC of the Income Tax Act, 1961 and also optional tax regime as per the Regular provisions (old regime) of the Income Tax Act, 1961.

Advise Mr. Ram whether he should pay tax under default tax regime under section 115BAC of the Income-tax Act, 1961 or Regular provisions (old regime) of the Income Tax Act, 1961 for the assessment year 2025-26.

[6 marks]

Question 4 (b)

Mr. Hari aged 57 years is a resident of India. He provides you the following details of his incomes pertaining to F.Y. 2024-25.

- Interest on Non-Resident (External) Account maintained with State Bank of India as per RBI stipulations - Rs. 3,55,000
- Interest on savings bank account maintained with State Bank of India - Rs. 8,000
- Interest on Fixed Deposits with Punjab National Bank -Rs. 40,000

He seeks your advice on his liability to file return of income as per Income-tax Act, 1961 for the Assessment Year 2025-26.

What will be your answer, if he has incurred Rs. 4 lakhs on travel expenses of his newly married son and daughter in law's honeymoon in Canada? assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[4 marks]