

Income Tax MCQs Booklet

FOR CA INTERMEDIATE MAY 2025/SEPTEMBER 2025/JANUARY
2026 EXAMS
CA NISHANT KUMAR

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Chapter 1 – Basic Concepts

Question 1

For A.Y.2025-26, Mr. Hari, a resident Indian, earns income of ₹10 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in India and ₹15 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia. What would be his business income chargeable to tax in India, assuming he has no other business?

- a. ₹3,50,000
- b. ₹4,00,000
- c. ₹8,75,000
- d. ₹18,50,000

Solution

(d)

Computation of Taxable Business Income of Mr. Hari

Particulars	Agricultural Income	Business Income
Sale of rubber manufactured from latex obtained from rubber plants grown by him in India (65% Agricultural; 35% Business)	6,50,000	3,50,000
Sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia (100% Business)		15,00,000
Total Business Income taxable in India		18,50,000

Question 2

For A.Y.2025-26, Mr. Rajesh, a resident Indian, earns income of ₹12 lakhs from sale of coffee grown and cured in India. His friend, Mr. Ganesh, a resident Indian, earns income of ₹25 lakhs from sale of coffee grown, cured, roasted and grounded by him in India. What would be the business income chargeable to tax in India of Mr. Rajesh and Mr. Ganesh?

- a. ₹3,00,000 and ₹6,25,000, respectively
- b. ₹3,00,000 and ₹10,00,000, respectively
- c. ₹4,80,000 and ₹10,00,000, respectively
- d. ₹9,00,000 and ₹15,00,000, respectively

Solution

(b)

1. Mr. Rajesh:

- Activity: Sale of coffee grown and cured in India.
- Total Income: ₹12 lakhs.
- Applicable Rule: As per Rule 7B(1) of the Income Tax Rules, 1962, income from the sale of coffee grown and cured by the seller in India is apportioned. 75% is considered agricultural income (exempt from central tax) and **25%** is considered business income (taxable).

- Calculation of Business Income: 25% of ₹12,00,000 = **₹3,00,000**.

2. Mr. Ganesh:

- Activity: Sale of coffee grown, cured, roasted, and grounded by him in India.
- Total Income: ₹25 lakhs.
- Applicable Rule: As per Rule 7B(1A) of the Income Tax Rules, 1962, income derived from the sale of coffee grown, cured, roasted, and grounded by the seller in India involves further processing. In this case, 60% is considered agricultural income (exempt) and **40%** is considered business income (taxable).
- Calculation of Business Income: 40% of ₹25,00,000 = **₹10,00,000**.

Therefore, the business income chargeable to tax for Mr. Rajesh is ₹3,00,000 and for Mr. Ganesh is ₹10,00,000.

The correct option is **b. ₹3,00,000 and ₹10,00,000, respectively**.

Question 3

Mr. Raman, aged 64 years, was not able to provide satisfactory explanation to the Assessing Officer for the investments of ₹7 lakhs not recorded in the books of accounts. What shall be the tax payable by him on the value of such investments considered to be deemed income as per section 69?

- ₹2,18,400
- ₹55,000
- ₹5,46,000
- ₹54,600

Solution

(c)

As per Section 69, where in the financial year immediately preceding the assessment year, the assessee has made investments which are not recorded in the books of account and the assessee offers no explanation about the nature and the source of investments or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the value of the investments are taxed as deemed income of the assessee of such financial year.

As per Section 115BBE, the unexplained money, investment, expenditure, etc. deemed as income under section 68 or section 69 or section 69A or section 69B or section 69C or section 69D would be taxed at the rate of 60% plus surcharge @25% of tax. Thus, the effective rate of tax (including surcharge @25% of tax and cess @4% of tax and surcharge) is 78%.

Therefore, tax = 78% × ₹7,00,000 = ₹5,46,000.

Question 4

Miss Nisha (45 years) is a non resident individual. For the A.Y. 2025-26, she has earned Long-term capital gain on 31.10.2024 from transfer of listed equity shares (STT has been paid on acquisition and

transfer of the said shares) - ₹1,80,000 and Other income ₹2,75,000. Calculate the tax liability of Miss Nisha for A.Y. 2025-26 under default tax regime.

- a. Nil
- b. ₹9,620
- c. ₹5,720
- d. ₹7,150

Solution

(d)

1. **Taxpayer Status:** Miss Nisha is a Non-Resident.
2. **Assessment Year:** 2025-26 (Financial Year 2024-25).
3. **Tax Regime:** Default Tax Regime (Section 115BAC).
4. **Income:**
 - LTCG u/s 112A (Listed equity, STT paid, Sale date 31.10.2024): ₹1,80,000
 - Other Income: ₹2,75,000
 - Total Income: ₹4,55,000
5. **Non-Resident Implications:**
 - **No Rebate u/s 87A:** Rebate is only for residents.
 - **No Adjustment of Unexhausted Basic Exemption:** Non-residents cannot set off the unexhausted basic exemption limit against special rate incomes like LTCG u/s 112A.
6. **Tax Calculation:**
 - **Tax on Other Income:**
 - Other Income = ₹2,75,000
 - Basic Exemption Limit (Default Regime for A.Y. 2025-26) = ₹3,00,000
 - Tax on Other Income = ₹0 (as it's below the exemption limit).
 - **Tax on LTCG u/s 112A:**
 - The sale date (31.10.2024) is after the effective date (23.07.2024) for the revised rules mentioned in the search results.
 - Applicable Exemption Threshold under Sec 112A: ₹1,25,000
 - Applicable Tax Rate under Sec 112A: 12.5%
 - Total LTCG = ₹1,80,000
 - Taxable LTCG = ₹1,80,000 - ₹1,25,000 = ₹55,000
 - Tax on LTCG = 12.5% of ₹55,000
 - Tax on LTCG = $0.125 \times 55,000 = ₹6,875$

- **Gross Tax Liability:**
 - Gross Tax = Tax on Other Income + Tax on LTCG
 - Gross Tax = ₹0 + ₹6,875 = **₹6,875**
- **Surcharge:**
 - Total income (₹4,55,000) is less than ₹50 lakhs, so Surcharge = Nil.
- **Health and Education Cess (HEC):**
 - HEC = 4% on Gross Tax
 - HEC = 4% of ₹6,875
 - HEC = $0.04 \times 6875 = \text{₹}275$
- **Final Tax Liability:**
 - Final Tax = Gross Tax + Surcharge + HEC
 - Final Tax = ₹6,875 + ₹0 + ₹275 = **₹7,150**

Question 5

Mr. Nekinsaan, aged 43 years, provides the following income details for P.Y. 2024-25 as follows:

Particulars	₹ in lakhs
Capital Gains under section 112A	120
Capital Gains under section 111A	110
Other Income	520

What shall be the tax liability of Mr. Nekinsaan under optional tax regime of the Income-tax Act, 1961 for A.Y. 2025-26?

- a. ₹2,57,08,440
- b. ₹2,44,42,760
- c. ₹2,60,14,170
- d. ₹2,63,66,240

Solution

(d)

Calculation of Tax Liability

Particulars	₹
Tax on Capital Gains taxable u/s 111A @ 20% ($20\% \times ₹1,10,00,000$)	22,00,000
Tax on Capital Gains taxable u/s 112A @ 12.5% on amount exceeding ₹1.25 lakh $\{12.5\% \times (₹1,20,00,000 - ₹1,25,000)\}$	14,84,375
Tax on Other Income:	
First ₹2,50,000	-
From ₹2,50,000 to ₹5,00,000 ($5\% \times ₹2,50,000$)	12,500
From ₹5,50,000 to ₹10,00,000 ($20\% \times ₹5,00,000$)	1,00,000
From ₹10,00,000 to ₹5,20,00,000 ($30\% \times ₹5,10,00,000$)	1,53,00,000
	1,90,96,875

Add: Surcharge	
On Tax on Capital Gains @ 15% {15% × (₹22,00,000 + ₹14,84,375)}	5,52,656
On Tax on Other Income @ 37% (37% × ₹1,54,12,500)	57,02,625
	2,53,52,156
Add: Health and Education Cess @ 4%	10,14,086
Tax Liability	2,63,66,243
Tax Liability (Rounded Off)	2,63,66,240

Question 6

Continuing Q. 5, what shall be tax liability of Mr. Nekinsaan as per regular provisions of the Income-tax Act, 1961 for A.Y. 2024-25, if the Other Income is ₹480 lakhs?

- ₹2,22,82,763
- ₹2,22,82,760
- ₹2,60,14,170
- ₹2,63,66,240

Solution

(b)

Calculation of Tax Liability	
Particulars	₹
Tax on Capital Gains taxable u/s 111A @ 20% (20% × ₹1,10,00,000)	22,00,000
Tax on Capital Gains taxable u/s 112A @ 12.5% on amount exceeding ₹1.25 lakh {12.5% × (₹1,20,00,000 – ₹1,25,000)}	14,84,375
Tax on Other Income:	
First ₹2,50,000	-
From ₹2,50,000 to ₹5,00,000 (5% × ₹2,50,000)	12,500
From ₹5,00,000 to ₹10,00,000 (20% × ₹5,00,000)	1,00,000
From ₹10,00,000 to ₹4,80,00,000 (30% × ₹4,70,00,000)	1,41,00,000
	1,78,96,875
Add: Surcharge	
On Tax on Capital Gains @ 15% {15% × (₹22,00,000 + ₹14,84,375)}	5,52,656
On Tax on Other Income @ 25% (25% × ₹1,42,12,500)	35,53,125
	2,20,02,656
Add: Health and Education Cess @ 4%	8,80,106
Tax Liability	2,28,82,763
Tax Liability (Rounded Off)	2,28,82,760

Chapter 2 – Residence and Scope of Total Income

Question 1

Mr. Tejas, an Indian Citizen, left India permanently with his wife and two children, for extending his retail trade business of toys in Canada in the year 2016. From Canada, he is managing his retail business of toys in India. For the purpose of his Indian business, he visits India every year from 1st September to 31st January. His business income is ₹23.50 lakhs and ₹18 lakhs from retail trade business in Canada and in India, respectively for the F.Y.¹ 2024-25. He has no other income during the P.Y. 2024-25. Determine his residential status and income taxable in his hands for the A.Y. 2025-26.

- Resident and ordinarily resident in India and income of ₹18 lakhs and ₹23.50 lakhs would be taxable.
- Non-Resident and ₹18 lakhs from Indian retail trade business would only be taxable.
- Resident but not ordinarily Resident and ₹18 lakhs from Indian retail trade business would only be taxable
- Deemed resident and ₹18 lakhs from Indian retail trade business would only be taxable

Solution

(c)

Mr. Tejas is an Indian citizen who left India in 2016 for Canada and visits India every year from 1st September to 31st January to manage his Indian retail business. For the financial year (F.Y.) 2024-25, this amounts to a stay of approximately 153 days in India. According to Section 6(1) of the Income-tax Act, 1961, an individual is considered a resident in India for any previous year if he is in India for a total period of 182 days or more during that year. Since Mr. Tejas does not meet this condition, he would not be considered a resident based on this criterion alone.

However, under Section 6(1A), an Indian citizen whose total income, excluding income from foreign sources, exceeds ₹15 lakh during the previous year and who is not liable to tax in any other country by reason of his domicile, residence, or any other criteria, would be deemed to be a resident but not ordinarily resident (RNOR) in India. In Mr. Tejas's case, his income from the Indian retail trade business is ₹18 lakhs, which exceeds ₹15 lakh. Given that he is managing his business in India and spending a significant part of the year in India, it is likely that he would be considered a resident but not ordinarily resident in India for A.Y. 2025-26.

Regarding the income taxable in India, for a resident but not ordinarily resident, income earned and received in India, as well as income that accrues or arises in India, is taxable. Therefore, the ₹18 lakhs earned from the Indian retail trade business would be taxable in India. The income from his retail trade business in Canada would not be taxable in India for an RNOR.

Question 2

Who among the following will qualify as non-resident for the P.Y. 2024-25?

- Mr. Bob, an Italian dancer, came on visit to India to explore Indian dance on 15.09.2024 and left on 25.12.2024. For past four years, he visited India for dance competition and stayed in India for 120 days each year.

- Mr. Samrat born and settled in USA, visits India each year for 100 days to meet his parents and grandparents, born in India in 1946, living in Delhi. His Indian income is ₹15,20,000
- Mr. Joseph, an American scientist, left India to his home country for fixed employment there. He stayed in India for study and research in medicines from 01.01.2019 till 01.07.2024

Choose the correct answer

- Mr. Bob and Mr. Joseph
- Mr. Samrat
- Mr. Bob, Mr. Samrat and Mr. Joseph
- None of the three

Solution

(b)

Mr. Bob:

- He is an Italian dancer, and so, neither an Indian Citizen, nor a person of Indian origin.
- For him to be a resident, he:
 - Must be in India for at least 182 days during the relevant previous year
 - OR
 - Must be in India for at least 60 days during the relevant previous year
 - AND
 - 365 days during 4 previous years immediately preceding the relevant previous year
- In the P.Y. 2024-25, he came to India for 101 days (15 days in September + 31 days in October + 30 days in November + 25 days in December).
- Therefore, he did not stay for 182 days or more.
- However, he stayed in India for 60 days or more in the P.Y. 2024-25, and also, he has stayed in India for $120 \times 4 = 480$ days (i.e., more than 365 days) in the preceding 4 previous years.
- Therefore, he is a resident for the P.Y. 2024-25.

Mr. Samrat:

- He is person of Indian origin as his grandparents were born in undivided India.
- His Indian Income is ₹15,20,000, i.e., his total income (other than income from foreign sources) exceeds ₹15,00,000.
- For him to be a resident, he:
 - Must be in India for at least 182 days during the relevant previous year
 - OR
 - - Must be in India for 120 days or more and less than 182 days during the relevant previous year
 - AND
 - 365 days during 4 previous years immediately preceding the relevant previous year.
- He didn't stay in India for 182 days or more in the P.Y. 2024-25.
- Also, he didn't stay in India for 120 days or more in the P.Y. 2024-25.
- Therefore, he is a non-resident for the P.Y. 2024-25.

Mr. Joseph:

- He is an American scientist, and so, neither an Indian Citizen, nor a person of Indian origin.
- For him to be a resident, he:
 - Must be in India for at least 182 days during the relevant previous year
 - OR
 - Must be in India for at least 60 days during the relevant previous year
 - AND
 - 365 days during 4 previous years immediately preceding the relevant previous year
- He stayed in India for 92 days (30 days of April + 31 days of May + 30 days of June + 1 day of July) in the P.Y. 2024-25.
- He stayed in India for 60 days or more in the P.Y. 2024-25, and also, he stayed in India for more than 365 days during 4 previous years immediately preceding the P.Y. 2024-25.
- Therefore, he is a resident for the P.Y. 2024-25.

Therefore, the only non-resident is Mr. Samrat, and hence, option (b) is the answer.

Question 3

Income from a business in Australia, controlled from Australia is taxable in case of

- a. resident and ordinarily resident only
- b. resident and ordinarily resident and resident but not ordinarily resident
- c. non-resident
- d. All the above

Solution

(a)

1. **Resident and Ordinarily Resident (ROR):** An ROR is taxed on their global income. This includes income earned outside India, irrespective of whether it's brought into India or where the business is controlled from. So, income from a business in Australia controlled from Australia *is taxable* for an ROR.
2. **Resident but Not Ordinarily Resident (RNOR):** An RNOR is taxed on:
 - Income received or deemed to be received in India.
 - Income accruing or arising or deemed to accrue or arise in India.
 - Income accruing or arising outside India *only if* it's from a business controlled in or a profession set up in India. Since the business is in Australia and *controlled from Australia*, this income is *not taxable* for an RNOR (assuming it is also received outside India).
3. **Non-Resident (NR):** An NR is taxed only on:
 - Income received or deemed to be received in India.

- Income accruing or arising or deemed to accrue or arise in India. Since the business income is earned and controlled outside India, it is *not taxable* for an NR (assuming it is also received outside India).

Therefore, income from a business in Australia, controlled from Australia, is taxable only in the case of a **resident and ordinarily resident**.

The correct option is **a. resident and ordinarily resident only**.

Question 4

Mr. Rajesh, aged 53 years, and his wife, Mrs. Sowmya, aged 50 years, are citizens of Country X. They are living in Country X since birth. They are not liable to tax in Country X. Both of them have keen interest in Indian Culture. Mr. Rajesh's parents and grandparents were born in Country X. Mrs. Sowmya visits India along with Mr. Rajesh for four months every year to be with her parents, who were born in Delhi and have always lived in Delhi. During their stay in India, they organize Cultural Programme in Delhi-NCR. Income of Mr. Rajesh and Mrs. Sowmya from the Indian sources for the P.Y. 2024-25 is ₹18 lakhs and ₹16 lakhs, respectively. What is the residential status of Mr. Rajesh and Mrs. Sowmya for A.Y. 2025-26?

- Both are resident and ordinarily resident in India
- Both are non-resident in India
- Mr. Rajesh is resident but not ordinarily resident in India and Mrs. Sowmya is non-resident
- Mrs. Sowmya is resident but not ordinarily resident in India and Mr. Rajesh is resident and ordinarily resident in India

Solution

(d)

Mr. Rajesh:

- He is not a person of Indian origin as his parents and grandparents were born in Country X.
- In order for him to be a resident, he:
 - Must be in India for at least 182 days during the relevant previous year
 - OR
 - Must be in India for at least 60 days during the relevant previous year
 - AND
 - 365 days during 4 previous years immediately preceding the relevant previous year
- He hasn't stayed in India for 182 days or more during the P.Y. 2024-25.
- He has stayed in India for 4 months, i.e., 120 days (i.e., more than 60 days) in the P.Y. 2024-25, and also, he has stayed in India for $120 \times 4 = 480$ days (i.e., more than 365 days) in the preceding 4 previous years. Therefore, he is a resident.
- For him to be an ordinary resident, he would be required to stay in India for 730 days or more in the preceding 7 previous years.
- In the preceding 7 previous years, he has stayed in India for $120 \times 7 = 840$ days (i.e., more than 730 days). Therefore, he is a resident and ordinary resident.

Mrs. Sowmya:

- She is a person of Indian origin, since her parents were born in India.
- She is a person of Indian origin, who comes to visit India during the relevant previous year, and her income (other than income from foreign sources) exceeds ₹15,00,000.
- For her to be a resident, she:
 - Must be in India for at least 182 days during the relevant previous year
OR
 - - Must be in India for 120 days or more and less than 182 days during the relevant previous year
AND
 - 365 days during 4 previous years immediately preceding the relevant previous year.
- She hasn't stayed in India for 182 days or more in the P.Y. 2024-25.
- She has stayed in India for 4 months, i.e., for 120 days in the previous year, and also, she has stayed in India for $120 \times 4 = 480$ days, i.e., more than 365 days in the preceding 4 previous years. Therefore, she is a resident in India for the P.Y. 2024-25.
- If a person
 - is a citizen of India, or a person of Indian origin, and
 - has total income, other than the income from foreign sources, exceeding ₹15 lakh during the previous year, and
 - has been in India for a period or periods amounting in all to 120 days or more but less than 182 days
 he is said to be a Resident but Not Ordinary Resident.
- Therefore, Mrs. Sowmya is a Resident but Not Ordinary Resident.

Therefore, option (d) is the answer.

Question 5

Raman, a citizen of India, was employed in Hindustan Lever Ltd. He resigned on 27.09.2024. He received a salary of ₹40,000 p.m. from 1.4.2024 to 27.9.2024 from Hindustan Lever Ltd. Thereafter he left for Dubai for the first time on 1.10.2024 and got salary of rupee equivalent of ₹80,000 p.m. from 1.10.2024 to 31.3.2025 in Dubai. His salary for October to December 2024 was credited in his Dubai bank account and the salary for January to March 2025 was credited in his Mumbai account directly. He is liable to tax in respect of -

- income received in India from Hindustan Lever Ltd.
- income received in India and in Dubai.
- income received in India from Hindustan Lever Ltd. and income directly credited in India.
- income received in Dubai.

Solution

(b)

1. Determination of Residential Status of Raman

- Any person who leaves India during the Previous Year for the purpose of employment is considered as Resident only if he has stayed for 182 days or more during the Previous Year.

- b. Raman left for Dubai on 01-10-2024, therefore, he stayed in India for 184 days during the P.Y. 2024-25 (30 Days of April + 31 Days of May + 30 Days of June + 31 Days of July + 31 Days of August + 30 Days of September + 1 Day of October).
- c. Therefore, he is a Resident.
- d. Since the question doesn't mention anything about his stay in India in the preceding Previous Years, it is safe to assume that he has been in India only in the preceding previous years. Therefore, he is a Resident and Ordinarily Resident for the P.Y. 2024-25.

2. Scope of Total Income

- a. If a person is a Resident and Ordinarily Resident in India for a Previous Year, his global income is taxable.
- b. Since Raman is a Resident and Ordinarily Resident in India for the P.Y. 2024-25, his global income would be taxable, and hence option (b) is the answer.

Question 6

If Anirudh, a citizen of India, has stayed in India in the P.Y. 2024-25 for 181 days, and he is non-resident in 9 out of 10 years immediately preceding the current previous year and he has stayed in India for 365 days in all in the 4 years immediately preceding the current previous year and 420 days in all in the 7 years immediately preceding the current previous year, his residential status for the A.Y. 2025-26 would be

- a. Resident and ordinarily resident
- b. Resident but not ordinarily resident
- c. Non-resident
- d. Deemed resident but not ordinarily resident

Solution

(b)

The residential status in India is determined based on physical presence (number of days stayed in India) and certain additional conditions.

For A.Y. 2025-26 (relevant to P.Y. 2024-25), the conditions are as follows:

1. Basic Conditions for Being Considered a Resident:
 - a. He stayed in India for at least 182 days in the P.Y. 2024-25, or
 - b. He stayed in India for at least 60 days during P.Y. 2024-25 and 365 days in the 4 years preceding the P.Y. 2024-25.
2. Additional Conditions for Being Considered 'Ordinarily Resident':
 - a. He has been a resident in India in at least 2 out of 10 previous years immediately before the relevant P.Y., and
 - b. He has been in India for at least 730 days in the 7 years preceding the P.Y.

Analyzing Anirudh's case:

- He stayed in India for 181 days in P.Y. 2024-25, which does not meet the first basic condition (182 days).

- He is non-resident in 9 out of the 10 years immediately preceding P.Y. 2024-25, which means he does not meet the first part of the 'ordinarily resident' condition.
- He stayed in India for 365 days in the 4 years immediately preceding P.Y. 2024-25, which meets the second part of the first basic condition.
- However, for the second part of the first basic condition to apply, Anirudh should have stayed in India for 60 days in P.Y. 2024-25, which he did (181 days).

Given these points, Anirudh's residential status for A.Y. 2025-26 is as follows:

- He meets the second part of the first basic condition (60 days in P.Y. and 365 days in the 4 years preceding the P.Y.), so he is considered a resident.
- Since he does not meet the conditions to be considered 'ordinarily resident' (not a resident in at least 2 out of the last 10 years), he is a 'Resident but Not Ordinarily Resident'.

Therefore, the correct option is:

(b) Resident but not ordinarily resident.

Question 7

Aashish earns the following income during the P.Y. 2024-25:

- Interest on U.K. Development Bonds (1/4th being received in India): ₹4,00,000
- Capital gain on sale of a building located in India but received in Holland: ₹6,00,000

If Aashish is a resident but not ordinarily resident in India, then what will be amount of income chargeable to tax in India for A.Y. 2025-26?

- ₹7,00,000
- ₹10,00,000
- ₹6,00,000
- ₹1,00,000

Solution

(a)

Under section 5(1), total income of resident but not ordinarily resident would consist of:

1. income received or deemed to be received in India during the previous year;
2. income which accrues or arises or is deemed to accrue or arise in India during the previous year; and
3. income derived from a business controlled in or profession set up in India, even though it accrues or arises outside India.

Note – All other income accruing or arising outside India which is not received or deemed to be received or deemed to accrue or arise in India would not be included in his total income.

In the given scenario, Aashish's income chargeable to tax in India would be:

Interest on U.K. Development Bonds (1/4th being received in India): ₹1,00,000 (since only the portion received in India is taxable)

Capital gain on sale of a building located in India but received in Holland: ₹6,00,000. Since the land is situated in India, the income is deemed to accrue or arise in India.

Therefore, the total income chargeable to tax in India for Aashish for A.Y. 2023-24 would be ₹7,00,000 (option a).

Question 8

Mr. Sushant is a person of Indian origin, residing in Canada. During P.Y. 2024-25, he visited India on several occasions and his period of stay, in total, amounted to 129 days during P.Y. 2024-25 and his period of stay in India during P.Y. 2023-24, P.Y. 2022-23, P.Y. 2021-22 and P.Y. 2020-21 was 135 days, 115 days, 95 days and 125 days, respectively. He earned the following incomes during the P.Y. 2024-25:

Source of Income	Amount (₹)
Income received or deemed to be received in India	2,50,000
Income accruing or arising or which is deemed to accrue or arise in India	3,75,000
Income accruing or arising and received outside India from business controlled from India	5,50,000
Income accruing or arising and received outside India from business controlled outside India	6,50,000

What is the residential status of Mr. Sushant for A.Y. 2025-26 and his income liable to tax in India during A.Y. 2025-26?

- Non-Resident; ₹6,25,000 is liable to tax in India
- Resident and ordinary resident; ₹18,25,000 is liable to tax in India
- Resident but not ordinarily resident; ₹11,75,000 is liable to tax in India
- Non-Resident; ₹11,75,000 is liable to tax in India

Solution

(a)

- He is a person of Indian origin, who stays abroad, and visits India during the P.Y. 2024-25.
- His Indian Income (i.e., total income other than income from foreign sources) is calculated as follows:

Source of Income	Amount (₹)
Income received or deemed to be received in India	2,50,000
Income accruing or arising or which is deemed to accrue or arise in India	3,75,000
Income accruing or arising and received outside India from business controlled from India	5,50,000
Income accruing or arising and received outside India from business controlled outside India	-
Total	11,75,000

- Therefore, his total income (other than income from foreign sources) does not exceed ₹15,00,000.
- For him to be a resident, he must be in India for at least 182 days during the relevant previous year. Any other condition is not applicable here.

- If he does not stay for at least 182 days during the P.Y. 2024-25, he will be treated as a non-resident.
- Since he did not stay in India more 182 days or more in the P.Y. 2024-25, he shall be treated as non-resident for the P.Y. 2024-25.
- For Non-Residents, only the Income received/deemed to be received/accrued or arisen/deemed to accrue or arise in India is taxable in India.
- Therefore, only ₹6,25,000 shall be taxable in India (₹2,50,000 + ₹3,75,000).
- Note: Income accruing or arising and received outside India from business controlled from India is taxable only in case of ROR (Resident and Ordinarily Resident) and in case of R-NOR (Resident but Not Ordinarily Resident)

Therefore, option (a) is the answer.

Question 9

Mr. Square, an Indian citizen, currently resides in Dubai. He came to India on a visit and his total stay in India during the F.Y. 2024-25 was 135 days. He is not liable to pay any tax in Dubai. Following is his details of stay in India in the preceding previous years:

Financial Year	Days of Stay in India
2023-24	100
2022-23	125
2021-22	106
2020-21	83
2019-20	78
2018-19	37
2017-18	40

What shall be his residential status for the P.Y. 2024-25 if his total income (other than income from foreign sources) is ₹10 lakhs?

- Resident but not ordinary resident
- Resident and ordinary resident
- Non-resident
- Deemed resident but not ordinarily resident

Solution

(c)

An Indian citizen or a person, of Indian origin who being outside India, comes to visit India during the relevant previous year and his total income other than the income from foreign source does not exceed ₹15 lakhs is considered to be a resident in the relevant previous year, if he stays in India for at least 182 days in the relevant previous year. In the present case, since Mr. Square stayed in India for only 135 days, i.e., for less than 182 days, he will be treated as a non-resident for the P.Y. 2024-25.

Question 10

Mr. Sumit is an Indian citizen and a member of the crew of an America bound Indian ship engaged in carriage of freight in international traffic departing from Chennai on 25th April, 2024. From the

following details for the P.Y. 2024-25, what would be the residential status of Mr. Sumit for A.Y. 2025-26, assuming that his stay in India in the last 4 previous years preceding P.Y. 2024-25 is 365 days and last seven previous years preceding P.Y. 2024-25 is 730 days?

- Date entered in the Continuous Discharge Certificate in respect of joining the ship by Mr. Sumit: 25th April, 2024
- Date entered in the Continuous Discharge Certificate in respect of signing off the ship by Mr. Sumit: 24th October, 2024

Mr. Sumit has been filing his income tax return in India as a resident for the preceding 2 previous years.

- a. Resident and ordinarily resident
- b. Resident but not-ordinarily resident
- c. Non-resident
- d. Deemed resident but not-ordinarily resident

Solution

(a)

An Indian Citizen leaving India as a member of the crew of an Indian bound ship in the previous year is considered to be a Resident only if he stays in India for 182 days or more during the relevant previous year. While calculating the number of days in India, the days starting from the date of commencement as entered in the continuous discharge certificate, and ending on the date of signing off as entered in the continuous discharge certificate are to be excluded from the total number of days in the year.

In the present case, 183 days (6 Days of April + 31 Days of May + 30 Days of June + 31 Days of July + 31 Days of August + 30 Days of September + 24 Days of October) are to be excluded from the total 366 days. Therefore, no. of days in India in P.Y. 2024-25 = $365 - 183 = 182$. Therefore, Mr. Sumit is a resident in India in the P.Y. 2024-25.

To be an ordinarily resident, both the following conditions must be met:

1. The individual should have been a resident in India in at least 2 out of 10 previous years immediately before the relevant P.Y., and
2. He should have been in India for at least 730 days in the 7 years preceding the P.Y.

From the information given in the question, we can see that both these conditions are met. Therefore, Mr. Sumit is a Resident and Ordinarily Resident.

Chapter 3 – Heads of Income

Question 1

Mr. Ramesh, a citizen of India, is employed in the Indian embassy in Australia. He is a non-resident for A.Y. 2024-25. He received salary and allowances in Australia from the Government of India for the year ended 31.03.2024 for services rendered by him in Australia. In addition, he was allowed perquisites by the Government. Which of the following statements are correct?

- a. Salary, allowances and perquisites received outside India are not taxable in the hands of Mr. Ramesh, since he is non-resident.
- b. Salary, allowances and perquisites received outside India by Mr. Ramesh are taxable in India since they are deemed to accrue or arise in India.
- c. Salary received by Mr. Ramesh is taxable in India but allowances and perquisites are exempt.
- d. Salary received by Mr. Ramesh is exempt in India but allowances and perquisites are taxable.

Solution

(c)

- As per Section 9(1), which lays down cases for incomes deemed to accrue or arise in India, it is specifically mentioned that salary payable by the Government to Indian Citizen for services rendered outside India is deemed to accrue or arise in India.
- Also, for non-residents, income which is deemed to accrue or arise in India is taxable in India.
- Therefore, salary shall be taxable in India.
- As per Section 10(7), allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for services rendered outside India are exempt from tax.
- Therefore, salary received by Mr. Ramesh is taxable in India, but allowances and perquisites are exempt.

Therefore, option (c) is the answer.

Question 2

For the purpose of determining the perquisite value of loan at concessional rate given to the employee, the lending rate of State Bank of India as on _____ is required.

- a. 1st day of the relevant previous year
- b. Last day of the relevant previous year
- c. the day the loan is given
- d. 1st day of the relevant assessment year

Solution

(a)

Question 3

A building was acquired on 1.4.1995 for Rs. 20,00,000 and sold for Rs. 80,00,000 on 01.09.2024. The fair market value of the building on 1.4.2001 was Rs. 25,00,000. Its stamp duty value on the same date was Rs. 22,00,000. Determine the capital gains on sale of such building for the A.Y. 2025-26?

CII for F.Y. 2001-02: 100; F.Y. 2024-25: 363

- Rs. 58,00,000
- Rs. 55,00,000
- Rs. 60,00,000
- Rs. 14,000

Solution

(a)

Computation of Capital Gains	
Particulars	₹
Full Value of Consideration	80,00,000
Less: Cost of Acquisition	22,00,000
Long Term Capital Gains	58,00,000

Note: If a property is purchased before 01-04-2001, its cost of acquisition is taken to be the actual cost or the FMV as on 01-04-2001, whichever is higher. However, this is to be restricted to the SDV as on 01-04-2001, if available. Also, since the property is transferred after 23-07-2024, no indexation will be available while computing the capital gains. However, since the property was acquired before 23-07-2024, and transferred after 23-07-2024, tax will be applicable at 20% (with indexation benefit), or 12.5% (without indexation), whichever is beneficial.

Question 4

Mr. Vikas received a gold ring worth ₹60,000 on the occasion of his daughter's wedding from his best friend Mr. Vishnu. Mr. Vishnu also gifted a gold chain to Kavya, daughter of Mr. Vikas, worth ₹80,000 on the said occasion. Would such gifts be taxable in the hands of Mr. Vikas and Ms. Kavya?

- Yes, the gift of gold ring and gold chain is taxable in the hands of Mr. Vikas and Ms. Kavya, respectively
- Such gifts are not taxable in the hands of Mr. Vikas nor in the hands of Ms. Kavya
- Value of gold ring is taxable in the hands of Mr. Vikas but value of gold chain is not taxable in the hands of Ms. Kavya
- Value of gold chain is taxable in the hands of Ms. Kavya but value of gold ring is not taxable in the hands of Mr. Vikas

Solution

(c)

Any gift, being a movable property, received from any one is taxable under the head Income from Other Sources, if the aggregate value of the movable property exceeds ₹50,000. However, if the moveable property is received on the occasion of marriage, it shall be fully exempt irrespective of the amount. Moveable Property includes jewelry.

In the present case, Mr. Vishnu gifted a gold ring worth ₹60,000 to Mr. Vikas. This would be taxable in the hands of Mr. Vikas under the head income from other sources, as the aggregate value exceeds

₹50,000. It is to be noted that the wedding is of Mr. Vikas' daughter, and not of Mr. Vikas himself, therefore, the exemption won't apply here.

Mr. Vishnu also gifted a gold chain to Kavya, daughter of Mr. Vikas. This would be exempt in the hands of Kavya, as she has received it on the occasion of her wedding.

Question 5

Mr. C aged 35 years is a working partner in M/s BCD, a partnership firm, with equal profit sharing ratio. During the P.Y. 2024-25, the firm has paid remuneration to Mr. B, Mr. C and Mr. D, being the working partners of the firm, of Rs. 2,00,000 each. The firm has paid interest on capital of Rs. 1,20,000 in toto to all the three partners and the same is within the prescribed limit of 12%. The firm had a loss of Rs. 1,12,000 after debiting remuneration and interest on capital. Note - Remuneration and interest on capital is authorized by the partnership deed. You, being the CA of Mr. C, are in the process of computing his total income. What would be his taxable remuneration from the firm?

- a. Rs. 3,00,000
- b. Rs. 2,00,000
- c. Rs. 1,46,400
- d. Rs. 1,50,000

Solution

(c)

Book Profit is calculated as the net profit as per Profit & Loss Account *before* deducting partners' remuneration, but *after* deducting allowable interest on capital.

As per the amended rules, the maximum allowable remuneration under Section 40(b) is calculated as follows:

- **On the first Rs. 6,00,000 of Book Profit:** The allowable remuneration is the higher of:
 - (i) Rs. 3,00,000
 - (ii) 90% of Book Profit
- **On the balance of Book Profit:** 60% of the balance.

Computation of Book Profit	
Particulars	₹
Profit after adjusting remuneration and interest on capital	(1,12,000)
Add: Remuneration to Partners (₹2,00,000 × 3)	6,00,000
Book Profit	4,88,000

Maximum Remuneration Allowed	
Particulars	₹
On First ₹6,00,000 @ 90% (90% × ₹4,88,000)	4,39,200
Maximum Remuneration Allowed:	4,39,200

Therefore, maximum remuneration allowed per partner (₹4,39,200 ÷ 3) = ₹1,46,400

Since this is allowed to the firm, it'll be taxable in the hands of the Partner.

Question 6

Mr. A (aged 45 years) sold an agricultural land for Rs. 52 lakhs on 04.10.2024 acquired at a cost of Rs. 49.25 lakhs on 13.09.2023 situated at 7 kms from the jurisdiction of municipality having population of 4,00,000 and also sold another agricultural land for Rs. 53 lakhs on 12.12.2024 acquired at a cost of Rs. 46 lakhs on 15.02.2023 situated at 1.5 kms from the jurisdiction of municipality having population of 12,000. What would be the amount of capital gain chargeable to tax in the hands of Mr. A for the A.Y. 2025-26? CII for F.Y. 2022-23: 331; 2023-24: 348; 2024-25: 363.

- a. Short-term capital gain of Rs. 9.75 lakhs
- b. Short-term capital gain of Rs. 7 lakhs
- c. Long-term capital gain of Rs. 2,72,212
- d. Long-term capital gain of Rs. 2,50,158

Solution

(b)

Agricultural land located within 6 kilometers of a municipality with a population greater than 1,00,000 but less than or equal to 10,00,000 is classified as an Urban Agricultural Land and, therefore, is considered a capital asset for tax purposes. In this scenario, the first agricultural land, being 7 kilometers away from a municipality with a population of 4,00,000, falls outside this range. Consequently, it does not qualify as Urban Agricultural Land. It is treated as a Rural Agricultural Land, which is not regarded as a capital asset. Therefore, the transfer of this land would not result in capital gains.

On the other hand, if agricultural land is situated within 2 kilometers of a municipality with a population greater than 10,000 but less than or equal to 1,00,000, it is categorized as Urban Agricultural Land and is recognized as a capital asset. In this instance, the second agricultural land is located 1.5 kilometers away from a municipality with a population of 12,000. Being within the 2-kilometer limit, it qualifies as Urban Agricultural Land. As a result, it is a capital asset, and the transfer of this land would give rise to capital gains. Further, since the land is sold within 24 months of the date of acquisition, it would be treated as a short-term capital asset.

Therefore, Capital Gains = Full Value of Consideration – Cost of Acquisition

Capital Gains = ₹53,00,000 – ₹46,00,000 = ₹7,00,000.

Question 7

XYZ Pvt. Ltd. provides a car (below 1.6 ltr cc) along with a driver to Mr. Sanjay, employee of XYZ Pvt. Ltd., partly for official and partly for personal purpose. The expenses incurred by the company are: Running and maintenance expenses Rs. 32,000 and drivers salary Rs. 36,000. The taxable value of car facility for A.Y. 2025-26 will be:

- a. Rs. 21,600
- b. Rs. 10,800
- c. Rs. 32,400

d. Rs. 39,600

Solution

(c)

When a car is owned or hired by the employer, provided to the employee partly for official and partly for personal use, and the expenses (including driver) are met or reimbursed by the employer, the taxable value of this perquisite is determined based on fixed monthly amounts, irrespective of the actual expenses incurred.

Steps:

1. **Identify the Car Type:** The car has an engine capacity below 1.6 litre cc. This is classified as a 'small car' for perquisite valuation purposes.
2. **Identify Who Bears Expenses:** The employer (XYZ Pvt. Ltd.) incurs the running/maintenance expenses and the driver's salary.
3. **Determine Usage:** The car is used partly for official and partly for personal purposes.
4. **Determine if Driver is Provided:** Yes, a driver is provided by the employer.
5. **Apply the Rule:**
 - For a small car (up to 1.6 ltr cc) provided for mixed use where the employer bears the expenses, the fixed value is **Rs. 1,800 per month**.
 - Since a driver is also provided by the employer, an additional fixed value of **Rs. 900 per month** is added.
6. **Calculate the Total Monthly Taxable Value:**
 - Value = Value for Car + Value for Driver
 - Value = Rs. 1,800 + Rs. 900 = Rs. 2,700 per month.
7. **Calculate the Total Annual Taxable Value (for A.Y. 2025-26):**
 - Assuming the facility was provided for the entire previous year (12 months).
 - Annual Value = Monthly Value * 12
 - Annual Value = Rs. 2,700 * 12 = **Rs. 32,400**.

Important Note: The actual expenses incurred by the company (Rs. 32,000 for running/maintenance + Rs. 36,000 for driver's salary = Rs. 68,000) are *not* used for calculating the taxable perquisite value in this specific situation. The fixed statutory values are applied.

Conclusion:

The taxable value of the car facility for Mr. Sanjay for A.Y. 2025-26 is Rs. 32,400.

Question 8

Mr. X acquires an asset in the year 2017-18 for the use for scientific research for Rs. 2,75,000. He claimed deduction under section 35(1)(iv) in the previous year 2017-18. The asset was brought into use for the business of Mr. X in the P.Y. 2024-25, after the research was completed. The actual cost of the asset to be included in the block of assets is:

- a. Nil
- b. Market value of the asset on the date of transfer to business
- c. ₹2,75,000 less notional depreciation under section 32 upto the date of transfer.
- d. Actual cost of the asset i.e., ₹2,75,000

Solution

(a)

When an asset which was purchased for scientific research is brought into use for the business, the actual cost to be added in the block of assets is NIL.

Question 9

An electricity company charging depreciation on the straight-line method on each asset separately, sells one of its machinery in April, 2024 at Rs. 1,20,000. The WDV of the machinery at the beginning of the year i.e., on 1st April, 2024 is Rs. 1,35,000. No new machinery was purchased during the year. The shortfall of Rs. 15,000 would be:

- a. Terminal depreciation
- b. Normal depreciation
- c. Always a short-term capital loss
- d. Short-term capital loss or long-term capital loss, depending upon the period of holding

Solution

(a)

In the given scenario, an electricity company sells machinery for ₹1,20,000, while its Written Down Value (WDV) at the beginning of the year is ₹1,35,000. The shortfall of ₹15,000 in this case is referred to as "Terminal Depreciation".

Terminal Depreciation is a concept in accounting and taxation where the sale proceeds of an asset are less than its WDV. It represents the additional depreciation that is claimed when an asset is sold, discarded, demolished, or destroyed and its book value (WDV) is higher than the amount realized from its sale or disposal.

Here are the specifics for this case:

- Sale Price of Machinery: ₹1,20,000.
- WDV of Machinery on 1st April, 2024: ₹1,35,000.
- Shortfall (WDV – Sale Price): ₹1,35,000 – ₹1,20,000 = ₹15,000.

This shortfall of ₹15,000 is not a capital loss, as it is related to the recovery of the cost of a depreciable asset. It is also not normal depreciation, which is calculated annually based on the original cost and the useful life of the asset. Instead, it is terminal depreciation, which is claimed in the year the asset is sold or discarded.

Question 10

Anirudh stays in New Delhi. His basic salary is Rs. 10,000 p.m., D.A. (60% of which forms part of pay) is Rs. 6,000 p.m., HRA is Rs. 5,000 p.m. and he is entitled to a commission of 1% on the turnover achieved by him. Anirudh pays a rent of Rs. 5,500 p.m. The turnover achieved by him during the current year is Rs. 12 lakhs. The amount of HRA exempt under section 10(13A), if he exercises the option of shifting out of the default regime provided under section 115BAC(1A), is:

- a. ₹48,480
- b. ₹45,600
- c. ₹49,680
- d. ₹46,800

Solution

(a)

Computation of Amount of Exempt HRA

Particulars	₹
HRA actually received ($₹5,000 \times 12$)	60,000
Rent Paid – 10% of Salary $\{ (₹5,500 \times 12) - (10\% \times ₹1,75,200) \}$ (Note 1)	48,480
50% of Salary ($50\% \times ₹1,75,200$) (Since he stays in Delhi)	87,600
Lower of the above is exempt	48,480

Note 1 - Calculation of Salary

Particulars	₹
Basic Salary ($₹10,000 \times 12$)	1,20,000
DA forming part of basic pay ($60\% \times ₹6,000 \times 12$)	43,200
Commission on Turnover ($1\% \times ₹12,00,000$)	12,000
Salary	1,75,200

Question 11

Mr. X, a foreign national and citizen of USA, working with M Inc., a US based company, came to India during the P.Y. 2024-25 for rendering services on behalf of the employer. He wishes to claim his salary income earned during his stay in India as exempt. Which of the following is *not* a condition to be fulfilled to claim such remuneration as exempt income under the Income-tax Act, 1961?

- a. M Inc. should not be engaged in any trade or business in India
- b. Mr. X should not be engaged in any trade or business in India
- c. Mr. X's stay in India should not exceed 90 days in aggregate during the P.Y. 2024-25
- d. Remuneration received by Mr. X should not be liable to be deducted from M Inc.'s income chargeable to tax under the Income-tax Act, 1961

Solution

(b)

Relevant Provision: Section 10(6)(vi): This section provides an exemption for remuneration received by an individual who is not a citizen of India, under the following conditions:

1. The individual is an employee of a foreign enterprise.
2. The foreign enterprise is not engaged in any trade or business in India.
3. The employee's stay in India during the relevant Previous Year (P.Y. 2024-25 in this case) does not exceed 90 days in aggregate.
4. The remuneration received by the employee is not liable to be deducted from the employer's income chargeable to tax under the Indian Income-tax Act, 1961.

Evaluating the Options:

Let's check each option against these conditions:

- a. M Inc. should not be engaged in any trade or business in India: This matches condition #2 above. This is a required condition.
- b. Mr. X should not be engaged in any trade or business in India: Section 10(6)(vi) focuses on the *employer's* business activities in India and the nature of the *employee's remuneration from that foreign employer*. It does not explicitly restrict the employee (Mr. X) from potentially having other personal business interests in India (though income from such separate business would be taxable based on other provisions). Therefore, this is likely not a condition specifically required *for the exemption of his salary from M Inc.* under this section.
- c. Mr. X's stay in India should not exceed 90 days in aggregate during the P.Y. 2024-25: This matches condition #3 above. This is a required condition.
- d. Remuneration received by Mr. X should not be liable to be deducted from M Inc.'s income chargeable to tax under the Income-tax Act, 1961: This matches condition #4 above. This is a required condition.

Conclusion:

The condition that is not explicitly required to be fulfilled by Mr. X to claim his salary from M Inc. as exempt under Section 10(6)(vi) is that *he himself* should not be engaged in any trade or business in India. The conditions primarily relate to his employer's status in India, his duration of stay for rendering services to that employer, and the tax treatment of his remuneration vis-à-vis the employer's Indian income.

Therefore, the correct option is:

- b. Mr. X should not be engaged in any trade or business in India

Question 12

The HRA paid to an employee residing in Patna is exempt up to the lower of actual HRA, excess of rent paid over 10% of salary and:

- a. 30% of salary
- b. 40% of salary
- c. 50% of salary
- d. 60% of salary

Solution

(b)

Question 13

The W.D.V. of a block (Plant and Machinery, rate of depreciation 15%) as on 1.4.2024 is Rs. 3,20,000. A second-hand machinery costing Rs. 50,000 was acquired on 1.9.2024 through account payee cheque but put to use on 1.11.2024. During January 2025, part of this block was sold for Rs. 2,00,000. The depreciation for A.Y.2025-26 would be:

- a. ₹21,750
- b. ₹25,500
- c. ₹21,125
- d. ₹12,750

Solution

(a)

Calculation of Depreciation	
Particulars	₹
WDV as on 01-04-2023	3,20,000
Add: Purchases during the year	50,000
	3,70,000
Less: Sales during the year	2,00,000
WDV for Depreciation	1,70,000
Depreciation on New Machine (Put to use for less than 180 days) $(50\% \times 15\% \times ₹50,000)$	3,750
Depreciation on Balance Block $\{15\% \times (₹1,70,000 - ₹50,000)\}$	18,000
Total Depreciation	21,750

Question 14

Unexhausted basic exemption limit of a resident individual can be adjusted against:

- a. only LTCG taxable @20% u/s 112
- b. only STCG taxable @15% u/s 111A
- c. both (a) and (b)
- d. casual income taxable @30% u/s 115BB

Solution

(c)

In the case of a resident individual, the unexhausted basic exemption limit can be adjusted against both Long-Term Capital Gains (LTCG) taxable at 20% under Section 112 and Short-Term Capital Gains (STCG) taxable at 15% under Section 111A. This means that if the basic exemption limit is not fully utilized by other income, it can be used to reduce the taxable amount of these specific types of capital gains.

However, unexhausted basic exemption limit cannot be adjusted against casual income taxable @30% u/s 115BB.

Question 15

Mr. A, an eligible assessee, following mercantile system of accounting, carrying on eligible business u/s 44AD provides the following details:

- Total turnover for the F.Y. 2024-25 is ₹130 lakh
- Out of the above:
 - ₹25 lakh received by A/c payee cheque during the F.Y. 2024-25;
 - ₹50 lakh received by cash during the F.Y. 2024-25;
 - ₹25 lakh received by A/c payee bank draft before the due date of filing of return;
 - ₹30 lakh not received till due date of filing of return.

What shall be the amount of deemed profits of Mr. A under section 44AD(1) for A.Y. 2025-26?

- a. ₹10.4 lakh
- b. ₹7.0 lakh
- c. ₹5.5 lakh
- d. ₹9.4 lakh

Solution

(d)

If a person opts for Section 44AD, 8% of his gross receipts are deemed to be his profits. If the receipts are by way of A/c Payee Cheque, or A/c Payee Bank Draft, or any mode of electronic clearance system, only 6% of those receipts are deemed to be his profits. However, these lesser profits can be claimed only if receipts have been received by the assessee during the relevant previous year, or before the due date of filing the return of income u/s 139(1).

Based on above, deemed profits of Mr. A are computed as below:

Computation of Deemed Profits of Mr. A	
Particulars	₹
6% of ₹25 lakh received by A/c Payee Cheque	1,50,000
8% of ₹50 lakh received in cash	4,00,000
6% of ₹25 lakh received by A/c Payee Bank Draft	1,50,000
8% of ₹30 lakh not received yet	2,40,000
Deemed Profits	9,40,000

Question 16

Mr. Mayank has received a sum of Rs. 75,000 on 24.10.2024 from his friend on the occasion of his marriage anniversary. What would be the taxability of the said sum in the hands of Mr. Mayank?

- a. Entire ₹75,000 is chargeable to tax
- b. Entire ₹75,000 is exempt from tax
- c. Only ₹25,000 is chargeable to tax
- d. Only 50% i.e., ₹37,500 is chargeable to tax

Solution

(a)

Under Section 56(2)(x) of the Income Tax Act, any sum of money received by an individual exceeding ₹50,000 in a financial year is taxable under the head 'Income from Other Sources.' It's important to note that if the total sum received over the year crosses this threshold, the entire amount becomes taxable, not just the excess over ₹50,000. However, there are exceptions to this rule. Notably, sums received during an individual's marriage are exempt from taxation under this section.

In the present case, the sum of money in question was received on the occasion of a marriage anniversary, not during the marriage itself. This distinction is crucial because sums received for marriage anniversaries do not qualify for the exemption. Consequently, since the received amount is above the ₹50,000 limit, the full sum is subject to taxation under Section 56(2)(x).

Question 17

Mr. Hari received voluntary retirement compensation of Rs. 8,00,000 after 30 years 2 months of service. He still has 5 years of service left. At the time of voluntary retirement, he was drawing basic salary Rs. 15,000 p.m.; Dearness allowance (which forms part of pay) Rs. 3,000 p.m. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief under section 89:

- Rs. 8,00,000
- Rs. 5,00,000
- Rs. 3,00,000
- Nil

Solution

(c)

Calculation of Taxable VRS Compensation of Mr. Hari for A.Y. 2025-26

Particulars	₹
Voluntary Retirement Compensation Received	8,00,000
Less: Exemption u/s 10(10C)	
Least of the Following:	
Compensation Actually Received	8,00,000
Statutory Limit	5,00,000
3 months' salary × Completed Years of Service {(₹15,000 + ₹3,000) × 3 × 30}	16,20,000
Last Drawn Salary × Remaining Months left of service {(₹15,000 + ₹3,000) × 12 months × 5 years}	10,80,000
	5,00,000
Taxable Voluntary Retirement Compensation	3,00,000

Question 18

Ganesh and Rajesh are co-owners of a self-occupied property. They own 50% share each. The interest paid by each co-owner during the previous year 2024-25 on loan (taken for acquisition of property during the year 2006) is ₹2,05,000. Both Ganesh and Rajesh have opted to shift out of the default tax regime u/s 115BAC(1A). The amount of allowable deduction in respect of each co-owner is:

- ₹2,05,000
- ₹1,02,500

- c. ₹2,00,000
- d. ₹1,00,000

Solution

(c)

In case of self-occupied property, the maximum deduction allowed for interest on loan is ₹2,00,000. However, when the property is co-owned by one or more individuals, this limit is applicable to each co-owner, i.e., each co-owner can claim a deduction of upto ₹2,00,000.

In this question, we are asked the amount of 'allowable' deduction in respect of each co-owner. Therefore, the answer would be option (c), i.e., ₹2,00,000.

Note: If the question had asked the amount of deduction 'allowed' in respect of each co-owner, then the answer would have been option (b), i.e., ₹1,02,000 ($₹2,05,000 \div 2$).

Question 19

Mr. Vishal and Mr. Guha sold their residential house property in Pune for Rs. 3 crore and Rs. 4 crore, respectively, in April, 2024. The house property was purchased by them 25 months back. The indexed cost of acquisition is Rs. 1 crore and Rs. 1.75 crore, respectively. Mr. Vishal purchased two residential flats, one in Delhi and one in Agra for Rs. 70 lakhs and Rs. 80 lakhs, respectively, in May, 2024. On the same date, Mr. Guha also purchased two residential flats, one in Mumbai and the other in Pune, for Rs. 80 lakhs and Rs. 75 lakhs, respectively. Both of them invested Rs. 30 lakhs in bonds of NHAI and Rs. 30 lakhs in bonds of RECL in June, 2024. What is the income taxable under the head Capital Gains for A.Y. 2025-26 in the hands of Mr. Vishal and Mr. Guha?

- a. ₹70 lakhs and ₹95 lakhs, respectively
- b. ₹60 lakhs and ₹85 lakhs, respectively
- c. Nil and ₹95 lakhs, respectively
- d. Nil and ₹20 lakhs, respectively

Solution

(c)

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

Particulars		₹
Full Value of Consideration		3,00,00,000
Less: Indexed Cost of Acquisition		1,00,00,000
Capital Gains		2,00,00,000
Less: Exemption u/s 54 (Note 1)		
Flat in Delhi	70,00,000	
Flat in Agra	80,00,000	1,50,00,000
		50,00,000
Less: Exemption u/s 54EC (Note 2)		
Bonds of NHAI	30,00,000	
Bonds of RECL	30,00,000	
	60,00,000	
Restricted to		50,00,000
Taxable Capital Gains		-

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

Particulars	₹
Full Value of Consideration	4,00,00,000
Less: Indexed Cost of Acquisition	1,75,00,000
Capital Gains	2,25,00,000
Less: Exemption u/s 54 (Note 1)	
Flat in Mumbai	80,00,000
Flat in Pune	75,00,000
	1,55,00,000
Restricted to	80,00,000
	1,45,00,000
Less: Exemption u/s 54EC (Note 2)	
Bonds of NHAI	30,00,000
Bonds of RECL	30,00,000
	60,00,000
Restricted to	50,00,000
Taxable Capital Gains	95,00,000

Notes:

1. When a residential house property is sold, and another residential house property is purchased, exemption u/s 54 is available to the extent of capital gains, or the amount expended for the new house property, whichever is less. This new house property should be purchased within 1 year before the date of transfer, or within two years after the date of transfer. If the capital gains do not exceed ₹2,00,00,000, then exemption can be claimed even for two new house properties. In the case of Mr. Vishal, the capital gains do not exceed ₹2,00,00,000, and hence, exemption is available for both the flats - of Delhi, as well as of Agra. However, in the case of Mr. Gua, the capital gains exceed ₹2,00,00,000, and therefore, exemption can be claimed only for one new house property. Obviously, exemption would be claimed for ₹80,00,000 to minimize the capital gains.
2. When an immovable property is sold, and the proceeds are invested in the bonds of NHAI, RECL, IRFCL, or PFCL within six months from the date of transfer, exemption is available u/s 54EC to the extent of the amount invested, or ₹50,00,000, whichever is lower.

Question 20

Mr. Raja, a proprietor, commenced operation of the business of a new three-star hotel in Mumbai on 1.7.2024. He had made a total investment of Rs. 7.58 crores till 30.6.2024. Out of total investment of Rs. 7.58 crores, Rs. 1.58 crores was used for the purchase of land in P.Y.2023-24. Rs. 4.70 crores was used for constructing the Hotel and the balance of Rs. 1.30 used for purchasing the furniture in P.Y. 2024-25. He wants to avail the benefit of deduction under section 35AD as he satisfied all the conditions prescribed u/s 35AD and has exercised the option of shifting out of the default regime provided under section 115BAC(1A). His profit and gains from the business for P.Y. 2024-25 is Rs. 50 lakhs before claiming deduction u/s 35AD. He wants to file his income-tax return on 15.07.2025. How much deduction Mr. Raja can claim for A.Y. 2025-26 and the losses which he can carry forward to A.Y. 2026-27?

- a. He can claim the deduction of Rs. 7.58 crores from his business income but he would not be able to carry forward the business loss of Rs. 7.08 crores

- b. He can claim the deduction of Rs. 6.00 crores from his business income and can carry forward the business loss of Rs. 5.50
- c. He can claim the deduction of Rs. 6.00 crores from his business income but cannot carry forward the business loss of Rs. 5.50
- d. He can claim the deduction of Rs. 7.58 crores from his business income and can carry forward the business loss of Rs. 7.08 crores

Solution

(b)

1. Understanding Section 35AD (Specified Business Deduction)

- Section 35AD allows a 100% deduction for capital expenditure incurred wholly and exclusively for a 'specified business'.
- Setting up and operating a new hotel of two-star or above category is a specified business [Sec. 35AD(8)(c)(ii)]. Mr. Raja's three-star hotel qualifies.
- The deduction is allowed in the year the business commences operations.
- Capital expenditure incurred *before* commencement is deemed incurred in the year of commencement if capitalized in the books.
- However, expenditure incurred on Land, Goodwill, or Financial Instruments is NOT eligible for this deduction. [Sec 35AD(8)(i)]

2. Calculating Eligible Capital Expenditure

- Total Investment = Rs. 7.58 crores.
- Expenditure incurred:
 - Purchase of Land (P.Y. 2023-24) = Rs. 1.58 crores
 - Hotel Construction (Leading up to 1.7.2024) = Rs. 4.70 crores
 - Furniture Purchase (P.Y. 2024-25) = Rs. 1.30 crores
- Identify ineligible expenditure:
 - Cost of Land = Rs. 1.58 crores (Specifically excluded from Sec 35AD deduction).
- Calculate eligible capital expenditure:
 - Hotel Construction = Rs. 4.70 crores (Eligible)
 - Furniture Purchase = Rs. 1.30 crores (Eligible)
 - Total Eligible Capital Expenditure = Rs. 4.70 crores + Rs. 1.30 crores = Rs. 6.00 crores.

3. Calculating Deduction u/s 35AD for A.Y. 2025-26

- The allowable deduction is 100% of the eligible capital expenditure.
- Deduction u/s 35AD = 100% of Rs. 6.00 crores = Rs. 6.00 crores.

4. Calculating Profit/Loss from the Specified Business

- Profit before claiming deduction u/s 35AD = Rs. 50 lakhs (or Rs. 0.50 crores).
- Less: Deduction u/s 35AD = Rs. 6.00 crores.
- Profit/(Loss) = Rs. 0.50 crores - Rs. 6.00 crores = (-) Rs. 5.50 crores.
- There is a loss of Rs. 5.50 crores from the specified hotel business.

5. Treatment of Loss from Specified Business (Section 73A)

- A loss computed under Section 35AD for a specified business can *only* be set off against profits from another specified business in the same assessment year.
- Assuming Mr. Raja has no other specified business, this loss of Rs. 5.50 crores cannot be set off against any other income in A.Y. 2025-26.
- Such unabsorbed loss can be carried forward indefinitely to subsequent assessment years to be set off only against profits of any specified business.
- Therefore, the loss to be carried forward to A.Y. 2026-27 is Rs. 5.50 crores.

Conclusion:

- Mr. Raja can claim a deduction of Rs. 6.00 crores under Section 35AD for A.Y. 2025-26.
- He will have a business loss from the specified business of Rs. 5.50 crores, which he can carry forward to A.Y. 2026-27 (and subsequent years) to be set off against future profits from specified businesses.

Question 21

Anand is provided with furniture to the value of Rs. 70,000 along with a house from 1st April 2024. The actual hire charges paid by his employer for the hire of furniture is Rs. 5,000 p.a. The value of furniture to be included along with the value of the unfurnished house for A.Y. 2025-26 is:

- ₹5,000
- ₹7,000
- ₹10,500
- ₹14,000

Solution

(a)

When any asset is provided to the employee for use, it is taxable as a perquisite. The value of this perquisite depends on whether the asset provided to the employee is owned by the employer or hired by the employer. If the asset provided to the employee is hired by the employer, the value of perquisite is the hire charges paid by the employer. In the present case, hire charges paid by the employer are ₹5,000 p.a., therefore, this will be the value of perquisite in the hands of Anand.

Question 22

Mr. Ram, an Indian resident, purchased a residential house property at Gwalior on 28.05.1999 for Rs. 28.5 lakhs. The fair market value and the stamp duty value of such house property as on 1.4.2001 was Rs. 33.5 lakhs and Rs. 32.4 lakhs, respectively. On 05.02.2012, Mr. Ram entered into an agreement with

Mr. Byomkesh for the sale of such property for Rs. 74 lakhs and received an amount of Rs. 3.9 lakhs as advance. However, as Mr. Byomkesh did not pay the balance amount, Mr. Ram forfeited the advance. What would be the indexed cost of acquisition of Mr. Ram if he sells the property on 23.05.2024?

Cost Inflation Index for F.Y. 2001-02: 100; F.Y. 2024-25: 363

- a. Rs. 1,16,58,000
- b. Rs. 1,07,44,800
- c. Rs. 89,29,800
- d. Rs. 1,03,45,500

Solution

(d)

If the property is purchased before 01-04-2001, its cost shall be either the actual cost or the FMV as on 01-04-2001, whichever is higher. However, it would be restricted to the SDV on 01-04-2001, if available. In the present case, the FMV as on 01-04-2001 is ₹33.5 lakhs, and SDV as on that date is ₹32.4 lakhs. Therefore, the cost of acquisition to be considered would be ₹32.4 lakhs.

If any advance money is forfeited before 01-04-2014, it is reduced from the cost of acquisition. In the present case, since the advance money was forfeited before 01-04-2014, it shall be reduced from the cost of acquisition, i.e., from ₹32.4 lakhs.

Therefore, indexed cost of acquisition would be calculated as follows:

$$(\text{₹}32,40,000 - \text{₹}3,90,000) \times \frac{363}{100} = \text{₹}1,03,45,500$$

Question 23

In the case of a Member of Parliament:

- a. Daily allowance is exempt but constituency allowance received as per applicable Rules is taxable.
- b. Constituency allowance received as per applicable Rules is exempt but daily allowance is taxable.
- c. Both daily allowance and constituency allowance received as per applicable Rules are taxable.
- d. Both daily allowance and constituency allowance received as per applicable Rules are exempt.

Solution

(d)

Section 10(17) of the Income-tax Act, 1961, provides exemptions for certain allowances received by MPs and MLAs. Specifically for Members of Parliament:

1. Section 10(17)(i): Exempts any daily allowance received by reason of membership of Parliament.
2. Section 10(17)(ii): Exempts any allowance received by reason of membership of Parliament under the Members of Parliament (Constituency Allowance) Rules, 1986. This covers the constituency allowance received as per applicable rules.

Conclusion:

Based on Section 10(17), both the daily allowance and the constituency allowance (received as per applicable rules) are exempt from income tax in the hands of a Member of Parliament.

Question 24

Under section 54EC, capital gains on transfer of land or building or both are exempted if invested in the bonds issued by NHAI & RECL or other notified bond

- within a period of 6 months after the date of such transfer
- within a period of 6 months from the end of the relevant previous year
- within a period of 6 months from the end of the previous year or the due date for filing the return of income under section 139(1), whichever is earlier
- At any time before the end of the relevant previous year.

Solution

(a)

Deduction u/s 54EC is available only if the investment in bonds of NHAI, RECL, IRFCL, or PFCL is made within 6 months from the date of the transfer of the capital asset.

Question 25

Mr. X, a retailer, acquired furniture on 10th May 2024 for Rs. 10,000 in cash and on 15th May 2024, for Rs. 15,000 and Rs. 20,000 by a bearer cheque and account payee cheque, respectively. Depreciation allowable for A.Y. 2025-26 would be:

- ₹2,000
- ₹3,000
- ₹3,500
- ₹4,500

Solution

(b)

To calculate the allowable depreciation for A.Y. 2025-26 on the furniture acquired by Mr. X, we need to consider the Income-tax Act, 1961's rules regarding asset acquisition and modes of payment. The Act disallows certain expenses incurred for assets purchased in cash or bearer cheques above ₹10,000 for the purpose of claiming depreciation.

Let's analyze the acquisitions:

- Furniture acquired on 10th May 2024 for ₹10,000 in cash: This is within the permissible limit for cash payment; hence, it is eligible for depreciation.
- Furniture acquired on 15th May 2024 for ₹15,000 by bearer cheque: As this exceeds the ₹10,000 limit, this amount is not eligible for depreciation.
- Furniture acquired on 15th May 2024 for ₹20,000 by account payee cheque: This is an acceptable mode of payment and is eligible for depreciation.

Thus, the total cost eligible for depreciation is:

₹10,000 (cash purchase) + ₹20,000 (account payee cheque purchase) = ₹30,000.

The rate of depreciation on furniture is 10%. Therefore, the depreciation for A.Y. 2025-26 would be:
10% of ₹30,000 = ₹3,000.

Question 26

Mr. Virat has a house property in Chennai which he let out to Mr. Sumit. For the acquisition of this house, Mr. Virat has taken a loan of Rs. 30,00,000 @10% p.a. on 1-4-2017. He has further taken a loan of Rs. 5 lakhs @12% p.a. on 1.7.2024 towards repairs of the house. He has not repaid any amount of loan so far. Further, he opts out of default regime u/s 115BAC(1). The amount of interest deduction u/s 24(b) to Mr. Virat for A.Y. 2025-26 is:

- a. Rs. 2,00,000
- b. Rs. 2,30,000
- c. Rs. 3,45,000
- d. Rs. 3,60,000

Solution

(c)

Okay, let's calculate the interest deduction allowable under Section 24(b) for Mr. Virat for A.Y. 2025-26.

Key Information:

- Property Status: Let Out Property (LOP)
- Tax Regime: Regular (Opted out of Sec 115BAC(1A))
- Assessment Year: 2025-26 (Previous Year: 2024-25, i.e., 01-Apr-2024 to 31-Mar-2025)
- Loan 1 (Acquisition): Rs. 30,00,000 @ 10% p.a. taken on 01-Apr-2017
- Loan 2 (Repairs): Rs. 5,00,000 @ 12% p.a. taken on 01-Jul-2024

Calculation of Interest Deduction u/s 24(b)

Section 24(b) allows deduction for interest on capital borrowed for acquisition, construction, repair, renewal, or reconstruction of house property.

1. Interest on Loan 1 (Acquisition) for P.Y. 2024-25:

- Principal = Rs. 30,00,000
- Rate = 10% p.a.
- Period = Full year (01-Apr-2024 to 31-Mar-2025)
- Interest = Rs. 30,00,000 * 10% = Rs. 3,00,000

2. Interest on Loan 2 (Repairs) for P.Y. 2024-25:

- Principal = Rs. 5,00,000
- Rate = 12% p.a.

- Period = From 01-Jul-2024 to 31-Mar-2025 = 9 months
- Interest = Rs. 5,00,000 * 12% * (9/12)
- Interest = Rs. 5,00,000 * 0.12 * 0.75 = Rs. 45,000

3. Total Interest:

- Total Interest = Interest on Loan 1 + Interest on Loan 2
- Total Interest = Rs. 3,00,000 + Rs. 45,000 = Rs. 3,45,000

Applying the Rule for Let Out Property (LOP)

For a let-out property, the entire amount of interest payable on borrowed capital (for acquisition, construction, repair, etc.) during the previous year is allowed as a deduction under Section 24(b). There is no upper monetary limit like the one applicable for self-occupied property.

Conclusion:

The total allowable interest deduction under Section 24(b) for Mr. Virat for A.Y. 2025-26 is Rs. 3,45,000.

Question 27

Mr. Harry and Mr. Sujoy, residents and Indian citizens, have been appointed as senior officials of Country A embassy and Country B embassy, respectively, in India in October 2024. Mr. Harry and Mr. Sujoy are subjects of Country A and Country B, respectively, and are not engaged in any other business or profession in India. The remuneration received by Indian officials working in the Indian embassy in Country A is exempt but in Country B is taxable. The tax treatment of remuneration received by Mr. Harry and Mr. Sujoy from embassies of Country A and Country B, respectively, in India for the P.Y. 2024-25 is:

- Exempt from income-tax under section 10
- Taxable under the Income-tax Act, 1961
- Remuneration received by Mr. Harry is exempt but remuneration received by Mr. Sujoy is taxable
- Remuneration received by Mr. Sujoy is exempt but remuneration received by Mr. Harry is taxable

Solution

(b)

1. Identify the Applicable Section:

The relevant section potentially providing exemption for remuneration received by individuals working in foreign embassies in India is Section 10(6)(ii).

2. Analyze Section 10(6)(ii):

This section provides exemption for remuneration received by an individual for services rendered in India in their official capacity as an official of an embassy, high commission, legation, commission, consulate, or trade representation of a foreign State, or as a member of the staff of any of these officials, provided:

- The individual is not a citizen of India.
- The remuneration received by the corresponding officials or staff members of the Government of India in the concerned foreign country enjoys a similar exemption (reciprocity condition).

3. Apply to Mr. Harry and Mr. Sujoy:

- Both Mr. Harry and Mr. Sujoy are explicitly stated to be residents and Indian citizens.
- Since they are Indian citizens, the primary condition for exemption under Section 10(6)(ii) (i.e., the individual should *not* be a citizen of India) is not met for either of them.

4. Consequence of Not Meeting the Condition:

- Because the condition of being a non-citizen is not met, the exemption under Section 10(6)(ii) is not available to Mr. Harry or Mr. Sujoy.
- The information provided about reciprocity (tax treatment of Indian officials in County A and County B) is relevant *only* if the individuals claiming exemption are non-citizens of India. Since Mr. Harry and Mr. Sujoy are Indian citizens, this reciprocity information is irrelevant for determining the taxability of *their* income in India.

5. Determine Taxability Based on General Principles:

- Mr. Harry and Mr. Sujoy are residents of India. Residents are generally taxed on their global income.
- They are rendering services *within India* (working at embassies located in India).
- Income from salaries earned in India (for services rendered in India) accrues or arises in India [Section 9(1)(ii)].
- Income accruing or arising in India is taxable in India for residents.
- Since no specific exemption applies (as Section 10(6)(ii) is not applicable due to their Indian citizenship), their salary income is taxable under the normal provisions of the Income-tax Act, 1961.

Conclusion:

The remuneration received by both Mr. Harry and Mr. Sujoy is taxable in India because they are Indian citizens rendering services in India, and the exemption under Section 10(6)(ii) is not available to Indian citizens.

Question 28

Mr. Jagat is an employee in accounts department of Bharat Ltd., a cellular company operating in the regions of eastern India. It is engaged in manufacturing of cellular devices. During F.Y. 2024-25, following transactions were undertaken by Mr. Jagat:

1. He attended a seminar on "Perquisite Valuation". Seminar fees of ₹12,500 was paid by Bharat Ltd.
2. Tuition fees of Mr. Himanshu (son of Mr. Jagat) paid to private coaching classes (not having any tie-up with Bharat Ltd.) was reimbursed by Bharat Ltd. Amount of fees was ₹25,000.

3. Ms. Sapna (daughter of Mr. Jagat) studies in DPS Public School (owned and maintained by Bharat Ltd.). Tuition fees paid for Ms. Sapna was ₹750 per month by Mr. Jagat. Cost of education in similar institution is ₹5,250 per month.

What shall be the amount which is chargeable to tax under the head "Salaries" in hands of Mr. Jagat for A.Y. 2025-26?

- ₹25,000
- ₹37,500
- ₹66,500
- ₹79,000

Solution

(d)

Computation of Amount to be Chargeable Under the Head Salaries

Particulars	₹
Seminar fees paid by Bharat Ltd. (Note 1)	-
Tuition fee of son of Mr. Jagat (Note 2)	25,000
Tuition fee of daughter of Mr. Jagat (Note 3)	54,000
Amount chargeable as Salaries	79,000

Notes:

- In the absence of any information, it is assumed that the seminar was attended for official purposes, and its fees was paid by the employer. Since it was for official purposes, it won't be taxable.
- Since the employer doesn't have any tie-up with the private coaching, the entire fees paid by the employer shall be chargeable as Salaries.
- Calculation of Taxable Perquisite**

Particulars	₹
Cost of Education in similar institution per month	5,250
Less: Amount paid by Mr. Jagat per month	750
Value of benefit per month	4,500
Since the value of benefit per month exceeds ₹1,000, the entire benefit shall be chargeable as perquisite.	
Therefore, taxable amount (₹4,500 × 12)	54,000

Question 29

In P.Y. 2024-2025, Mr. A has transferred the following assets:

Asset Transferred	Full Value of Consideration (₹)	Indexed Cost of Acquisition (₹)	Transfer Date
Residential House Property	8 crores	6 crores	25.11.2024
Jewelry	3 crores	2 crores	05.01.2025

Mr. A bought a new residential house property on 01.04.2023 for ₹1 crore and on 28.02.2025 deposited ₹3 crores in a capital gains deposit account scheme. On 01.05.2025, Mr. A has withdrawn ₹3 crores from capital gains deposit account and acquired a residential house property worth ₹2.5 crore. What would be the capital gains in the hands of Mr. A for A.Y. 2025-26, if the expenses in connection with transfer of jewelry were ₹2,00,000?

- a. ₹80,50,000
- b. ₹81,55,705
- c. ₹98,00,000
- d. ₹48,00,000

Solution

(b)

Calculation of Capital Gains on Transfer of Residential House Property for A.Y. 2025-26

Particulars	₹
Full Value of Consideration	8,00,00,000
Less: Indexed Cost of Acquisition	6,00,00,000
Capital Gains	2,00,00,000
Less: Exemption u/s 54 (Note 1)	2,00,00,000
Taxable Capital Gains	-

Calculation of Capital Gains on Transfer of Jewellery for A.Y. 2025-26

Particulars	₹
Full Value of Consideration	3,00,00,000
Less: Expenses on Transfer	2,00,000
Net Sale Consideration	2,98,00,000
Less: Indexed Cost of Acquisition	2,00,00,000
Capital Gains	98,00,000
Less: Exemption u/s 54F (Note 2)	16,44,295
Taxable Capital Gains	81,55,705

Notes:

- When a residential house property is sold, and another residential house property is purchased, exemption u/s 54 is available to the extent of capital gains, or the amount expended for the new house property, whichever is less. This new house property should be purchased within 1 year before the date of transfer, or within two years after the date of transfer. In the present case, the date of transfer is 25-11-2024. Since the house property purchased on 01-04-2023 is even before 1 year from the date of transfer, exemption u/s 54 won't be available for this house property. Then, a new house property was purchased for ₹2,50,00,000 on 01-05-2025, which falls within two years after the date of transfer, and hence exemption u/s 54 will be available. However, this exemption shall be restricted to the amount of capital gains, i.e., ₹2,00,00,000. The balance ₹50,00,000 can be claimed u/s 54F as discussed in the below note.
- When any long-term capital asset is sold, and a residential house property is purchased, exemption u/s 54F is available. If the entire net sale consideration is used for the purchase of new house property, the entire amount capital gains is exempted. However, if less than the sale consideration is used, only proportionate exemption is available. In the present case, the cost of the new house property is ₹2,50,00,000. Since the exemption upto ₹2,00,00,000 is already claimed u/s 54, we'll be claiming the exemption of only ₹50,00,000 in this section. Since this is less than the net sale consideration, proportionate exemption will be available. Therefore, the amount of exemption would be $(₹50,00,000 \times ₹98,00,000) \div ₹2,98,00,000 = ₹16,44,295$.

Question 30

K is a working partner in a firm on behalf of his HUF and the HUF has contributed ₹3,00,000 as its capital contribution. Apart from this, K has given a loan of ₹50,000 to the firm in his individual capacity. The firm pays interest as per market rate of 15% per annum on capital as well as loan. Compute the amount of interest that shall be allowed to the firm while calculating its business income assuming that the interest is authorized by the partnership deed.

- a. ₹42,000
- b. ₹51,000
- c. ₹52,500
- d. ₹43,500

Solution

(d)

As per Section 40(b) of the Income-tax Act, interest paid by a firm to its partners is deductible in computing the income of the firm, provided certain conditions are met. The conditions include that the interest must be authorized by the partnership deed and should not exceed the limit prescribed by the Act.

For the interest paid on capital:

- The HUF has contributed ₹3,00,000 as capital.
- The firm pays 15% per annum as interest on this capital.
- However, the deductible interest on capital contributed by a partner is subject to a maximum limit of 12% per annum as per Section 40(b).

Therefore, interest allowed on the capital contribution = 12% of ₹3,00,000 = ₹36,000.

For the interest paid on loan:

- K has given a loan of ₹50,000 to the firm in his individual capacity.
- The firm pays 15% per annum as interest on this loan.
- Interest on loans from partners can be deducted if it is authorized by the partnership deed and paid at a reasonable market rate.

Therefore, interest allowed on the loan = 15% of ₹50,000 = ₹7,500.

The total interest amount that shall be allowed to the firm while calculating its business income = Interest on capital + Interest on loan = ₹36,000 + ₹7,500 = ₹43,500.

Thus, the correct answer is option (d): ₹43,500.

Question 31

For an assessee, who is a salaried employee who invests in equity shares, what is the benefit available in respect of securities transaction tax paid by him on sale and acquisition of 100 listed shares of X Ltd. which has been held by him for 14 months before sale?

- a. Rebate under section 88E is allowable in respect of securities transaction tax paid

- b. Securities transaction tax paid is treated as expenses of transfer and deducted from sale consideration.
- c. Capital gains without deducting STT paid is taxable u/s 112A
- d. Capital gains without deducting STT paid is taxable u/s 111A.

Solution

(c)

Securities Transaction Tax paid at the time of purchasing the shares is not considered as a part of cost for the purpose of calculation of Capital Gains. Also, Securities Transaction Tax paid at the time of sale of shares is not allowed as a deduction from the Selling Price for the purpose of calculation of Capital Gains. Therefore, no benefit of Securities Transaction Tax is available to the assessee. Further, since the period of holding exceeds 12 months, it is a long term capital gain. Long Term Capital Gains on sale of listed equity shares on which STT is paid are taxable as per the provisions of Section 112A.

Question 32

Mr. A purchased equity shares of a listed company on 01.05.2024 through the Bombay Stock Exchange. He will sell the said shares after holding them for 18 months on BSE. Mr. A is predicting that he will make a profit of Rs. 1,30,000 by selling the equity shares and further, is of the view that the said profit shall be exempt from income-tax. Determine whether Mr. A's view is correct in the light of the tax implications that shall arise in his hands in the year of transfer of the said equity shares.

- a. Mr. A's view is correct. The resultant gain would be a long-term capital gain arising from the sale of STT paid listed equity shares, which is fully exempt from tax.
- b. Mr. A's view is incorrect. The resultant gain would be a long-term capital gain, chargeable to tax in his hands at the rate of 20%.
- c. Mr. A's view is incorrect. The resultant gain would be a short term capital gain, chargeable to tax in his hands at the rate of 20%.
- d. Mr. A's view is partially correct. The resultant gain would be a long term capital gain, exempt to the extent of Rs. 1,25,000. The long-term capital gain in excess of Rs. 1,25,000 would be taxable@12.5%.

Solution

(d)

1. Asset: Listed equity shares purchased May 1, 2024, on BSE.
2. Holding Period: 18 months (LTCG).
3. Sale Date: Approximately November 1, 2025 (This is *after* the effective date of the amendment, July 23, 2024).
4. Predicted LTCG: Rs. 1,30,000.
5. Applicable Rules: Amended Section 112A.
6. Calculation:
 - Total LTCG = Rs. 1,30,000

- Exemption Limit = Rs. 1,25,000
- Taxable LTCG = Rs. 1,30,000 - Rs. 1,25,000 = Rs. 5,000
- Tax Liability = 12.5% of Rs. 5,000 = Rs. 625 (plus cess).

7. Mr. A's View: That the gain is fully exempt is incorrect.

Question 33

Mr. Raghav has three houses for self-occupation. What would be the tax treatment for A.Y. 2024-25 in respect of income from house property?

- a. One house, at the option of Mr. Raghav, would be treated as self-occupied. The other two houses would be deemed to be let out.
- b. Two houses, at the option of Mr. Raghav, would be treated as self-occupied. The other house would be deemed to be let out.
- c. One house, at the option of Assessing Officer, would be treated as self-occupied. The other two houses would be deemed to be let out.
- d. Two houses, at the option of Assessing Officer, would be treated as self-occupied. The other house would be deemed to be let out.

Solution

(b)

When the assessee owns more than two self-occupied properties, any two of such properties (at the option of the assessee) are treated as self-occupied, and the remaining are treated as deemed to be let out.

Question 34

Mr. Kashyap has acquired a building from his friend on 10.10.2024 for ₹15,00,000. The stamp duty value of the building on the date of purchase is ₹16,20,000. Income chargeable to tax in the hands of Mr. Kashyap is:

- a. ₹70,000
- b. ₹50,000
- c. Nil
- d. ₹1,20,000

Solution

(c)

As per Section 56(2)(x), when a person acquires an immovable property for a consideration less than the SDV, the difference between the SDV and consideration is taxable if both the following conditions are satisfied:

1. The difference is greater than ₹50,000; AND
2. $SDV > 110\%$ of the Consideration.

In the present case, consideration is ₹15,00,000, and SDV is ₹16,20,000.

1. Difference between SDV and Consideration = ₹16,20,000 – ₹15,00,000 = ₹1,20,000
2. 110% of Consideration = 110% × ₹15,00,000 = ₹16,50,000.

Even though the difference between SDV and consideration exceeds ₹50,000; however, the difference of ₹1,20,000 won't be taxed u/s 56(2)(x) in the hands of Mr. Kashyap since the SDV is not greater than 110% of the consideration.

Question 35

Mr. Vikas took a loan of Rs. 15,00,000 @10% p.a. on 1-4-2021 for the construction of a residential house for self-occupation. The construction of the house began in June 2021 and was completed on 30-6-2024. He has not repaid any amount of loan so far. The amount of interest deduction u/s 24(b) for A.Y. 2025-26, if he has exercised the option of shifting out of the default regime provided under section 115BAC(1A), is:

- a. Rs. 1,50,000
- b. Rs. 1,80,000
- c. Rs. 2,00,000
- d. Rs. 2,10,000

Solution

(c)

Calculation of Interest Allowable in A.Y. 2025-26

Particulars	₹
P.Y. 2021-22 (10% × ₹15,00,000)	1,50,000
P.Y. 2022-23 (10% × ₹15,00,000)	1,50,000
P.Y. 2023-24 (10% × ₹15,00,000)	1,50,000
Pre-Construction Period Interest	4,50,000
Pre-Construction Period Allowed (₹4,50,000 ÷ 5)	90,000
Add: Interest for P.Y. 2024-25 (10% × ₹15,00,000)	1,50,000
	2,40,000
Restricted to	2,00,000

Question 36

Mr. Kumar, engaged in the wholesale business of clothes and speculative business, discontinued its operations on 19.10.2024 and 30.09.2024, respectively. The cloth business loss up to 19.10.2024 for P.Y. 2024-25 is Rs. 8,000 and the speculative business loss up to 30.09.2024 for P.Y. 2024-25 was Rs. 40,000. Out of total bad debts of Rs. 1,00,000 that were claimed by Mr. Kumar in respect of a particular debtor, Rs. 60,000 was allowed by the Assessing Officer in P.Y. 2023-24. On 29.01.2025, Mr. Kumar received a sum of Rs. 68,000 from the debtor in full and final settlement of cloth business. How much amount would be taxable in the hands of Mr. Kumar for A.Y. 2025-26?

- a. Rs. 28,000
- b. Rs. 20,000
- c. Rs. 60,000
- d. Rs. 68,000

Solution

(b)

1. Determine the Taxable Amount from Bad Debt Recovery [Section 41(4)]

- Background:
 - Bad Debt Claimed (P.Y. 2023-24) = Rs. 1,00,000
 - Bad Debt Deduction Allowed (P.Y. 2023-24) = Rs. 60,000
 - Bad Debt Disallowed (and effectively taxed in P.Y. 2023-24) = Rs. 1,00,000 - Rs. 60,000 = Rs. 40,000
 - Amount Recovered (P.Y. 2024-25) = Rs. 68,000
- Calculation: The recovery (Rs. 68,000) is first adjusted against the portion of the debt that was disallowed (Rs. 40,000). The remaining amount is considered taxable under Section 41(4).
 - Taxable Recovery = Amount Recovered - Amount Disallowed
 - Taxable Recovery = Rs. 68,000 - Rs. 40,000 = Rs. 28,000
- This Rs. 28,000 is deemed as income under the head "Profits and Gains of Business or Profession" (PGBP) for P.Y. 2024-25 (A.Y. 2025-26).

2. Identify Other Business Income/Losses for P.Y. 2024-25

- Loss from Cloth Business (Non-speculative) = Rs. 8,000
- Loss from Speculative Business = Rs. 40,000

3. Apply Set-off Provisions (Intra-head Adjustment)

- Income under PGBP: Taxable Bad Debt Recovery = Rs. 28,000
- Losses under PGBP:
 - Non-speculative Loss = Rs. 8,000
 - Speculative Loss = Rs. 40,000
- Set-off Rules:
 - Non-speculative loss (Rs. 8,000) can be set off against any other business income, including the taxable bad debt recovery.
 - Speculative loss (Rs. 40,000) can *only* be set off against speculative profits (Section 73). Since there are no speculative profits, this loss cannot be set off.
- Calculation:
 - Net Income/(Loss) = Taxable Recovery - Non-speculative Loss
 - Net Income/(Loss) = Rs. 28,000 - Rs. 8,000 = Rs. 20,000

4. Determine Final Taxable Amount and Carry Forward Loss

- The net taxable amount under the head PGBP for A.Y. 2025-26, arising from these transactions, is Rs. 20,000.

- The speculative business loss of Rs. 40,000 cannot be set off and will be carried forward to be set off against future speculative profits (up to a maximum of 4 assessment years).

Question 37

Unexhausted basic exemption limit of a non-resident individual can be adjusted against:

- only LTCG taxable @20% u/s 112
- only STCG taxable @15% u/s 111A
- both (a) and (b)
- neither (a) nor (b)

Solution

(d)

For non-resident individuals, the unexhausted basic exemption limit cannot be adjusted against either Long-Term Capital Gains (LTCG) taxable at 20% under Section 112 or Short-Term Capital Gains (STCG) taxable at 15% under Section 111A. The benefit of adjusting the unexhausted basic exemption limit is available only to resident individuals and Hindu Undivided Families (HUFs), but not to non-residents.

Question 38

Mr. Karan completed his MBA in April 2024 and joined XYZ Ltd from 01.05.2024. His basic salary is Rs. 2,25,000 p.m. He is paid 12% of basic salary as D.A forming part of retirement benefits. He contributed 11% of his pay and D.A. towards recognized provident fund and the company contributes the same amount. Accumulated interest on the provident fund as on 31.3.2025 is Rs. 49,325. What would be the income chargeable to tax under the head Salaries of Mr. Karan for the A.Y. 2025-26, if he exercises the option of shifting out of the default regime provided under section 115BAC(1A)?

- Rs. 27,26,442
- Rs. 27,30,884
- Rs. 27,22,000
- Rs. 27,71,325

Solution

(a)

Calculation of Income from Salaries of Mr. Karan for A.Y. 2025-26

Particulars		₹
Basic Salary ($₹2,25,000 \times 12$)		24,75,000
Dearness Allowance ($12\% \times ₹24,75,000$)		2,97,000
Employer's Contribution to RPF [$11\% \times (₹24,75,000 + ₹2,97,000)$]	3,04,920	
Less: Exempt: Lower of:		
Actual Contribution	3,04,920	
12% of Basic + DA (in Terms) [$12\% \times (₹24,75,000 + ₹2,97,000)$]	3,32,640	
	3,04,920	-
Accumulated Interest on Provident Fund (Note)		4,442
Gross Salary		27,76,442
Less: Deduction u/s 16		50,000
Taxable Salary		27,26,442

Note - Calculation of Taxable Accumulated Interest on Provident Fund

Particulars	₹
Employer's Contribution to RPF	3,04,920
Employee's Contribution to RPF	3,04,920
Total Contribution to RPF	6,09,840
Accumulated Interest	49,325
Rate of Interest ($₹49,325 \div ₹6,09,840$)	8.09%
Employee's Contribution in Excess of ₹2,50,000 ($₹3,04,920 - ₹2,50,000$) (See Note Below)	54,920
Accumulated Interest on Employee's Contribution in Excess of ₹2,50,000 ($8.09\% \times ₹54,920$)	4,442

Note: Interest on RPF is exempt upto 9.5%. Since the rate is 8.09%, the entire interest should be exempt. However, from 01-04-2021, if the employee's contribution in a year is more than ₹ 2,50,000, then any interest earned on the amount exceeding ₹ 2,50,000 is taxable; but if the employer's contribution is not there, then this limit is ₹ 5,00,000, i.e., any interest earned on the amount exceeding ₹ 5,00,000 is taxable. In the present case, since Employer's contribution is also there, the limit would be ₹2,50,000, meaning that any interest earned on employee's contribution in excess of ₹2,50,000 is fully taxable.

Question 39

Mr. Kashyap received a basic salary of Rs. 20,000 p.m. from his employer. He also received children's education allowance of Rs. 3,000 for three children and transport allowance of Rs. 1,800 p.m. Assume he exercises the option of shifting out of the default regime provided under section 115BAC (1A). The amount of salary chargeable to tax for P.Y. 2024-25 is:

- ₹2,62,600
- ₹2,12,600
- ₹2,11,600
- ₹2,12,200

Solution

(b)

Calculation of Taxable Salary of Mr. Kashyap for A.Y. 2025-26

Particulars	₹
Basic Salary ($₹20,000 \times 12$)	2,40,000
Children Education Allowance (Assuming ₹1,000 per child)	
Child 1	1,000
Less: Exempt ($₹100 \times 12 = ₹1,200$, restricted to ₹1,000)	1,000
Child 2	1,000
Less: Exempt ($₹100 \times 12 = ₹1,200$, restricted to ₹1,000)	1,000
Child 3	1,000
Less: Exempt (Note)	-
Transport Allowance ($₹1,800 \times 12$)	21,600
Gross Salary	2,62,600
Less: Standard Deduction u/s 16(ia)	50,000

Taxable Salary

2,12,600

Note: Exemption for Children Education Allowance is allowed for only two children.

Question 40

Mr. Shahid, a wholesale supplier of dyes, provides you with the details of the following cash payments made throughout the year:

- 12.06.2024: loan repayment of Rs. 27,000 taken for business purposes from his friend Kunal. The repayment also includes interest of Rs. 5,000.
- 19.08.2024: Portable dye machinery purchased for Rs. 15,000. The payment was made in cash in three weekly installments.
- 26.01.2025: Payment of Rs. 10,000 made to the electrician due to an unforeseen electric circuit at the shop.
- 28.02.2025: Purchases made from unregistered dealer for Rs. 13,500.

What will be disallowed under 40A(3), if any, if Mr. Shahid declares his income as per the provisions of section 44AD?

- a. ₹18,500
- b. ₹28,500
- c. ₹13,500
- d. Nil

Solution

(d)

No expenses are allowed as deduction when the assessee opts for Section 44AD. Since, nothing is allowed, the question of disallowance doesn't arise. Hence, the answer is option (d).

Question 41

Mr. X, aged 61 years, earned a dividend of Rs. 12,00,000 from ABC Ltd. in P.Y. 2024-25. Interest on loan taken for the purpose of investment in ABC Ltd., is Rs. 3,00,000. Income includible in the hands of Mr. X for P.Y. 2024-25 would be:

- a. ₹12,00,000
- b. ₹9,60,000
- c. ₹9,00,000
- d. ₹2,00,000

Solution

(b)

When a shareholder earns dividend, it is taxable as per the normal slab rates under the head Income from Other Sources. Interest expense incurred in earning the income by way of dividend is allowed as deduction. Amount of deduction is allowed is the actual expenditure incurred, or 20% of grossed-up

value, whichever is lower. In the present case, the dividend earned is ₹12,00,000. $20\% \times ₹12,00,000 = ₹2,40,000$. Therefore, deduction of ₹2,40,000 shall be allowed as it is lower than the actual expenditure incurred. Therefore, taxable dividends = ₹12,00,000 – ₹2,40,000 = ₹9,60,000.

Question 42

Mr. A (aged 45 years) sold agricultural land for Rs. 52 lakhs on 04.10.2024 acquired at a cost of Rs. 49.25 lakhs on 13.09.2023 situated at 7 km from the jurisdiction of a municipality having a population of 4,00,000 and also sold another agricultural land for Rs. 53 lakhs on 12.12.2024 acquired at a cost of Rs. 46 lakhs on 15.02.2023 situated at 1.5 km from the jurisdiction of municipality having population of 12,000. What would be the amount of capital gain chargeable to tax in the hands of Mr. A for the A.Y. 2025-26?

CII for F.Y. 2022-23: 331; 2023-24: 348; 2024-25: 363.

- a. Short-term capital gain of Rs. 9.75 lakhs
- b. Short-term capital gain of Rs. 7 lakhs
- c. Long-term capital gain of Rs. 2,72,212
- d. Long-term capital gain of Rs. 2,50,158

Solution

(b)

Step 1: Determine Whether the Lands Are Capital Assets

Under Section 2(14)(iii) of the Income Tax Act, agricultural land in India is **not** considered a capital asset if it is:

- **Situated in any area within the jurisdiction of a municipality** with a population of less than 10,000; or
- **Situated outside the limits of a municipality, and:**
 - **More than 2 km** away from a municipality with a population between 10,000 and 1,00,000;
 - **More than 6 km** away from a municipality with a population between 1,00,000 and 10,00,000;
 - **More than 8 km** away from a municipality with a population exceeding 10,00,000.

If the land does **not** meet these criteria, it is considered a **capital asset**, and any gains from its sale are subject to capital gains tax.

Step 2: Analyze Each Land Transaction

First Land:

- **Sale Date:** 04.10.2024
- **Sale Consideration:** ₹52,00,000
- **Purchase Date:** 13.09.2023

- **Cost of Acquisition:** ₹49,25,000
- **Location:** 7 km from a municipality with a population of 4,00,000

Analysis:

- The municipality has a population between 1,00,000 and 10,00,000.
- For land to be considered **rural** (i.e., not a capital asset), it must be **more than 6 km** away from such a municipality.
- Since this land is **7 km** away, it qualifies as **rural agricultural land**.

Conclusion: This land is **not** a capital asset; hence, **no capital gains tax** is applicable on its sale.

Second Land:

- **Sale Date:** 12.12.2024
- **Sale Consideration:** ₹53,00,000
- **Purchase Date:** 15.02.2023
- **Cost of Acquisition:** ₹46,00,000
- **Location:** 1.5 km from a municipality with a population of 12,000

Analysis:

- The municipality has a population between 10,000 and 1,00,000.
- For land to be considered **rural**, it must be **more than 2 km** away from such a municipality.
- Since this land is **1.5 km** away, it qualifies as **urban agricultural land**, making it a **capital asset**.

Conclusion: This land is a **capital asset**; hence, capital gains tax is applicable on its sale.

Step 3: Determine the Nature of Capital Gain

- **Holding Period for Second Land:** From 15.02.2023 to 12.12.2024 is less than 24 months.
- **Conclusion:** The gain is a **Short-Term Capital Gain (STCG)**.

Step 4: Compute Short-Term Capital Gain

Sale Consideration: ₹53,00,000

Cost of Acquisition: ₹46,00,000

STCG: ₹53,00,000 – ₹46,00,000 = ₹7,00,000

Final Answer:

Short-term capital gain of ₹7,00,000

Question 43

Mr. Vikas transferred 600 unlisted shares of XYZ (P) Ltd. to ABC (P) Ltd. on 15.12.2024 for Rs. 3,50,000 when its fair market value was Rs. 5,15,000. The indexed cost of acquisition of shares for Mr. Vikas was computed at Rs. 4,25,000.

Determine the income chargeable to tax in the hands of Mr. Vikas and ABC (P) Ltd. in respect of the above transaction.

- a. ₹90,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and nothing is taxable in the hands of ABC (P) Ltd.
- b. ₹75,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and nothing is taxable in the hands of ABC (P) Ltd.
- c. ₹90,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and ₹1,65,000 is taxable under the head "Income from other sources" in the hands of ABC (P) Ltd.
- d. ₹75,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and ₹1,65,000 is taxable under the head "Income from other sources" in the hands of ABC (P) Ltd.

Solution

(c)

In the hands of Vikas

When unlisted shares are transferred at a price lower than the fair market value, then the fair market value is considered to be the full value of consideration. Therefore, in the present case, full value of consideration would be ₹5,15,000. Therefore, capital gains = ₹5,15,000 – ₹4,25,000 = ₹90,000.

In the hands of XYZ (P) Ltd.

When the company receives its shares for a consideration less than the fair market value, the difference between the fair market value and the consideration is taxed as income from other sources in the hands of the company. Therefore, income from other sources = ₹5,15,000 – ₹3,50,000 = ₹1,65,000.

Chapter 4 – Income of Other Persons Included in Assessee's Total Income

Question 1

Mr. Vishal started a proprietary business on 01.04.2023 with a capital of ₹5,00,000. He incurred a loss of ₹1,00,000 during the year 2023-24. To overcome the financial position, his wife Mrs. Kamini, a Chartered Accountant, gave a gift of ₹4,00,000 on 01.04.2024, which was immediately invested in the business by Mr. Vishal. He earned a profit of ₹2,00,000 during the year 2024-25. What is the amount to be clubbed in the hands of Mrs. Kamini for the Assessment Year 2025-26?

- a. ₹88,888
- b. ₹1,00,000
- c. ₹2,00,000
- d. Nil

Solution

(b)

Computation of Income to be Clubbed in the hands of Mrs. Kamini for A.Y. 2025-26

Particulars	Mr. Vishal's Contribution	Capital Contribution out of Gift from Wife	Total
Capital as on 01-04-2023	5,00,000		5,00,000
Loss in the F.Y. 2023-24	1,00,000		1,00,000
Capital as on 01-04-2024	4,00,000	-	4,00,000
Gift from Wife invested in business on 01-04-2024		4,00,000	4,00,000
Capital as on 01-04-2024	4,00,000	4,00,000	8,00,000
Profit for F.Y. 2024-25 (Note 1)	1,00,000	1,00,000	2,00,000

Notes:

1. Since on the 1st day of the P.Y. 2024-25, the contribution of gift was also included in the capital, the income will be apportioned in the ratio of 1:1.
2. The provisions of section 56(2)(x) would not be attracted as the amount is received from relative.

Question 2

Mr. Raj makes a gift of ₹25,000 to his wife, Mrs. Rama, on 27.03.2024. Mrs. Rama, on 1.4.2024, invests ₹75,000 (₹25,000 out of gift and ₹50,000 of her own) in a partnership firm as capital which is her total capital contribution in the firm. During the year ended 31.03.2025 she earns an interest of ₹12,000 and salary of ₹1,20,000 from the firm, both of which are approved by the partnership deed. What amount shall form part of total income of Mr. Raj for the previous year 2024-25?

- a. ₹3,000 as interest on capital from firm
- b. ₹4,000 as interest on capital from firm
- c. ₹3,000 as interest on capital from firm and ₹40,000 as salary from firm
- d. ₹4,000 as interest on capital from firm and ₹40,000 as salary from firm

Solution

(a)

Relevant Provisions:

1. **Section 64(1)(iv) of the Income Tax Act, 1961:** Income arising to the spouse from assets transferred by an individual without adequate consideration is included in the total income of the transferor.
2. **Explanation 3 to Section 64(1):** Where the transferred asset (money) is invested by the spouse as capital in a firm, the proportionate interest income received by the spouse from the firm on such capital is deemed to be income arising from the transferred asset and is clubbed.
3. **Section 40(b)(iv):** This section limits the deduction allowable to a partnership firm for interest paid to its partners on their capital to a maximum rate of 12% per annum.
4. **Rashik Lal & Co. v. CIT (1998) 229 ITR 458 (SC):** The Supreme Court held that salary, bonus, commission, or remuneration paid by a firm to a partner represents compensation for personal services rendered and does not arise from the investment of capital. Hence, such remuneration is not clubbed under Section 64(1)(iv).

Analysis:

1. Mrs. Rama received ₹12,000 as interest on her total capital contribution of ₹75,000. This represents an interest rate of $(₹12,000 \div ₹75,000) \times 100 = 16\%$ per annum.
2. However, according to Section 40(b), the partnership firm can only claim a deduction for interest paid to partners up to 12% per annum. The interest paid in excess of 12% (i.e., the extra 4%) is disallowed as an expense for the firm.
3. Correspondingly, only the portion of interest that is allowed as a deduction to the firm (up to 12%) is treated as taxable interest income in the hands of the partner. The excess interest received by the partner (representing the 4% difference) is not taxed as interest income.
4. Therefore, the interest income of Mrs. Rama considered for taxation *as interest* is limited to 12% of her capital: $12\% \text{ of } ₹75,000 = ₹9,000$.
5. Mr. Raj gifted ₹25,000, which constitutes $₹25,000 \div ₹75,000 = 1/3$ of Mrs. Rama's total capital contribution.
6. As per Section 64(1)(iv) read with Explanation 3, the income arising from the gifted asset (proportionate interest) needs to be clubbed. This proportion (1/3) should be applied to the taxable interest component calculated above, i.e., ₹9,000.
7. Amount to be clubbed = $1/3 \times ₹9,000 = ₹3,000$.
8. The salary of ₹1,20,000 received by Mrs. Rama is remuneration for her services and, based on the *Rashik Lal* principle, is not clubbed with Mr. Raj's income.

Conclusion:

Based on the interplay between Section 64(1)(iv) and Section 40(b), the amount of interest income to be clubbed in the hands of Mr. Raj for the P.Y. 2024-25 is calculated as 1/3rd of the interest allowable at 12% p.a. on Mrs. Rama's total capital. Therefore, ₹3,000 will be included in Mr. Raj's total income.

Question 3

Mrs. Shivani, wife of Mr. Anurag, is a partner in a firm. Her capital contribution is ₹5 lakhs to the firm as on 1.4.2024 which includes ₹3.5 lakhs contributed out of gift received from Anurag. The firm paid interest on capital of ₹50,000 and share of profit of ₹60,000 during the F.Y. 2024-25. The entire interest has been allowed as deduction in the hands of the firm. Which of the following statements is correct?

- a. Share of profit is exempt but interest on capital is taxable in the hands of Mrs. Shivani.
- b. Share of profit is exempt but interest of ₹39,286 is includible in the income of Mr. Anurag and interest of ₹10,714 is includible in the income of Mrs. Shivani.
- c. Share of profit is exempt but interest of ₹35,000 is includible in the income of Mr. Anurag and interest of ₹15,000 is includible in the income of Mrs. Shivani.
- d. Share of profit to the extent of ₹42,000 and interest on capital to the extent of ₹35,000 is includible in the hands of Mr. Anurag.

Solution

(c)

According to Section 64(1) of the Income Tax Act, 1961, income arising from assets transferred directly or indirectly to a spouse without adequate consideration is included in the total income of the transferor. In the case of Mrs. Shivani, who received a gift of ₹3.5 lakhs from her husband Mr. Anurag and used it as part of her capital contribution in a firm, the interest income attributable to this gift would be clubbed in the income of Mr. Anurag.

The firm paid interest on capital of ₹50,000 to Mrs. Shivani during the financial year 2024-25. To determine the amount of interest income to be clubbed in Mr. Anurag's income, we need to calculate the proportion of the interest income attributable to the capital contributed by Mrs. Shivani from the gift received from her husband. Mrs. Shivani's total capital contribution in the firm is ₹5 lakhs, of which ₹3.5 lakhs is from the gift. Therefore, the proportion of the interest income to be clubbed in Mr. Anurag's income is $(₹3.5 \text{ lakhs} \div ₹5 \text{ lakhs}) \times ₹50,000 = ₹35,000$.

As for the share of profit received by Mrs. Shivani (₹60,000), it is exempt from tax under Section 10(2) of the Income Tax Act, as the share of profit from a firm is not taxable in the hands of the partners.

Therefore, the correct statement is:

(c) Share of profit is exempt but interest of ₹35,000 is includible in the income of Mr. Anurag and interest of ₹15,000 is includible in the income of Mrs. Shivani.

Question 4

Ram owns 500, 15% debentures of R Industries Ltd. of ₹500 each. Annual interest of ₹37,500 was payable on these debentures for P.Y. 2024-25. He transfers interest income to his friend Shyam, without transferring the ownership of these debentures. While filing return of income for A.Y. 2025-26, Shyam showed ₹37,500 as his income from debentures. As tax advisor of Shyam, do you agree with the tax treatment done by Shyam in his return of income?

- a. Yes, since interest income was transferred to Shyam, therefore, after transfer, it becomes his income.

- b. No, since Ram has not transferred debentures to Shyam, interest income on the debentures is not taxable income of Shyam. It would be included in the hands of Ram.
- c. Yes, if debentures are not transferred, interest income on debentures can be declared by anyone, Ram or Shyam, as taxable income depending upon their discretion.
- d. No, since Shyam should have shown the income as interest income received from Mr. Ram and not as interest income earned on debentures.

Solution

(b)

According to Section 60 of the Income Tax Act, 1961, if a person transfers income from an asset without transferring the asset itself, such income must be included in the total income of the transferor. This applies regardless of whether the transfer is revocable or irrevocable. In the case of Ram and Shyam, Ram transferred the interest income from his debentures to Shyam without transferring the ownership of the debentures. This situation is directly covered under Section 60, as the income from the asset (debentures) is being transferred without transferring the asset itself.

Therefore, the correct tax treatment should be that the interest income from the debentures should be included in the total income of Ram, the original owner of the debentures, and not in the income of Shyam. Shyam should not have shown ₹37,500 as his income from the debentures in his tax return.

The correct answer is (b) No, since Ram has not transferred debentures to Shyam, interest income on the debentures is not taxable income of Shyam. It would be included in the hands of Ram.

Question 5

Mr. Arvind gifted a house property to his wife, Mrs. Meena and a flat to his daughter-in law, Mrs. Seetha. Both the properties were let out. Which of the following statements is correct?

- a. Income from both properties is to be included in the hands of Mr. Arvind by virtue of section 64
- b. Income from property gifted to wife alone is to be included in Mr. Arvind's hands by virtue of section 64
- c. Mr. Arvind is the deemed owner of house property gifted to Mrs. Meena and Mrs. Seetha
- d. Mr. Arvind is the deemed owner of property gifted to Mrs. Meena. Income from property gifted to Mrs. Seetha would be included in his hands by virtue of section 64

Solution

(d)

As per Section 27(i), if an individual transfers any house property to their spouse without adequate consideration, the transferor is considered the deemed owner of the property. Therefore, Mr. Arvind is the deemed owner of the property gifted to Mrs. Meena.

Section 64(1)(vi) states that income arising to the son's wife from assets transferred without adequate consideration by the father-in-law or mother-in-law is to be included in the total income of the transferor. Therefore, income from property gifted to Mrs. Seetha would be included in the hands of Mr. Arvind by virtue of Section 64.

Question 6

Mrs. Bhawna, wife of Mr. Sonu, is a partner in a firm. Her capital contribution of ₹10 lakhs to the firm as on 31.3.2024 included ₹6 lakhs contributed out of gift received from Sonu. On 1.4.2024, she further invested ₹2 lakh out of gift received from Sonu. The firm paid interest on capital of ₹1,20,000 and share of profit of ₹1,00,000 during the F.Y. 2024-25. The entire interest has been allowed as deduction in the hands of the firm. Which of the following statements is correct?

- a. Share of profit is exempt but interest on capital is taxable in the hands of Mrs. Bhawna
- b. Share of profit is exempt but interest of ₹80,000 is includible in the income of Mr. Sonu and interest of ₹40,000 is includible in the income of Mrs. Bhawna
- c. Share of profit is exempt but interest of ₹72,000 is includible in the income of Mr. Sonu and interest of ₹48,000 is includible in the income of Mrs. Bhawna
- d. Share of profit to the extent of ₹60,000 and interest on capital to the extent of ₹72,000 is includible in the hands of Mr. Sonu

Solution

(b)

Relevant Provisions:

1. **Section 64(1)(iv) & Explanation 3:** Income arising to a spouse from assets (like money) transferred without adequate consideration by the other spouse, when invested as capital in a firm, results in the proportionate interest income being clubbed in the hands of the transferor spouse. The proportion is determined based on the capital contributed out of the gifted funds *as on the first day of the previous year*.
2. **Section 10(2A):** Share of profit received by a partner from a firm (which is assessed as such) is exempt from tax in the hands of the partner.
3. **Section 40(b):** Limits the interest deduction for the firm to 12% p.a. The question states the *entire* interest of ₹1,20,000 was allowed as deduction, implying the rate paid did not exceed 12%.

Analysis:

1. Capital Contribution Analysis (as on 01.04.2024):

- Opening Capital (as on 31.03.2024): ₹10,00,000 (Gifted: ₹6,00,000, Own: ₹4,00,000)
- Further Investment on 01.04.2024 (Gifted): ₹2,00,000
- Total Capital as on 01.04.2024 (first day of P.Y. 2024-25): ₹10,00,000 + ₹2,00,000 = ₹12,00,000
- Total Gifted Funds Component (as on 01.04.2024): ₹6,00,000 + ₹2,00,000 = ₹8,00,000
- Own Funds Component: ₹4,00,000
- Proportion of Gifted Funds = Gifted Funds ÷ Total Capital = ₹8,00,000 ÷ ₹12,00,000 = $8 \div 12 = 2 \div 3$

2. Share of Profit:

- Mrs. Bhawna received ₹1,00,000 as her share of profit.

- As per Section 10(2A), this amount is **exempt** from tax in her hands. Clubbing provisions do not apply to exempt income.

3. Interest on Capital:

- Mrs. Bhawna received ₹1,20,000 as interest.
- The entire amount was allowed as a deduction to the firm, confirming the rate was within the Section 40(b) limit (Rate = $1,20,000 \div 12,00,000 = 10\%$, which is $\leq 12\%$).
- This interest income is taxable. However, due to the gifted capital, a portion needs to be clubbed with Mr. Sonu's income under Section 64(1)(iv).
- Interest to be clubbed = Total Interest $\times$ Proportion of Gifted Funds
- Interest to be clubbed = $₹1,20,000 \times 2/3 = \text{₹80,000}$
- This ₹80,000 is includible in the income of **Mr. Sonu**.
- The remaining interest is taxable in Mrs. Bhawna's own hands.
- Interest taxable for Mrs. Bhawna = Total Interest - Clubbed Interest
- Interest taxable for Mrs. Bhawna = $₹1,20,000 - ₹80,000 = \text{₹40,000}$

Conclusion:

- The share of profit (₹1,00,000) is exempt for Mrs. Bhawna.
- Out of the total interest on capital of ₹1,20,000, ₹80,000 is clubbed and includible in Mr. Sonu's income, and ₹40,000 is includible in Mrs. Bhawna's income.

Therefore, the correct statement is **b**.

Question 7

Mr. Aarav gifted a house property valued at ₹50 lakhs to his wife, Geetha, who in turn has gifted the same to her daughter-in-law Deepa. The house was let out at ₹20,000 per month throughout the P.Y. 2024-25. Compute income from house property for A.Y. 2025-26. In whose hands is the income from house property chargeable to tax?

- ₹2,40,000 in the hands of Mr. Aarav
- ₹1,68,000 in the hands of Mr. Aarav
- ₹1,68,000 in the hands of Geetha
- ₹1,68,000 in the hands of Deepa

Solution

(b)

As per the provisions in Section 27(i) and Section 64(1)(vi) of the Income Tax Act, 1961, when Mr. Aarav gifted a house property to his wife Geetha, and she subsequently gifted it to her daughter-in-law Deepa, the income from this house property is still considered to arise to Mr. Aarav. This is because, under Section 27(i), an individual who transfers a house property to his spouse without adequate consideration is deemed to be the owner of the house property so transferred. Additionally, under

Section 64(1)(vi), income arising to the son's wife (in this case, Deepa) from assets transferred directly or indirectly to her by her father-in-law (Mr. Aarav) without adequate consideration is included in the total income of the father-in-law.

Therefore, the income from the house property, which is let out at ₹25,000 per month for the entire P.Y. 2024-25, totaling ₹3,00,000 (₹25,000 × 12 months), will be taxable in the hands of Mr. Aarav. However, after considering the standard deduction of 30% under Section 24 of the Income Tax Act, the taxable income from the house property would be ₹2,10,000 (70% of ₹3,00,000).

Question 8

On 20.10.2024, Pihu (minor child) gets a gift of ₹20,00,000 from her father's friend. On the same day, the amount is deposited as fixed deposit in Pihu's bank account. On the said deposit, interest of ₹13,000 was earned during the P.Y. 2024-25. In whose hands the income of Pihu shall be taxable? Also, compute the amount of income that shall be taxable under default regime under section 115BAC.

- Income of ₹20,11,500 shall be taxable in the hands of Pihu's father
- Income of ₹20,13,000 shall be taxable in the hands of Pihu's father
- Income of ₹20,11,500 shall be taxable in the hands of Pihu's father or mother, whose income before this clubbing is higher
- Income of ₹20,13,000 shall be taxable in the hands of Pihu's father or mother, whose income before this clubbing is higher

Solution

(c)

As per Section 64(1A) of the Income Tax Act, 1961, the income of a minor child is clubbed with the income of the parent whose total income (excluding the minor's income) is higher. This is applicable unless the income is earned by the minor from their own skills, talent, or manual work.

In the case of Pihu, a minor, who received a gift of ₹20,00,000 from her father's friend and earned interest of ₹13,000 on it during the financial year 2024-25, the total income of ₹20,13,000 (₹20,00,000 + ₹13,000) is subject to clubbing. Since the income is not generated from Pihu's skills or manual work, it falls under the provisions of Section 64(1A).

Also, exemption u/s 10(32) of ₹1,500 is not available in the new scheme. Therefore, income to be clubbed = ₹20,13,000.

Question 9

Mr. A, a member of his father, Mr. C's HUF, converts his individual property into property of the HUF. If the converted property is subsequently partitioned among the members of the HUF, the income derived from such converted property as is received by Mrs. A will be taxable -

- as the income of Mr. C
- as the income of Mrs. A
- as the income of the HUF
- as the income of Mr. A

Solution

(d)

Relevant Provision:

This scenario is specifically covered by **Section 64(2) of the Income Tax Act, 1961**, particularly its proviso.

- **Section 64(2):** When an individual, who is a member of a Hindu Undivided Family (HUF), converts their self-acquired property into HUF property without adequate consideration, the income generated by the HUF from that converted property is clubbed with the income of the individual who made the conversion.
- **Proviso to Section 64(2):** This deals with the situation after a partition of the HUF. It states that if the converted property is subsequently partitioned among the members, the income derived from the portion of the converted property received by the **spouse** of the individual (who originally converted the property) shall be deemed to be income arising from assets transferred indirectly by the individual to the spouse. Consequently, this income shall be **clubbed** with the income of the **individual** who converted the property.

Analysis:

1. Mr. A (an individual member of Mr. C's HUF) converted his individual property into the HUF's property.
2. Later, this property was partitioned.
3. Mrs. A (spouse of Mr. A) received a share of this converted property upon partition.
4. The income derived by Mrs. A from this specific share falls directly under the proviso to Section 64(2).

Conclusion:

According to the proviso to Section 64(2), the income derived by Mrs. A from the converted property received by her on partition will be clubbed with the income of her husband, Mr. A (the individual who originally converted the property).

Therefore, the income will be taxable:

d. as the income of Mr. A

Question 10

Pankaj gifted an amount of ₹3,00,000 to his wife, Pinky and ₹2,00,000 to his daughter, Rinky aged 20 years, on 1st April 2021. Both Pinky and Rinky invested the amounts on the same date in Government of India 11% Taxable Bonds. The interest accrues yearly and is reinvested in the same bonds. Determine what will be the amount taxable in hands of Pinky for A.Y. 2025-26.

- a. ₹4,473
- b. ₹12,132
- c. ₹33,000
- d. ₹36,630

Solution

(b)

When a person gifts some amount to his/her spouse, any income generated from it is clubbed in the hands of the transferor. However, only the interest earned on the gifted amount is clubbed. Clubbing provisions are not applicable to second generation income, i.e., income from accretion of transferred asset. Therefore, any interest earned on the interest reinvested will not be clubbed in the hands of Pankaj. The schedule showing calculation of interest on the principal amount and the interest amount is given as under.

Calculation of Interest on Gift		
Financial Year	Interest on Principal	Interest on Interest
F.Y. 2021-22	33,000 ¹	
F.Y. 2022-23	33,000 ¹	3,630 ²
F.Y. 2023-24	33,000 ¹	7,659 ³
F.Y. 2024-25	33,000 ¹	12,132 ⁴

Notes:

1. Interest on principal = $11\% \times ₹3,00,000 = ₹33,000$
2. Interest on interest earned in F.Y. 2022-23 = $11\% \times ₹33,000 = ₹3,630$
3. Interest on interest earned in F.Y. 2022-23 + F.Y. 2023-24 = $11\% \times (₹33,000 + ₹33,000 + ₹3,630) = ₹7,659$
4. Interest on interest earned in F.Y. 2022-23 + F.Y. 2023-24 + F.Y. 2024-25 = $11\% \times (₹33,000 + ₹33,000 + ₹3,630 + ₹33,000 + ₹7,659) = ₹12,132$.

Chapter 5 – Aggregation of Income; Set-Off and Carry Forward of Losses

Question 1

Mr. X has brought forward loss from house property of ₹3,10,000 of A.Y. 2024-25. While filing return under normal provision for A.Y. 2025-26, upto what extent he is allowed to set-off such brought forward loss against income from house property of A.Y. 2025-26 of ₹5,00,000

- a. ₹2,00,000
- b. ₹3,10,000
- c. ₹2,50,000
- d. ₹1,00,000

Solution

(b)

As per Section 71B of the Income Tax Act, 1961, any loss under the head “Income from house property” that is not set off against income from any other head in the same assessment year is allowed to be carried forward to subsequent assessment years. This carried forward loss can then be set off only against income from house property in those years.

In the case of Mr. A, who has a brought forward loss from house property of ₹3,10,000 for the Assessment Year (AY) 2024-25, and an income from house property of ₹5,00,000 for the AY 2025-26, the set-off would work as follows:

- The brought forward loss from house property of ₹3,10,000 can be set off against the income from house property of ₹5,00,000 for the AY 2025-26.
- However, it is important to note that the maximum limit for set-off of loss from house property against income from any other head is ₹2,00,000 in any assessment year. This limit is not applicable when setting off the loss against income from house property itself.

Therefore, in this case, the entire brought forward loss of ₹3,10,000 can be set off against the house property income of ₹5,00,000 for the AY 2025-26.

Question 2

Virat runs a business of manufacturing of shoes since the P.Y. 2022-23. During the P.Y. 2022-23 and P.Y. 2023-24, Virat had incurred business losses. He also has unabsorbed depreciation. For P.Y. 2024-25, he earned business profit (computed) of ₹3 lakhs. Considering he may/may not have sufficient business income to set off his earlier losses and unabsorbed depreciation, which of the following order of set off shall be considered: (He does not have income from any other source)

- a. First adjustment for loss of P.Y. 2022-23, then loss for P.Y. 2023-24 and then unabsorbed depreciation.
- b. First adjustment for loss of P.Y. 2023-24, then loss for P.Y. 2022-23 and then unabsorbed depreciation.
- c. First adjustment for unabsorbed depreciation, then loss of P.Y. 2023-24 and then loss for P.Y. 2022-23.

- d. First adjustment for unabsorbed depreciation, then loss of P.Y. 2022-23 and then loss for P.Y. 2023-24.

Solution

(a)

As per the provisions of section 72(2), brought forward business loss is to be set-off before setting off unabsorbed depreciation. Therefore, the order in which setoff will be effected is as follows:

1. Current year depreciation [Section 32(1)];
2. Current year capital expenditure on scientific research and current year expenditure on family planning, to the extent allowed.
3. Brought forward loss from business/profession [Section 72(1)];
4. Unabsorbed depreciation [Section 32(2)];
5. Unabsorbed capital expenditure on scientific research [Section 35(4)];
6. Unabsorbed expenditure on family planning [Section 36(1)(ix)].

Therefore, the correct answer is option (a) First adjustment for loss of P.Y. 2022-23, then loss for P.Y. 2023-24 and then unabsorbed depreciation.

Question 3

Mr. Ravi incurred loss of ₹4 lakh in the P.Y. 2024-25 in leather business. Against which of the following incomes earned during the same year, can he set-off such loss?

- i. Profit of ₹1 lakh from apparel business
- ii. Long-term capital gains of ₹2 lakhs on sale of jewellery
- iii. Salary income of ₹1 lakh

Choose the correct option:

- a. First from (ii) and thereafter from (i); the remaining loss has to be carried forward.
- b. First from (i) and thereafter from (ii) and (iii)
- c. First from (i) and thereafter from (iii); the remaining loss has to be carried forward
- d. First from (i) and thereafter from (ii); the remaining loss has to be carried forward

Solution

(d)

According to the provisions of the Income Tax Act, 1961, Mr. Ravi's business loss can be set off in the following manner:

1. **Profit of ₹1 lakh from apparel business:** This is a profit from another business. According to Section 70, Mr. Ravi can set off his loss from the leather business against profits from the apparel business.
2. **Long-term capital gains of ₹2 lakhs on sale of jewellery:** As per the provisions outlined in Section 70 and 71, a business loss can be set off against income from other heads, including capital gains. Thus, Mr. Ravi can set off his business loss against the long-term capital gains from the sale of jewellery.

3. **Salary income of ₹1 lakh:** However, a business loss cannot be set off against salary income as specified under Section 71.

Given these provisions, the correct set-off sequence for Mr. Ravi's business loss of ₹4 lakh would be:

1. First, set off ₹1 lakh against the profit from the apparel business.
2. Then, set off the remaining loss against the long-term capital gains of ₹2 lakhs from the sale of jewellery.
3. The remaining loss, if any, after these set-offs, must be carried forward.

Therefore, the correct answer is option (d) First from (i) and thereafter from (ii); the remaining loss has to be carried forward.

Question 4

The details of income/loss of Mr. Kumar for P.Y. 2024-25 are as follows:

Particulars	Amt. (in ₹)
Income from Salary (computed)	5,20,000
Loss from self-occupied house property	95,000
Loss from let-out house property	2,25,000
Loss from specified business u/s 35AD	2,80,000
Loss from medical business	1,20,000
Long term capital gain	1,60,000
Income from other sources	80,000

What shall be the gross total income of Mr. Kumar for A.Y. 2025-26 assuming that he has exercised the option of shifting out of the default regime provided under section 115BAC(1A)?

- a. ₹4,40,000
- b. ₹3,20,000
- c. ₹1,60,000
- d. ₹4,80,000

Solution

(a)

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

Particulars	₹
Income from Salaries	
Income from Salaries	5,20,000
Less: Set off-of Income from House Property to the extent of ₹2,00,000	2,00,000
Income from Salaries (A)	3,20,000
Income from House Property	
Income from Self Occupied House Property	(95,000)
Income from Let Out House Property	(2,25,000)
Total Income from House Property	(3,20,000)
Less: Set off against Salaries to the extent of ₹2,00,000 and balance carried forward	3,20,000
Income from House Property (B)	-
Profits and Gains from Business or Profession	

Loss from Specified Business to be carried forward, as it can only be set off against profits of specified business.	
Loss from Medical Business	(1,20,000)
Less: Set off against long term capital gains	1,20,000
Profits and Gains from Business or Profession (C)	-
Capital Gains	
Long Term Capital Gains	1,60,000
Less: Set-off of loss from medical business	1,20,000
Taxable Long Term Capital Gains (D)	40,000
Income from Other Sources	
Income from Other Sources	80,000
Income from Other Sources (E)	80,000
Gross Total Income (A) + (B) + (C) + (D) + (E)	4,40,000

Question 5

Mr. Rohan incurred loss of ₹3 lakh in the P.Y. 2024-25 in retail trade business. Against which of the following income during the same year, can he set-off such loss?

- profit of ₹1 lakh from wholesale cloth business
- long-term capital gains of ₹1.50 lakhs on sale of land
- speculative business income of ₹40,000
- all of the above

Solution

(d)

According to the provisions in the Income Tax Act, 1961, a loss incurred from a business can be set off against profits from other business activities. This is outlined in Section 70 of the Act, which allows for the set-off of losses from one source against income from another source under the same head of income. Additionally, Section 71 of the Act allows for the set-off of loss under one head of income against income from another head, with certain exceptions.

For Mr. Rohan, who incurred a loss of ₹3 lakh in retail trade business during the P.Y. 2023-24, the options for set-off are as follows:

- Profit of ₹1 lakh from wholesale cloth business:** This falls under the same head of income ('Profits and gains of business or profession'). Thus, the business loss can be set off against this profit.
- Long-term capital gains of ₹1.50 lakhs on sale of land:** Business losses can be set off against capital gains. The Act allows for the set-off of non-speculative business losses against any other head of income, except salary income.
- Speculative business income of ₹40,000:** A loss from a non-speculative business can be set off against speculative business income. Therefore, Mr. Rohan can set off his non-speculative business loss against this speculative income.

Given these considerations, the correct answer is (d) All of the above.

Question 6 – Ambiguous

During the A.Y. 2025-26, Mr. Kabir has a loss of ₹6 lakhs under the head Income from house property, loss of ₹5 lakhs from business of profession and income of ₹3 lakhs from long term capital gains. He filed his return of income for the A.Y. 2025-26 on 31.12.2025. Determine the total income of Mr. Kabir for A.Y. 2025-26 and the amount of loss which can be carried forward in a manner most beneficial to him?

- Total income Nil; loss of ₹4,00,000 from house property and loss of ₹4,00,000 from business or profession.
- Total income ₹1,00,000; loss of ₹4,00,000 from house property.
- Total income Nil; No loss is allowed to be carried forward.
- Total income Nil; loss of ₹6,00,000 from house property.

Solution

(c)

As per section 80,

- business loss under section 72(1),
- speculation business loss under section 73(2),
- loss from specified business under section 73A(2),
- loss under the head “Capital Gains” under section 74(1) and
- loss from activity of owning and maintaining race horses under section 74A(3),

which has not been determined in pursuance of a return filed under section 139(3) cannot be carried forward and set-off. Thus, the assessee must have filed a return of loss under section 139(3) in order to carry forward and set off of such losses.

Such a return of loss should be filed within the time allowed under section 139(1). However, this condition does not apply to a loss from house property carried forward under section 71B and unabsorbed depreciation carried forward under section 32(2).

In the present case, since the return has not been filed within the time limit prescribed u/s 139(1), i.e., 31-07-2025, or 31-10-2025, no loss shall be allowed to be carried forward, except the loss from house property.

If we set off the house property loss to the extent of ₹2,00,000 against the long term capital gains, then we would be allowed to carry forward only the remaining house property loss of ₹4,00,000, and the business loss of ₹5,00,000 would lapse.

Instead, if we set off the business loss of ₹5,00,000 against the capital gains of ₹3,00,000 to the extent of ₹3,00,000, then only the remaining business loss of ₹2,00,000 would lapse, and we would still be able to carry forward the loss of ₹6,00,000 from house property. Therefore, this would be the most beneficial scenario.

However, ICAI has given the option (c) as the answer, meaning that they are taking the view that the loss from House Property also cannot be carried forward. Now, this happens only under the Default Scheme. However, the question doesn't mention whether to solve it under Default Scheme or Optional Scheme, in fact, it specifically asks us to solve the question in the most beneficial manner possible. Hence, as per me, the answer should be option (d) only; but since ICAI has given the answer as option (c), please mark option (c) if the same question comes in the exam. Another point to be noted is, that

earlier, when this question was present in ICAI's Material for A.Y. 2024-25, even ICAI had given option (d) as the answer; but, for A.Y. 2025-26, they've changed it. This gives us all the more reason to follow what ICAI has done for A.Y. 2025-26 in the exam.

Question 7

During the A.Y. 2024-25, Mr. A, exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), has a loss of ₹8 lakhs under the head 'Income from house property' which could not be set off against any other head of income as per the provisions of section 71. The due date for filing return of income u/s 139(1) in case of Mr. A has already expired and Mr. A forgot to file his return of income within the said due date. However, Mr. A filed his belated return of income for A.Y. 2024-25. Now, while filing return of income for A.Y. 2025-26, Mr. A wishes to set off the said loss against income from house property for the P.Y. 2024-25. His income from house property (computed) for the P.Y. 2024-25 is ₹5 lakhs and interest on bank fixed deposits is ₹1 lakh. Determine whether Mr. A can claim the said set off.

- No, Mr. A cannot claim set off of loss of ₹8 lakhs during A.Y. 2025-26 as he failed to file his return of income u/s 139(1) for A.Y. 2024-25.
- Yes, Mr. A can claim set off of loss of ₹2 lakhs, out of ₹8 lakhs, from his income from house property during A.Y. 2025-26 and the balance loss of ₹6 lakhs has to be carried forward to A.Y.2026-27.
- Yes, Mr. A can claim set off of loss of ₹2 lakhs, out of ₹8 lakhs, from his income from any head during A.Y. 2025-26 and the balance loss of ₹6 lakhs has to be carried forward to A.Y.2026-27.
- Yes, Mr. A can claim set off of loss of ₹5 lakhs during A.Y. 2025-26 from his income of ₹5 lakhs from house property and the balance loss of ₹3 lakhs has to be carried forward to A.Y.2026-27.

Solution

(d)

As per Section 71B of the Income Tax Act, 1961, Mr. A can carry forward the loss from house property even if the return of loss was not filed within the due date specified under Section 139(1). This exception allows for the carry forward of loss from house property to be set off against income from house property in subsequent assessment years.

Regarding the set-off of loss from house property against income from the same head in the subsequent year, there is no specified limit for the amount that can be set off. Therefore, for the Assessment Year (AY) 2025-26, Mr. A can set off the entire loss of ₹8 lakhs against his income from house property for the Previous Year (PY) 2024-25, provided he has sufficient income from house property to absorb this loss.

Question 8

Mr. Arpan (aged 35 years) submits the following particulars for the purpose of computing his total income:

Particulars	₹
Income from salary (computed)	4,00,000

Loss from let-out house property	(2,20,000)
Business loss	(1,00,000)
Bank interest (FD) received	80,000

Compute the total income of Mr. Arpan for the A.Y.2025-26 and the amount of loss that can be carried forward for the subsequent assessment year if he pays tax under section 115BAC?

- Total income ₹2,00,000 and loss from house property of ₹20,000 and business loss of ₹20,000 to be carried forward to subsequent assessment year.
- Total income ₹1,60,000 and loss from house property of ₹20,000 to be carried forward to subsequent assessment year.
- Total income ₹4,00,000 and business loss of ₹20,000 to be carried forward to subsequent assessment year.
- Total income ₹80,000.

Solution

(c)

Relevant Rules under Section 115BAC (Default Tax Regime):

1. Set-off of Losses:

- Loss from House Property (HP Loss):** Cannot be set off against income under any other head (like Salary, Business Income, Other Sources). It can only be set off against income from another house property (Intra-head).
- Business Loss (PGBP Loss):** Can be set off against any income head except Salary.

2. Carry Forward of Losses:

- HP Loss:** HP Loss computed under this regime is **not allowed** to be carried forward.
- PGBP Loss:** Allowed to be carried forward for 8 assessment years, to be set off against future business income.

Computation for A.Y. 2025-26:

1. Income Heads:

- Income from Salary: ₹4,00,000
- Loss from Let-out House Property: (₹2,20,000)
- Business Loss: (₹1,00,000)
- Income from Other Sources (Bank Interest): ₹80,000

2. Intra-Head Adjustments: None applicable here as there's only one source/property under each head.

3. Inter-Head Set-off:

- HP Loss (₹2,20,000):** Cannot be set off against Salary or Bank Interest due to Section 115BAC restrictions. So, current year set-off is ₹0.
- PGBP Loss (₹1,00,000):**

- Cannot be set off against Salary.
- Can be set off against Income from Other Sources (Bank Interest).
- Set off PGBP Loss against Bank Interest: ₹80,000 of the loss is set off against ₹80,000 of interest income.
- Remaining PGBP Loss = ₹1,00,000 - ₹80,000 = ₹20,000.
- Income from Other Sources becomes ₹0.

4. Calculation of Gross Total Income (GTI):

- Income from Salary: ₹4,00,000
- Income from House Property: Loss of ₹2,20,000 (remains unabsorbed this year)
- Income from PGBP: Loss of ₹20,000 (remains unabsorbed this year)
- Income from Other Sources: ₹0
- GTI (considering only positive income after allowed set-offs): ₹4,00,000

5. Total Income:

- Assuming no deductions under Chapter VI-A are applicable/allowable under Section 115BAC.
- Total Income = GTI = ₹4,00,000.

6. Losses to be Carried Forward:

- Unabsorbed HP Loss: ₹2,20,000. (Carry forward **not allowed** under 115BAC as per likely ICAI interpretation).
- Unabsorbed PGBP Loss: ₹20,000. (Carry forward **allowed**, assuming timely filing).

Conclusion:

Mr. Arpan's total income for A.Y. 2025-26 under Section 115BAC is ₹4,00,000. The only loss eligible for carry forward to the subsequent assessment year is the Business Loss of ₹20,000.

The correct option is c.

Question 9

According to section 80, no loss which has not been determined in pursuance of a return filed in accordance with the provisions of section 139(3), shall be carried forward. The exceptions to this are:

- a. Loss from specified business under section 73A
- b. Loss under the head Capital Gains and unabsorbed depreciation carried forward under section 32(2)
- c. Loss from house property and unabsorbed depreciation carried forward under section 32(2)
- d. Loss from speculation business under section 73

Solution

(c)

As per section 80,

- business loss under section 72(1),
- speculation business loss under section 73(2),
- loss from specified business under section 73A(2),
- loss under the head "Capital Gains" under section 74(1) and
- loss from activity of owning and maintaining race horses under section 74A(3),

which has not been determined in pursuance of a return filed under section 139(3) cannot be carried forward and set-off. Thus, the assessee must have filed a return of loss under section 139(3) in order to carry forward and set off of such losses.

Such a return of loss should be filed within the time allowed under section 139(1). However, this condition does not apply to a loss from house property carried forward under section 71B and unabsorbed depreciation carried forward under section 32(2).

Question 10

A Ltd. has unabsorbed depreciation of ₹4,50,000 for the P.Y.2024-25. This can be carried forward.

- a. for a maximum period of 8 years and set-off against business income.
- b. indefinitely and set-off against business income.
- c. indefinitely and set-off against any head of income
- d. indefinitely and set-off against any head of income except salary.

Solution

(d)

Relevant Provision:

The carry forward and set-off of unabsorbed depreciation are governed by **Section 32(2) of the Income Tax Act, 1961**.

Analysis:

1. **Carry Forward Period:** Section 32(2) allows unabsorbed depreciation to be carried forward to subsequent assessment years without any specified time limit. Therefore, it can be carried forward **indefinitely**.
2. **Set-off in Subsequent Years:** Unlike unabsorbed business loss (which can only be set off against business income in subsequent years), brought forward unabsorbed depreciation is treated as part of the current year's depreciation. It can be set off against income under **any head of income** (Profits and Gains of Business or Profession, Capital Gains, Income from House Property, Income from Other Sources) in the subsequent assessment year(s). There is one exception: it cannot be set off against income under the head '**Salaries**'.

Applying to A Ltd.:

- The unabsorbed depreciation of ₹4,50,000 for P.Y. 2024-25 can be carried forward indefinitely.

- In subsequent years, it can be set off against any head of income A Ltd. might have, such as business income, capital gains, or other sources. The 'except salary' restriction applies generally, although companies like A Ltd. do not typically have income under the head 'Salaries'.

Conclusion:

Unabsorbed depreciation can be carried forward indefinitely and set off against any head of income except 'Salaries'.

The correct option is **d**.

Chapter 6 – Deductions from Gross Total Income

Question 1

Mr. Krishna, a resident Indian aged 61 years, maintains a saving account with a co-operative land development bank and he earns ₹20,000 as interest on saving account for the Financial Year 2024-25. Mr. Krishna also maintains a fixed deposit and recurring deposit account with Mani Finance (A Non-Banking Finance Company) and earns ₹25,000 and ₹10,000 as interest on fixed deposit and recurring deposit, respectively. What would be the deduction allowable to Mr. Krishna under Chapter VI-A if he has exercised the option of shifting out of the default regime provided under section 115BAC(1A) for the A.Y. 2025-26?

- a. ₹55,000
- b. ₹10,000
- c. ₹20,000
- d. ₹50,000

Solution

(c)

Under Section 80TTB of the Income Tax Act, a senior citizen, defined as a resident individual aged 60 years or more, is eligible for a deduction in respect of interest income on deposits with banking companies, co-operative societies engaged in banking, or post offices. This includes interest on both fixed deposits and saving accounts. The quantum of deduction allowed is the actual amount of interest income or ₹50,000, whichever is lower.

For Mr. Krishna, a resident Indian aged 61 years, the interest income earned from different sources is as follows:

- Interest on savings account with a co-operative land development bank: ₹20,000
- Interest on fixed deposit with Mani Finance (Non-Banking Finance Company): ₹25,000
- Interest on recurring deposit with Mani Finance: ₹10,000

According to Section 80TTB, the deduction is applicable to interest on deposits with banks, co-operative societies engaged in banking, or post offices. However, it does not extend to interest earned from Non-Banking Finance Companies (NBFCs) like Mani Finance. Therefore, the interest earned from the fixed deposit and recurring deposit with Mani Finance (totalling ₹35,000) would not be eligible for deduction under Section 80TTB.

Consequently, the deduction allowable to Mr. Krishna under Chapter VI-A, if he opts to shift out of the default tax regime under Section 115BAC(1A) for the Assessment Year 2024-25, would be limited to the interest income from the savings account with the co-operative land development bank, which is ₹20,000.

Therefore, the correct answer is option (c) ₹20,000.

Question 2

Mr. X has two units, one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The unit in SEZ was set up and started manufacturing from 12.3.2016 and unit in DTA from

15.6.2017. Total turnover of Mr. X and Unit in DTA is ₹8,50,00,000 and ₹3,25,00,000, respectively. Export sales of unit in SEZ and DTA is ₹3,50,00,000 and ₹1,25,00,000, respectively and net profit of Unit in SEZ and DTA is ₹80,00,000 and ₹45,00,000, respectively. Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2025 is ₹2,50,00,000. Assuming that Mr. X would file his return on or before 31.10.2025 exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction under section 10AA for P.Y. 2024-25 of an amount equal to

- a. ₹38,09,524
- b. ₹19,04,762
- c. ₹23,52,941
- d. ₹11,76,471

Solution

(b)

1. Eligibility and Applicable Rate:

- Mr. X has opted out of the default tax regime (Section 115BAC), making him eligible for deduction Under Section 10AA.
- The SEZ unit started manufacturing on 12.03.2016 (i.e., in P.Y. 2015-16). This is before the sunset date of 01.04.2020, so the unit is eligible.
- The first A.Y. for deduction was 2016-17.
- The current P.Y. is 2024-25, corresponding to A.Y. 2025-26.
- Counting from A.Y. 2016-17, A.Y. 2025-26 is the **10th year** of operation for claiming the deduction.
- As per Section 10AA, the deduction for the 6th to 10th year is **50%** of the profits derived from the export of articles or things or services.

2. Calculation Inputs:

- **Profits of the SEZ Unit:** ₹80,00,000
- **Total Turnover of the SEZ Unit:**
 - Total Turnover (Mr. X) = ₹8,50,00,000
 - Total Turnover (DTA Unit) = ₹3,25,00,000
 - Total Turnover (SEZ Unit) = Total Turnover (Mr. X) - Total Turnover (DTA Unit)
 - Total Turnover (SEZ Unit) = ₹8,50,00,000 - ₹3,25,00,000 = ₹5,25,00,000
- **Export Turnover of the SEZ Unit:**
 - Actual Export Sales = ₹3,50,00,000
 - Proceeds received in convertible foreign exchange by 30.09.2025 (within 6 months from the end of P.Y. 2024-25) = ₹2,50,00,000.

- Section 10AA defines 'Export Turnover' considering the proceeds brought into India within the stipulated time. Therefore, for the calculation, we use the amount realized.
- Export Turnover = ₹2,50,00,000

3. Calculation of Profits Derived from Export:

- Formula: Profits of SEZ Unit $\times$ (Export Turnover of SEZ Unit/Total Turnover of SEZ Unit)
- Profits derived from Export = ₹80,00,000 $\times$ (₹2,50,00,000/₹5,25,00,000)
- Profits derived from Export $\approx$ ₹38,09,523.81

4. Calculation of Section 10AA Deduction:

- Deduction = 50% of Profits derived from Export
- Deduction = $0.50 \times ₹38,09,523.81$
- Deduction $\approx$ **₹19,04,762**

The eligible deduction under section 10AA is **b. ₹19,04,762.**

Question 3

Rajan, a resident Indian, has incurred ₹15,000 for medical treatment of his dependent brother, who is a person with severe disability and has deposited ₹20,000 with LIC for his maintenance. For A.Y.2025-26, if Mr. Rajan exercises the option of shifting out of the default regime provided under section 115BAC(1A), he would be eligible for deduction under section 80DD of an amount equal to:

- ₹15,000
- ₹35,000
- ₹75,000
- ₹1,25,000

Solution

(d)

As per Section 80DD of the Income Tax Act, for the Assessment Year 2024-25, an individual who is a resident of India is entitled to a deduction for expenses incurred on the medical treatment, training, and rehabilitation of a dependent person with a disability, or for amounts deposited under a scheme for the maintenance of such a dependent.

The deduction amount under Section 80DD is ₹75,000. However, if the expenditure is on a dependent with severe disability, the allowable deduction increases to ₹1,25,000, irrespective of the actual amount spent or deposited. This means that even if the total amount spent or deposited is less than ₹1,25,000, the full deduction can still be claimed. Since Rajan's dependent brother is a person with severe disability, he is eligible for a deduction of ₹1,25,000, which encompasses both the medical expenses of ₹15,000 and the LIC deposit of ₹20,000 for his brother's maintenance.

Question 4

Mr. Shiva made a donation of ₹50,000 to PM Cares Fund and ₹20,000 to Prime Ministers Drought Relief Fund by cheque. He made a cash donation of ₹10,000 to a public charitable trust registered under section 80G. If Mr. Shiva has exercised the option of shifting out of the default regime provided under section 115BAC(1A), the deduction allowable to him under section 80G for A.Y.2025-26 would be

- a. ₹80,000
- b. ₹70,000
- c. ₹60,000
- d. ₹35,000

Solution

(c)

- 100% deduction is allowed without any qualifying limit u/s 80G when donation is made to PM Cares Fund, therefore, the entire donation of ₹50,000 would be allowed as deduction.
- 50% deduction is allowed without any qualifying limit u/s 80G when donation is made to Rajiv Gandhi Foundation, therefore, $50\% \times ₹20,000 = ₹10,000$ would be allowed as deduction.
- 50% deduction is allowed subject to qualifying limit u/s 80G when donation is made to Public Charitable Trust. However, since the donation was made in cash, no deduction shall be allowed. This is because when any donation exceeding ₹2,000 is made, its deduction is allowed only if it made in any mode other than cash.
- Therefore, total deduction allowed u/s 80G = ₹50,000 + ₹10,000 = ₹60,000.

Question 5

Mr. Ramesh pays a rent of ₹5,000 per month. His total income is ₹2,80,000 (i.e., Gross Total Income as reduced by deductions under Chapter VI-A except section 80GG). He is also in receipt of HRA. If he exercises the option of shifting out of the default tax regime u/s 115BAC, he would be eligible for a deduction under section 80GG of an amount of-

- a. ₹60,000
- b. ₹32,000
- c. ₹70,000
- d. Nil

Solution

(d)

Deduction u/s 80GG is provided only if the individual is not in receipt of HRA. In the preset case, since Mr. Ramesh is in receipt of HRA, he'll be able to claim exemption u/s 10(13A) from the head "Income from Salaries". Therefore, no deduction will be allowed u/s 80GG to Mr. Ramesh.

Question 6

Mr. Srivastav, aged 72 years, paid medical insurance premium of ₹52,000 by cheque and ₹4,000 by cash during May, 2024 under a Medical Insurance Scheme of the General Insurance Corporation. The

above sum was paid for insurance of his own health. If he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be entitled to a deduction under section 80D of a sum of -

- a. ₹30,000
- b. ₹50,000
- c. ₹52,000
- d. ₹56,000

Solution

(b)

Under Section 80D of the Income Tax Act, 1961, a deduction is allowed for premiums paid on health insurance. For senior citizens, the limit for this deduction is higher. Mr. Srivastav, being 72 years old, qualifies as a senior citizen.

The provisions under Section 80D specify the following:

1. For Senior Citizens: The maximum deduction limit is ₹50,000 for health insurance premiums paid for self or family.
2. Mode of Payment: It is important to note that for claiming a deduction under Section 80D, the payment must be made by any mode other than cash. Payments made for preventive health check-ups can be in cash.

In Mr. Srivastav's case:

1. He paid a total of ₹52,000 by cheque and ₹4,000 by cash for medical insurance.
2. The cash payment of ₹4,000 does not qualify for deduction under Section 80D because it is not made for preventive health check-ups and is paid in cash.
3. The amount paid by cheque, ₹52,000, will be allowed to the extent of ₹50,000 only, which is the limit set for senior citizens.

Therefore, Mr. Srivastav is entitled to a deduction under Section 80D of ₹50,000, which is the maximum limit for senior citizens under this section.

Question 7

Mr. Arpit, an employee of MNO Ltd. has contributed ₹1,61,280 towards NPS and similar amount is contributed by his employer. His basic salary is ₹80,000 p.m. and dearness allowance is 40% of basic salary which forms part of retirement benefits. He also paid ₹55,000 towards LIC premium for himself and his wife and medical insurance premium of ₹35,000 by crossed cheque for his mother, being a senior citizen during the previous year 2024-25. How much deduction is available under Chapter VI-A while computing total income of Mr. Arpit for the A.Y. 2025-26 if he exercises the option of shifting out of the default regime provided under section 115BAC(1A)?

- a. ₹3,46,280
- b. ₹3,69,400
- c. ₹3,19,400
- d. ₹3,96,280

Solution

(b)

Computation of Deduction Available under Chapter VI-A

Particulars	₹
Deduction u/s 80CCD(1B) (Contribution to NPS) (Notes 1 and 2)	50,000
Deduction u/s 80C (LIC Premium)	55,000
Deduction u/s 80CCD(1) (Contribution to NPS) (Notes 1 and 2)	1,11,280
	1,66,280
Restricted to	1,50,000
Deduction u/s 80CCD(2) (Employer's Contribution to NPS) (Notes 1 and 2)	1,34,400
Deduction u/s 80D (Medical Insurance Premium Paid for Mother)	35,000
Total Deduction allowable under Chapter VI-A	3,69,400

Notes:

1. Employee's contribution to NPS is allowed as a deduction to the extent of 10% of the salary u/s 80CCD(1), which is subject to the limit of ₹1,50,000 u/s 80CCE. In addition to that, a further deduction of ₹50,000 is allowed on employee's contribution to NPS u/s 80CCD(1B), which is outside the limit of 80CCE. Also, employer's contribution to NPS is allowed as deduction to the extent of 10% of salary. Here, salary means Basic Salary + DA (in terms).
2. Computation of Salary for the purpose of 80CCD

Particulars	₹
Basic Salary ($₹80,000 \times 12$)	9,60,000
Dearness Allowance (in terms) ($40\% \times ₹9,60,000$)	3,84,000
Salary	13,44,000
Employee's Contribution Allowable u/s 80CCD(1) ($10\% \times ₹13,44,000$)	1,34,400
Employer's Contribution Allowable u/s 80CCD(1) ($10\% \times ₹13,44,000$)	1,34,400

Since the employee has contributed ₹1,61,280 to NPS, and he has claimed deduction u/s 80CCD(1B) of ₹50,000, deduction allowable u/s 80CCD(1) = ₹1,61,280 – ₹50,000 = ₹1,11,280.

Question 8

Mr. Suhaan (aged 35 years), a non-resident, earned dividend income of ₹12,50,000 from an Indian company which was declared on 30.09.2024 and credited directly to his bank account on 05.10.2024 in France and ₹15,000 as interest on savings A/c from State Bank of India for the P.Y. 2024-25. Assuming that he has no other income, what will be amount of income chargeable to tax in his hands in India for A.Y. 2025-26 if Mr. Suhaan has exercised the option of shifting out of the default regime provided under section 115BAC?

- a. Nil
- b. ₹12,65,000
- c. ₹12,50,000
- d. ₹12,55,000

Solution

(d)

For a Non-Resident, only those incomes are chargeable to tax in India which are received/deemed to be received in India or have accrued or arisen or deemed to have accrued or deemed to arise in India. In the present case, dividend is received from Indian Company, so it has accrued in India, and hence

will be taxable. Also, the interest is received from an Indian Bank, and hence it has been accrued in India, and therefore, will be taxable in India. Therefore,

Computation of Total Income of Mr. Suhaan

Particulars	₹
Dividend Income	12,50,000
Interest on Savings Bank Account	15,000
Gross Total Income	12,65,000
Less: Deduction u/s 80TTA	10,000
Total Income	12,55,000

Question 9

Gross total income of Arpita for P.Y. 2024-25 is ₹6,00,000. She had taken a loan of ₹7,20,000 in the financial year 2021-22 from a bank for her husband who is pursuing MBA course from IIM, Kolkata. On 02.04.2024, she paid the first installment of loan of ₹45,000 and interest of ₹65,000. Compute her total income for A.Y. 2025-26, if she has exercised the option of shifting out of the default regime provided under section 115BAC(1A)

- a. ₹6,00,000
- b. ₹5,35,000
- c. ₹4,90,000
- d. ₹5,55,000

Solution

(b)

Arpita's computation of total income for the Assessment Year (A.Y.) 2025-26 can be determined as follows:

1. Gross Total Income: ₹6,00,000
2. Deduction for Interest on Education Loan (Section 80E): As per Section 80E, an individual is allowed to claim a deduction for the interest paid on a loan taken for higher education. This includes loans taken for the education of the individual's spouse. In Arpita's case, she has paid ₹65,000 as interest on the education loan for her husband's MBA course. This amount is deductible from her gross total income.
3. Computation of Total Income:
 - a. Gross Total Income = ₹6,00,000
 - b. Deduction under Section 80E = ₹65,000
 - c. Total Income = Gross Total Income - Deduction under Section 80E
 - d. Total Income = ₹6,00,000 - ₹65,000 = ₹5,35,000

Therefore, Arpita's total income for A.Y. 2025-26 is ₹5,35,000.

Question 10

An individual has paid life insurance premium of ₹25,000 during the previous year for a policy of ₹1,00,000 taken on 1.4.2019. If he pays tax under default tax regime under section 115BAC, he shall -

- a. not be allowed deduction u/s 80C

- b. be allowed deduction of ₹20,000 u/s 80C
- c. be allowed deduction of ₹25,000 u/s 80C
- d. be allowed deduction of ₹10,000 u/s 80C

Solution

(a)

Relevant Provision:

- **Section 115BAC of the Income Tax Act, 1961:** This section provides for an optional (now default) tax regime with concessional tax rates but disallows most deductions and exemptions available under the regular/old tax regime.
- **Section 115BAC(2):** This sub-section explicitly lists the deductions that are **not allowed** if an individual opts for (or is under) the default tax regime. This list includes most deductions under Chapter VI-A, such as Section 80C (which covers Life Insurance Premium, PPF, etc.), Section 80D (Mediclin), Section 80TTA (Interest on savings account), etc. Only a few specific deductions like Section 80CCD(2), 80CCH(2), and 80JJAA are allowed.

Analysis:

1. The individual is paying tax under the **default tax regime (Section 115BAC)**.
2. The life insurance premium payment of ₹25,000 normally qualifies for deduction under **Section 80C** under the old tax regime (subject to limits based on the sum assured and policy date).
3. However, Section 115BAC(2) specifically **disallows** the deduction under Section 80C for individuals assessed under this default regime.

Conclusion:

Since the individual pays tax under the default tax regime (Section 115BAC), he **shall not be allowed** any deduction under Section 80C for the life insurance premium paid.

Therefore, the correct statement is: **a. not be allowed deduction u/s 80C**

Chapter 7 – Advance Tax, TDS, TCS

Question 1

An interior decorator declares profits from profession under presumptive taxation scheme under section 44ADA for A.Y. 2025-26.

- He is liable to pay advance tax on or before 15.3.2025
- He is not liable to advance tax
- He is liable to pay advance tax in three installments i.e., on or before 15.9.2024, 15.12.2024 and 15.3.2025
- He is liable to pay advance tax in four installments i.e., on or before 15.6.2024, 15.9.2024, 15.12.2024 and 15.3.2025

Solution

(a)

Relevant Provisions:

- Section 44ADA of the Income Tax Act, 1961:** Allows eligible professionals (including interior decorators) with gross receipts up to a certain limit (₹75 lakhs for A.Y. 2025-26, subject to conditions) to opt for a presumptive taxation scheme, declaring 50% of gross receipts as their income.
- Section 208:** Makes advance tax payable by every person whose estimated tax liability for the financial year is ₹10,000 or more.
- Section 211(1) - Proviso:** Provides a special rule for payment of advance tax by assessee who declare profits under Section 44AD(1) or **Section 44ADA(1)**. It states that such assessee shall be required to pay the **entire amount** of advance tax on or before the **15th day of March** of the relevant financial year.

Analysis:

- Mr. X, an interior decorator, is eligible for and has opted for the presumptive taxation scheme under Section 44ADA for A.Y. 2025-26 (corresponding to the Previous Year 2024-25).
- Assuming his estimated tax liability for the year is ₹10,000 or more, he is liable to pay advance tax.
- As he falls under Section 44ADA, the special provision regarding the payment schedule applies. He does not need to pay advance tax in multiple installments (June, September, December).
- He is required to pay the *whole* amount of advance tax in one installment by the 15th of March of the financial year. For P.Y. 2024-25, this date is **15th March 2025**.

Conclusion:

An individual declaring profits under Section 44ADA is liable to pay the entire advance tax for the financial year in a single installment on or before March 15th of that financial year.

Therefore, the correct statement is: **a. He is liable to pay advance tax on or before 15.3.2025**

Question 2

Mr. Jha, an employee of FX Ltd, attained 60 years of age on 15.05.2024. He is resident in India during F.Y. 2024-25 and earned salary income of ₹5 lakhs (computed). During the year, he earned ₹7 lakhs from winning of lotteries. What shall be his advance tax liability for A.Y. 2025-26, if all tax deductible at source has been duly deducted and remitted to the credit of Central Government on time? Assume that he pays tax under the default regime u/s 115BAC.

- a. ₹2,20,000 + Cess ₹8,800 = ₹2,28,800, being the tax payable on total income of ₹12 lakhs
- b. ₹2,10,000 + Cess ₹8,400 = ₹2,18,400, being the tax payable on lottery income of ₹7 lakhs
- c. ₹10,000 + Cess ₹8,800 = ₹18,800, being the net tax payable on salary income
- d. Nil

Solution

(d)

Mr. Jha has two sources of Income – Income from Salaries, and Income from winning of lotteries. Since all the tax deductible at source has been duly deducted and remitted to the credit of Central Government, no tax has to be paid in advance on winnings of lotteries.

Computation of Tax Liability on Salaries

Particulars	₹
First ₹3,00,000	-
Next ₹2,00,000 (5% × ₹2,00,000)	10,000
Tax Liability	10,000

Since the advance tax liability does not exceed ₹10,000, there's no need to pay any advance tax.

Question 3

Mr. Nihar maintains a savings A/c and a current A/c in Mera Bank Ltd. The details of withdrawals on various dates during the previous year 2024-25 are as follows:

Date of Cash withdrawal	Saving Account	Current Account
05.04.2024	15,00,000	
10.05.2024		22,00,000
25.06.2024	20,00,000	
17.07.2024		5,00,000
28.10.2024	35,00,000	
10.11.2024		38,00,000
12.12.2024	25,00,000	

Mr. Nihar regularly files his return of income. Is Mera Bank Limited required to deduct tax at source on the withdrawals made by Mr. Nihar during the previous year 2024-25? If yes, what would the amount of tax deducted at source?

- a. TDS of ₹3,20,000 is required to be deducted
- b. No, TDS is not required to be deducted as the cash withdrawal does not exceed ₹1 crore neither in saving account nor in current account¹
- c. TDS of ₹3,00,000 is required to be deducted
- d. TDS of ₹1,20,000 is required to be deducted

Solution

(d)

As per Section 194N, Tax is required to be deducted by the bank, if the account holder withdraws more than ₹1,00,00,000 in the relevant previous year. Rate of TDS applicable is 2%. TDS is attracted only on the portion exceeding ₹1 crore.

In the present case, total withdrawal from the Savings Account and the Current Account is ₹1,60,00,000. Therefore TDS shall be attracted @ 2% on ₹60,00,000. Therefore, $TDS = 2\% \times ₹60,00,000 = ₹1,20,000$.

Question 4

Mr. P is a professional who is responsible for paying a sum of ₹2,00,000 as rent for use of building to Mr. Harshit, a resident, for the month of February, 2025. The gross receipts of Mr. P are as under:

- From 01.04.2023 to 31.03.2024: ₹55,00,000
- From 01.04.2024 to 28.02.2025: ₹45,00,000

Whether Mr. P is responsible for deducting any tax at source from the rent of ₹2,00,000 payable to Mr. Harshit?

- a. Tax at source is required to be deducted u/s 194-1 at the rate of 10%.
- b. Tax at source is required to be deducted u/s 194-IB at the rate of 5%.
- c. Tax at source is required to be deducted u/s 194-IB at the rate of 10%.
- d. No tax is required to be deducted at source.

Solution

(d)

Under Section 194-I of the Indian Income Tax Act, tax deduction at source (TDS) on rental income is mandated for individuals or Hindu Undivided Families (HUFs) whose total sales, gross receipts, or turnover from business or profession exceed ₹50 lakhs in the case of a profession during the financial year immediately preceding the financial year in which such rent is credited or paid.

In the scenario of Mr. P, his gross receipts for the financial year from 01.04.2022 to 31.03.2023 were ₹55,00,000, which exceeds the ₹50 lakhs threshold for professionals. Therefore, he falls under the purview of Section 194-I for TDS on rental payments.

However, Section 194-I also stipulates a threshold for the applicability of TDS on rent. TDS under this section is required only if the amount of rent exceeds ₹2,40,000 per annum. In Mr. P's case, he is responsible for paying a rent of ₹2,00,000 to Mr. Harshit for the use of a building for the month of February 2024. This amount is below the annual threshold of ₹2,40,000.

Therefore, even though Mr. P's gross receipts exceed ₹50 lakhs, placing him within the ambit of Section 194-I, the amount of rent he is paying does not meet the minimum threshold for TDS under this section. Consequently, no tax is required to be deducted at source for this particular rental payment.

Question 5

Mr. Ram acquired a house property at Chennai from Mr. Satyam, a resident, for a consideration of ₹85 lakhs, on 23.8.2024. On the same day, Mr. Ram made two separate transactions, thereby acquiring an urban plot in Gwalior from Mr. Vipun, a resident, for a sum of ₹50 lakhs and rural agricultural land from Mr. Danish, a resident, for a consideration of ₹75 lakhs. Which of the following statements are correct assuming that in the consideration amounts as aforementioned all the charges incidental to transfer of the immovable property are included and there is no difference between the stamp duty value and actual consideration?

- a. No tax deduction at source is required in respect of any of the three payments.
- b. TDS@1% is attracted on all the three payments.
- c. TDS@1% on ₹85 lakhs and ₹50 lakhs are attracted. No TDS on payment of ₹75 lakhs for acquisition of rural agricultural land.
- d. TDS@1% on ₹85 lakhs is attracted. No TDS on payments of ₹50 lakhs and ₹75 lakhs.

Solution

(c)

As per Section 194-IA, every transferee responsible for paying any sum as consideration for transfer of immovable property (land, other than agricultural land, or building or part of building) to a resident transferor shall deduct tax, at the rate of 1% of such sum or the stamp duty value of such property, whichever is higher.

Tax is not required to be deducted at source where the total amount of consideration for the transfer of immovable property and the stamp duty value of such property, are both, less than ₹50 lakhs.

Therefore, in case of residential house property at Chennai, and urban plot at Gwalior, TDS shall be attracted @ 1% on ₹85,00,000 and ₹50,00,000. However, no TDS shall be attracted on purchase of rural agricultural land.

Question 6

Mr. T, an Indian Citizen and resident of India, earned dividend income of ₹4,500 from an Indian company, which was declared on 1.10.2024 and paid in cash to Mr. T. What are the tax implications with respect to the dividend in the hands of Mr. T and Indian Company?

- a. Such dividend is taxable in the hands of Mr. T and Indian company is required to deduct tax at source @5%.
- b. Such dividend is taxable in the hands of Mr. T and Indian company is required to deduct tax at source @10%.
- c. Such dividend is taxable in the hands of Mr. T. However, Indian company is not required to deduct tax at source since it does not exceed ₹5,000.
- d. Such dividend is exempt in the hands of Mr. T. Hence, Indian company is not required to deduct tax at source.

Solution

(b)

Question 7

A firm pays salary and interest on capital to its resident partners. The salary and interest paid fall within the limits specified in section 40(b). Which of the following statements is true?

- a. Tax has to be deducted u/s 192 on salary and u/s 194A on interest
- b. Tax has to be deducted u/s 192 on salary but no tax needs to be deducted on interest
- c. No tax has to be deducted on salary but tax has to be deducted u/s 194A on interest
- d. No tax has to be deducted at source on either salary or interest

Solution

(d)

As per the provisions of the Indian Income Tax Act, specifically in the context of a firm paying salary and interest on capital to its resident partners, the following points are relevant:

1. Section 192 of the Act mandates the deduction of tax at source from salary payments. However, this section primarily applies to employers and employees in a traditional sense. In the case of a partnership firm, the partners are not considered employees of the firm. Therefore, the provision of Section 192 for TDS on salary does not typically apply to the remuneration or salary paid to partners of a firm.
2. Regarding the interest on capital paid to partners, Section 194A, which pertains to the deduction of tax at source on interest other than "interest on securities", generally applies to interest payments made to external parties and not to payments made to partners of a firm.

Given these points, for a firm paying salary and interest on capital to its resident partners within the limits specified in Section 40(b), the correct statement is (d) No tax has to be deducted at source on either salary or interest.

Question 8

The benefit of payment of advance tax in one installment on or before 15th March is available to assessee computing profits on presumptive basis -

- a. only under section 44AD
- b. under section 44AD and 44ADA
- c. under section 44AD and 44AE
- d. under section 44AD, 44ADA and 44AE

Solution

(b)

The benefit of paying advance tax in one installment on or before 15th March is available to assessee who are computing profits on a presumptive basis under both Section 44AD and Section 44ADA of the Income Tax Act.

Question 9

Mr. Vyas, aged 80, is a retired government employee. On 1st April 2024, he received the maturity amount of his LIC policy amounting to ₹ 3,50,000. This policy was taken by Mr. Vyas on 1st April 2016 on which the sum assured was ₹ 3,00,000 and the annual premium was ₹ 40,000. His other income

comprised of pension amounting to ₹ 85,000. Mr. Vyas furnishes a declaration in Form 15H for non-deduction of tax at source to the insurance company stating that his net tax liability for the year is NIL. Choose the correct statement from below:

- a. The declaration made by Mr. Vyas is wrong and the insurance company has to deduct tax of ₹ 3,500 under section 194DA
- b. The claim by Vyas is right and insurance company is not required to deduct tax at source
- c. The insurance company has to deduct tax under section 194DA since declaration in Form 15H cannot be made for tax deduction under section 194DA
- d. The declaration made by Mr. Vyas is wrong and the insurance company has to deduct tax of ₹ 1,000 under section 194DA

Solution

(b)

As per Section 194DA of the Income Tax Act, tax is required to be deducted at source on any sum paid under a life insurance policy that is not exempt under Section 10(10D). However, for a resident individual who is 60 years or more during the previous year, no deduction of tax shall be made under various sections, including section 194DA, if such an individual furnishes a declaration in Form 15H stating that their tax on their estimated total income for the year is NIL.

In Mr. Vyas' case, he is 80 years old and has received a maturity amount from his LIC policy, which is ₹3,50,000. The policy was taken after April 1, 2012, and the sum assured was ₹3,00,000 with an annual premium of ₹40,000. For policies issued after April 1, 2012, the maturity proceeds of a life insurance policy are exempt under Section 10(10D) only if the premium paid does not exceed 10% of the sum assured.

Since the annual premium paid by Mr. Vyas (₹40,000) is more than 10% of the sum assured (₹3,00,000), the maturity proceeds from his LIC policy are not exempt under Section 10(10D). However, as he is a senior citizen aged 80 and has furnished a declaration in Form 15H stating his net tax liability is NIL, the insurance company is not required to deduct tax at source under Section 194DA, in line with the provisions applicable to senior citizens.

Therefore, the correct statement regarding Mr. Vyas' situation is option (b): The claim by Mr. Vyas is right, and the insurance company is not required to deduct tax at source, considering his age and the declaration in Form 15H.

Question 10

Mr. X paid fees for professional services of ₹40,000 to Mr. Y, who is engaged only in the business of operation of call center, on 15.7.2024. Tax is to be deducted by Mr. X at the rate of:

- a. 10%
- b. 5%
- c. 2%
- d. 1%

Solution

(c)

Under Section 194J of the Indian Income Tax Act, tax deduction at source (TDS) is applicable on payments made for professional services. The general rate of TDS under this section is 10%. However, there is a specific provision for a reduced rate of TDS for payees engaged only in the business of operation of a call centre.

For such payees, the tax is to be deducted at source at a rate of 2%. In the scenario described, where Mr. X paid fees for professional services of ₹40,000 to Mr. Y, who is engaged only in the business of operation of a call centre, the applicable rate of TDS for Mr. X to deduct is 2%.

Question 11

Mr. Raj (a non-resident and aged 65 years) is a retired person, earning rental income of ₹40,000 per month from a property located in Delhi. He is residing in Canada. Apart from rental income, he does not have any other source of income. Is he liable to pay advance tax in India? Assume that he pays tax under the default regime u/s 115BAC.

- Yes, he is liable to pay advance tax in India as he is a non-resident and is not eligible for rebate under section 87A
- No, he is not liable to pay advance tax in India as his tax liability in India is less than ₹10,000
- No, he is not liable to pay advance tax in India as he has no income chargeable under the head 'Profits and gains of business or profession' and he is of the age of 65 years
- Both (b) and (c)

Solution

(b)

As per Section 208, a person is obligated to pay advance tax only if the advance tax payable is ₹10,000 or more.

Resident senior citizens who are 60 years or older and have only passive income like rent or interest, and no income from business or profession, may find it difficult to comply with this requirement. To make it easier for them, the government has given an exemption to senior citizens from paying advance tax. Instead, they can pay their tax liability (excluding TDS) by self-assessment tax at the end of the financial year.

In the present case, Mr. Raj is a non-resident, and therefore, the clause of him being 60 years older and having only passive income won't apply.

His total income taxable in India is calculated as follows:

Computation of Total Income	
Particulars	₹
Income from House Property	
Net Annual Value (₹40,000 × 12)	4,80,000
Less: Deduction u/s 24(a) (30% × ₹4,80,000)	1,44,000
Total Income	3,36,000

Computation of Tax Liability	
Particulars	₹
First ₹2,50,000 (Since he is a non-resident, he is not eligible for higher basic exemption limit)	-

From ₹2,50,000 to ₹3,36,000 $\{5\% \times (\text{₹}3,36,000 - \text{₹}2,50,000)\}$

Total Tax Liability

4,300

4,300

Since his tax liability is less than ₹10,000, he won't be required to pay advance tax. Hence, option (b) is the answer.

Question 12

Mr. X, a resident, is due to receive ₹6 lakhs on 31.3.2025, towards maturity proceeds of LIC policy taken on 1.4.2021, for which the sum assured is ₹5 lakhs and the annual premium is ₹1,50,000. Mr. Z, a resident, is due to receive ₹99,000 on 10.10.2024 towards maturity proceeds of LIC policy taken on 11.10.2015 for which the sum assured is ₹90,000 and the annual premium is ₹10,000.

- Tax is required to be deducted on income comprised in maturity proceeds payable to Mr. X and Mr. Z
- Tax is required to be deducted on income comprised in maturity proceeds payable to Mr. X
- Tax is required to be deducted on income comprised in maturity proceeds payable to Mr. Z
- No tax is required to be deducted on income comprised in maturity proceeds payable to either Mr. X or Mr. Z

Solution

(b)

Relevant Provisions:

- Section 10(10D) of the Income Tax Act, 1961:** This section provides tax exemption for sums received under a life insurance policy, including maturity proceeds. However, for policies issued on or after 1st April 2012, this exemption is available only if the premium payable for any of the years during the term of the policy does not exceed 10% of the actual capital sum assured.
- Section 194DA of the Income Tax Act, 1961:** This section governs Tax Deduction at Source (TDS) on payments received under life insurance policies.
 - Applicability:** TDS is required if:
 - The sum paid under the policy is **not exempt** under Section 10(10D), AND
 - The **aggregate amount of such payment** to the payee during the financial year is **₹1,00,000 or more**.
 - Base for TDS:** If applicable, TDS is deducted on the **income component** of the payment (i.e., Maturity Proceeds minus the aggregate of premiums paid).
 - TDS Rate:** The rate was 5% previously. However, as amended by the Finance (No. 2) Act, 2024, the rate is **2%** for payments made **on or after 1st October 2024**.

Analysis for Mr. X:

- Policy Details:** Taken on 01.04.2021; Sum Assured (SA) = ₹5,00,000; Annual Premium (AP) = ₹1,50,000.
- Maturity Details:** Proceeds = ₹6,00,000; Due Date = 31.03.2025.

- **Check Exemption (Sec 10(10D)):**
 - Policy issued after 01.04.2012, so the 10% limit applies.
 - 10% of SA = 10% of ₹5,00,000 = ₹50,000.
 - The Annual Premium (₹1,50,000) exceeds the limit (₹50,000).
 - Therefore, the maturity proceeds are **not exempt** under Section 10(10D) and are taxable.
- **Check TDS Applicability (Sec 194DA):**
 - Are proceeds taxable? Yes.
 - Is the payment amount $\geq$ ₹1,00,000? Yes (₹6,00,000 $\geq$ ₹1,00,000).
 - Since both conditions are met, TDS is **required**.
 - The payment date (31.03.2025) is on or after 01.10.2024, so the applicable TDS rate would be 2% on the income component.
 - You may think that the income component is zero in this case since the total premium paid for four years is $\text{₹1,50,000} \times 4 = \text{₹6,00,000}$, and the amount to be received is also ₹6,00,000. However, the question has asked us if we are *required* to deduct tax at source or not. The question doesn't ask us to calculate the TDS amount or anything. The *requirement*, however, does arise in this case.

Analysis for Mr. Z:

- **Policy Details:** Taken on 11.10.2015; Sum Assured (SA) = ₹90,000; Annual Premium (AP) = ₹10,000.
- **Maturity Details:** Proceeds = ₹99,000; Due Date = 10.10.2024.
- **Check Exemption (Sec 10(10D)):**
 - Policy issued after 01.04.2012, so the 10% limit applies.
 - 10% of SA = 10% of ₹90,000 = ₹9,000.
 - The Annual Premium (₹10,000) exceeds the limit (₹9,000).
 - Therefore, the maturity proceeds are **not exempt** under Section 10(10D) and are taxable.
- **Check TDS Applicability (Sec 194DA):**
 - Are proceeds taxable? Yes.
 - Is the payment amount $\geq$ ₹1,00,000? No (₹99,000 $<$ ₹1,00,000).
 - Since the payment amount is below the threshold of ₹1,00,000, TDS is **not required**, even though the proceeds are taxable.

Overall Conclusion:

Tax is required to be deducted at source under Section 194DA on the maturity proceeds payable to Mr. X, as the proceeds are taxable and the payment amount meets the threshold. However, tax is not required to be deducted on the proceeds payable to Mr. Z, as the payment amount is below the ₹1,00,000 threshold.

The correct option, therefore, is **b)** Tax is required to be deducted on income comprised in maturity proceeds payable to Mr. X.

Question 13

Mr. X, a resident Indian, wins ₹10,000 in a lottery. Which of the statement is true?

- a. Tax is deductible u/s 194B @ 30%
- b. Tax is deductible u/s 194B @ 30.9%
- c. No tax is deductible at source
- d. Tax is deductible u/s 194BB @ 30%

Solution

(c)

Under Section 194B of the Indian Income Tax Act, the provision for tax deduction at source (TDS) is applicable to lottery winnings. This section mandates that tax should be deducted by the payer at the time of payout if the amount of such winnings exceeds ₹10,000. The specified rate for TDS on lottery winnings is 30%.

In the scenario of Mr. X, a resident Indian, who has won ₹10,000 in a lottery, the following is applicable:

- The winnings amount of ₹10,000 is exactly at the threshold limit for TDS under Section 194B.
- As per the provisions of Section 194B, TDS is applicable only if the winnings exceed ₹10,000. Since Mr. X's winnings are exactly ₹10,000, which does not exceed the threshold, there is no requirement for the deduction of tax at source.

Question 14

Mr. A has two bank accounts maintained with ICICI Bank and HDFC Bank. From 01.04.2024 till 31.03.2025, Mr. A withdrew the following amounts as cash from both the said accounts;

- HDFC Bank: ₹50 lakh on 1.2.2025
- ICICI Bank: ₹120 lakh on 1.3.2025

What shall be the amount of tax to be deducted at source u/s 194N by HDFC Bank and ICICI Bank, respectively, while making payment in cash to Mr. A assuming Mr. A has filed his return of income for P.Y. 2021-22, P.Y. 2022-23 and P.Y. 2023-24?

- a. ₹1,00,000 and ₹2,40,000
- b. Nil and ₹40,000
- c. ₹60,000 and ₹1,00,000
- d. ₹50,000 and ₹1,20,000

Solution

(b)

As per Section 194N of the Indian Income Tax Act, tax deduction at source (TDS) is applicable on cash withdrawals exceeding a certain threshold from a banking company, co-operative society engaged in carrying on the business of banking, or a post office. The rates of TDS under this section vary based on the amount withdrawn and the compliance status of the individual with respect to filing income tax returns.

In the case of Mr. A, who has withdrawn ₹50 Lakh from HDFC Bank and ₹120 Lakh from ICICI Bank from 01.04.2024 to 31.03.2025, and has filed his income tax returns for the previous three years (P.Y. 2021-22, 2022-23, and 2023-24), the applicable rates for TDS under Section 194N are as follows:

1. For cash withdrawals exceeding ₹1 crore during the financial year, the tax shall be deducted at the rate of 2% on the sum exceeding ₹1 crore.
2. For cash withdrawals up to ₹1 crore, there is no TDS if the individual has filed income tax returns for the last three years.

Applying these provisions to Mr. A's withdrawals:

1. From HDFC Bank, Mr. A withdrew ₹50 Lakh, which is below the threshold of ₹1 crore. Therefore, there will be no TDS by HDFC Bank.
2. From ICICI Bank, Mr. A withdrew ₹120 Lakh. The amount over ₹1 crore is ₹20 Lakh (₹120 Lakh – ₹100 Lakh). The TDS will be 2% of ₹20 Lakh, which amounts to ₹40,000.

Therefore, the correct answer is option (b): Nil and ₹40,000.

HDFC Bank will deduct no TDS, while ICICI Bank will deduct ₹40,000 as TDS under Section 194N while making the payment in cash to Mr. A.

Question 15

Mr. Prakash is employed with XYZ Ltd. from 05.11.2020. He resigned on 31.03.2025 and wants to withdraw the accumulated balance of employer's contribution in his EPF Account i.e., ₹55,000. The tax deducted on such withdrawal would be -

- a. ₹500 u/s 192
- b. ₹5,500 u/s 192
- c. ₹1,125 u/s 192A
- d. ₹5,500 u/s 192A

Solution

(d)

As per the Income-tax Act, the taxability of withdrawal from the Employee Provident Fund (EPF) depends on the duration of service. If an employee withdraws the accumulated balance from the EPF before completing five years of continuous service, it is subject to tax.

Mr. Prakash has been employed with XYZ Ltd. from 05.11.2020 and resigned on 31.03.2025. Since he has not completed five years of continuous service, the withdrawal of the employer's contribution from his EPF account will be taxable.

The amount to be withdrawn is ₹55,000. According to Section 192A, if the amount of withdrawal from the EPF account is more than ₹50,000 and the employee has not completed five years of service, Tax

Deducted at Source (TDS) is applicable at 10% of the amount, provided the employee's PAN is furnished. If PAN is not furnished, the rate of TDS will be higher.

Since Mr. Prakash's withdrawal amount is ₹55,000, TDS will be 10% of ₹55,000, which amounts to ₹5,500.

Therefore, the tax deducted on such withdrawal would be ₹5,500 under Section 192A. The correct answer is option (d): ₹5,500 u/s 192A.

Chapter 8 – Return Filing and Self Assessment

Question 1

In which of the following transactions, quoting of PAN is mandatory by the person entering into the said transaction?

- I. Opening a Basic savings bank deposit account with a bank
- II. Applying to a bank for issue of a credit card.
- III. Payment of ₹40,000 to mutual fund for purchase of its units
- IV. Cash deposit with a post office of ₹1,00,000 during a day.
- V. A fixed deposit of ₹30,000 with a NBFC registered with RBI aggregating the total deposits to ₹3,50,000 for the F.Y upto to the date of this deposit made.
- VI. Sale of shares of an unlisted company for an amount of ₹60,000

Choose the correct answer:

- a. II, IV
- b. II, III, IV
- c. I, II, III, V, VI
- d. II, IV, VI

Solution

(a)

Quoting of PAN is compulsory, inter alia, in the case of following transactions:

Nature of Transaction	Value of Transaction
1. Opening an account [other than a time deposit (as specified) and a Basic Savings Bank Deposit Account] with a banking company or a cooperative bank to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act)	All such transactions
2. Making an application to any banking company or a co-operative bank to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act) or to any other company or institution, for issue of a credit or debit card.	All such transactions
3. Payment to a Mutual Fund for purchase of its units	Amount exceeding ₹50,000
4. Deposit with a banking company or a co-operative bank to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act); or post office	Cash deposits exceeding ₹50,000 during any one day
5. A time deposit with, a. a banking company or a cooperative bank to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act); b. a Post Office; c. a Nidhi referred to in section 406 of the Companies Act, 2013; or	Amount exceeding ₹50,000 or aggregating to more than ₹5 lakh during a financial year.

d. a non-banking financial company which holds a certificate of registration under section 45-IA of the Reserve Bank of India Act, 1934, to hold or accept deposit from public	
6. Sale or purchase, by any person, of shares of a company not listed in a recognised stock exchange.	Amount exceeding ₹1 lakh per transaction.

Question 2

Mr. Z, a salaried individual, has a total income of ₹8 lakhs for A.Y. 2025-26. He furnishes his return of income for A.Y. 2025-26 on 28th August, 2025. He is liable to pay fee of -

- upto ₹1,000 under section 234F
- ₹5,000 under section 234F
- ₹10,000 under section 234F
- Not liable to pay any fee

Solution

(b)

As per Section 234F of the Income Tax Act, if a person who is required to furnish a return of income under section 139 fails to do so within the prescribed time limit under section 139(1), they shall pay a fee. The fee amount is ₹5,000. However, if the total income of the person does not exceed ₹5 lakhs, the fee payable shall not exceed ₹1,000.

In the scenario of Mr. Z, a salaried individual with a total income of ₹8 lakhs for the Assessment Year (A.Y.) 2025-26, and who has furnished his return of income for A.Y. 2025-26 on 28th August 2025, the applicable provision would be a fee of ₹5,000 under Section 234F. This is because his total income exceeds ₹5 lakhs.

Question 3

Which of the following returns can be revised under section 139(5)?

- A return of income filed u/s 139(1)
- A belated return of income filed u/s 139(4)
- A return of loss filed u/s 139(3)

Choose the correct answer:

- Only (i)
- Only (i) and (ii)
- Only (i) and (iii)
- (i), (ii) and (iii)

Solution

(d)

As per Section 139(5) of the Income-tax Act, 1961, certain types of returns can be revised. The relevant provisions state that:

1. A belated return filed under Section 139(4) can be revised. This means if a return of income is filed after the due date specified under Section 139(1), it still has the provision to be revised under Section 139(5).
2. A return that has been revised earlier can be revised again. This implies that the first revised return effectively replaces the original return, and if there is any omission or wrong statement in this revised return, it can be further revised within the prescribed time.
3. A return of loss filed under Section 139(3) is considered as a return filed under Section 139(1) and therefore can be revised under Section 139(5). This means returns filed to declare a loss are also eligible for revision.

Based on these provisions, all the types of returns listed in the question - a return of income filed under Section 139(1), a belated return of income filed under Section 139(4), and a return of loss filed under Section 139(3) - can be revised under Section 139(5). Therefore, the correct answer to the question is option (d): (i), (ii), and (iii).

Question 4

An individual client has consulted you on the matter of PAN. He is carrying on the business of sale & purchase of electronic appliances. His turnover is ₹3,00,000 and the profit is ₹75,000 for the P.Y. 2024-25. He has asked you to provide him threshold of turnover, if any, exceeding which he has to apply for PAN.

- a. ₹2,00,000
- b. ₹2,50,000
- c. ₹3,00,000
- d. ₹5,00,000

Solution

(d)

Every person carrying on any business or profession is required to apply for PAN if their total sales, turnover, or gross receipts are likely to exceed ₹5 lakhs in any previous year.

Question 5

Arun's gross total income of P.Y. 2024-25 is ₹2,45,000. He exercises the option of shifting out of the default regime provided under section 115BAC (1A). He deposits ₹45,000 in PPF. He pays electricity bills aggregating to ₹1.20 lakhs in the P.Y. 2024-25. Which of the statements is correct?

- a. Arun is not required to file his return of income u/s 139(1) for P.Y. 2024-25, since his total income before giving effect to deduction under section 80C does not exceed the basic exemption limit.
- b. Arun is not required to file his return of income u/s 139(1) for P.Y. 2024-25, since his electricity bills do not exceed ₹2,00,000 for the P.Y.2024-25.
- c. Arun is not required to file his return of income u/s 139(1) for P.Y. 2024-25, since neither his total income before giving effect to deduction under section 80C exceeds the basic exemption limit nor his electricity bills exceed ₹2 lakh for the P.Y. 2024-25.

- d. Arun is required to file his return of income u/s 139(1) for P.Y. 2024-25, since his electricity bills exceed ₹1 lakh for the P.Y.2024-25.

Solution

(d)

Any person other than a company or a firm, who is not required to furnish a return under section 139(1), is required to file income-tax return in the prescribed form and manner on or before the due date if, during the previous year, such person, inter alia, has incurred expenditure of an amount or aggregate of the amounts exceeding ₹1 lakh towards consumption of electricity.

Question 6

Iskon Inc., a foreign company and non-resident in India for A.Y. 2025-26, engaged in the business of trading of tube-lights outside India. The principal officer of the company has approached you to enlighten him regarding the provisions of the Income-tax Act, 1961 pertaining to the person who is required to verify the return of income in case of Iskon Inc. Advise him as to which of the following statements are correct, assuming that the company has a managing director-

- I. The return of income in case of Iskon Inc. can be verified by the managing director.
- II. The return of income in case of Iskon Inc. can be verified by any director, irrespective of the availability or otherwise of the managing director.
- III. The return of income in case of Iskon Inc. may be verified by a person who holds a valid power of attorney from such company to do so, irrespective of the availability or otherwise of the managing director.

Choose the correct answer:

- a. I or II or III
- b. Only I
- c. I or III
- d. Only III

Solution

(c)

Under Section 140 of the Income-tax Act, 1961, regarding the verification of the return of income for a foreign company like Iskon Inc., the following provisions apply:

1. If the company has a managing director, the return of income can be verified by the managing director. If the managing director is unable to verify the return, then it can be verified by any other director of the company.
2. In cases where the company does not have a managing director or the managing director is not able to verify the return, and the company is not resident in India, the return of income can be verified by a person holding a valid power of attorney from the company.

Given these provisions, the correct answer to the question is option (c): I or III.

Question 7

Mr. Pawan is engaged in the business of roasting and grinding coffee beans. During F.Y. 2024-25, his total income is ₹4.5 lakhs. Mr. Pawan filed his return of income for A.Y. 2025-26 on 3rd December, 2025. What shall be the fee payable for default in furnishing in return of income for A.Y. 2025-26?

- a. ₹5,000
- b. Not exceeding ₹1,000
- c. No fee is payable as tax on total income is Nil
- d. No fees payable as total income is below ₹5,00,000

Solution

(b)

Question 8

Mr. Kumar, aged 62 years resident and ordinarily resident, is a retired employee with a monthly pension of ₹22,000. He has no other source of income. He has a house property in Bhatinda and his only son is living in London and has a house over there. His son met with an accident and died and thereby leaving the house at London in the name of Mr. Kumar. Mr. Kumar seeks your advice, as to whether he is required to file his income-tax return u/s 139?

- a. Yes, he is mandatorily required to file his income-tax return as he is a resident and ordinarily resident in India and has asset located outside India
- b. No, he is not required to file return of income as his income is below basic exemption limit
- c. Yes, he is required to file his return of income as his income exceeds the basic exemption limit
- d. No, he is not required to file his return of income as he is a senior citizen and retired employee

Solution

(a)

According to the provisions of the Income Tax Act, specifically under Section 139, certain conditions mandate the filing of an income tax return. One of these conditions pertains to individuals who are residents of India and who, at any point during the previous year, hold any asset (including any financial interest in any entity) located outside India or are beneficiaries of any asset located outside India.

In the case of Mr. Kumar, who is aged 62 years and a resident and ordinarily resident in India, his total income consists of a monthly pension of ₹22,000 (amounting to ₹2,64,000 annually), which is below the basic exemption limit for senior citizens. However, he inherits a house property in London from his son. This foreign asset brings him under the purview of the specific provision that requires filing a return of income if he holds any asset outside India.

Therefore, even though Mr. Kumar's total income is below the basic exemption limit and he is a senior citizen, he is mandatorily required to file his income tax return due to his ownership of the property in London. The requirement arises not from his income level but from his status as a resident and ordinarily resident in India with an asset located outside India.

The correct answer, in this case, is option (a): Yes, he is mandatorily required to file his income-tax return as he is a resident and ordinarily resident in India and has an asset located outside India.

Question 9

Mr. Dinesh, a resident in India, has gross total income of ₹2,30,000 comprising of interest on saving A/c and rental income during the previous year 2024-25. He incurred expenditure of ₹2,00,000 for his son for a study tour to Europe. Whether he is required to file return of income for the assessment year 2025-26? If yes, what is the due date?

- a. Yes, 31st July of A.Y
- b. Yes, 30th September of A.Y
- c. Yes, 31st October of A.Y
- d. No, he is not required to file return of income

Solution

(d)

Any person other than a company or a firm, who is not required to furnish a return under section 139(1), is required to file income-tax return in the prescribed form and manner on or before the due date if, during the previous year, such person, inter alia, has incurred expenditure of an amount or aggregate of the amounts exceeding ₹2 lakh for himself or any other person for travel to a foreign country.

In the present case, the amount spent on foreign travel does not exceed ₹2 lakh. Hence, Mr. Dinesh doesn't require to file his return of income at all.

Question 10

Mr. X is a working partner and Mr. Y is a non-working partner of XYZ partnership firm. XYZ Partnership firm is subject to tax audit under section 44AB for the P.Y. 2024-25. What is the due date for filing return of income for Mr. X and Mr. Y for the A.Y. 2025-26?

- a. 31st July, 2025 for both Mr. X and Mr. Y
- b. 31st October, 2025 for both Mr. X and Mr. Y
- c. 31st July, 2025 for Mr. X and 31st October, 2025 for Mr. Y
- d. 31st July, 2025 for Mr. Y and 31st October, 2025 for Mr. X

Solution

(b)

Based on the provisions of the Income Tax Act, the due date for filing the return of income for Mr. X (working partner) and Mr. Y (non-working partner) of the XYZ partnership firm, which is subject to tax audit under section 44AB for the P.Y. 2024-25, can be determined as follows:

For assessee's whose accounts are required to be audited under the Income Tax Act or any other law, the due date for filing the return of income is 31st October of the assessment year.

In the case of Mr. X and Mr. Y, since they are partners in a firm that is subject to tax audit, the due date for filing their return of income for the A.Y. 2025-26 would be 31st October 2025, regardless of whether they are working or non-working partners.

Therefore, the correct answer is (b) 31st October, 2025 for both Mr. X and Mr. Y.

Chapter 9 – Income Tax Liability

Question 1

Mr. Bandu, aged 37 years, provides the following details for P.Y. 2024-25:

Particulars	₹ in Lakhs
Textile business income	22
Speculative business loss	(4)
Textile business loss b/f from P.Y. 2020-21	(5)
Business income of spouse included in the income of Mr. Bandu as per section 64(1)(iv)	2
Deductions available under Chapter VI-A	3
TDS	1
TCS	0.5
Advance tax paid	1.3

What shall be the net tax payable/(refundable) under optional tax regime as per regular provisions of the Income-tax Act, 1961 for A.Y. 2025-26 for Mr. Bandu? Ignore interest.

- ₹24,200
- (₹1,00,600)
- ₹2,11,400
- ₹12,500

Solution

(a)

Computation of Total Income

Particulars	₹
Profits and Gains from Business or Profession	
Textile Business Income	22,00,000
Less: Brought Forward Loss	5,00,000
	17,00,000
Loss from Speculative business to be carried forward	
Business income of spouse clubbed	2,00,000
Gross Total Income	19,00,000
Less: Deductions under Chapter VI-A	3,00,000
Taxable Income	16,00,000

Computation of Tax Payable/(Refundable)

Particulars	₹
First ₹2,50,000	-
From ₹2,50,000 to ₹5,00,000 (5% × ₹2,50,000)	12,500
From ₹5,00,000 to ₹10,00,000 (20% × ₹5,00,000)	1,00,000
From ₹10,00,000 to ₹16,00,000 (30% × ₹6,00,000)	1,80,000
	2,92,500
Add: Health and Education Cess @ 4%	11,700
Total Tax Liability	3,04,200
Less: TDS	1,00,000
TCS	50,000

Question 2

Mr. Uttam presents you the following data related to his tax liability for A.Y. 2025-26:

Particulars	₹ in lakhs
Tax Liability as per regular provisions of Income-tax Act, 1961	15
Tax Liability as per section 115JC	12
AMT credit brought forward from A.Y. 2024-25	5

What shall be the tax liability of Mr. Uttam for A.Y. 2025-26?

- ₹12 lakhs
- ₹15 lakhs
- ₹10 lakhs
- ₹7 lakhs

Solution

(a)

To determine Mr. Uttam's tax liability for A.Y. 2025-26, we need to consider his tax liabilities under both the regular provisions of the Income-tax Act, 1961, and under section 115JC (AMT), along with his AMT credit brought forward.

- Tax Liability as per regular provisions: ₹15 lakhs
- Tax Liability as per section 115JC (AMT): ₹12 lakhs
- AMT credit brought forward from A.Y. 2024-25: ₹5 lakhs

According to Section 115JD of the Income-tax Act, the AMT credit is the excess of AMT paid over the regular income-tax payable for the year. This tax credit can be carried forward and set off against income-tax payable in subsequent years to the extent of the excess of regular income-tax payable over the AMT payable in those years.

In Mr. Uttam's case, the tax liability under the regular provisions (₹15 lakhs) is higher than the AMT (₹12 lakhs). However, when considering the AMT credit brought forward (₹5 lakhs), this credit can be utilized to reduce the tax liability, but only to the extent that the final tax payable does not fall below the AMT. Therefore, the tax liability cannot be reduced below ₹12 lakhs, which is the AMT liability.

Considering this, the AMT credit of only ₹3 lakhs will be adjusted against the income tax liability, and remaining credit of ₹2 lakhs will be carried forward. Mr. Uttam's final tax liability for A.Y. 2025-26 would be ₹12 lakhs.

Question 3

Mr. X, who has opted out of the default tax regime under section 115BAC and pays tax under the optional tax regime, can carry forward the AMT credit for

- 8 assessment years
- 10 assessment years

- c. 12 assessment years
- d. 15 assessment years

Solution

(d)

Relevant Provision:

The carry forward of Alternate Minimum Tax (AMT) credit is governed by **Section 115JEE of the Income Tax Act, 1961**.

- **Section 115JEE(1)** allows taxpayers (other than companies, applicable here to individuals/HUFs etc. under the optional regime claiming certain deductions) to take credit for AMT paid in excess of the regular income tax payable.
- **Section 115JEE(3)** allows this credit to be carried forward to subsequent assessment years.
- **Section 115JEE(4)** specifies the time limit for carry forward: "The tax credit determined under sub-section (1) shall be allowed to be carried forward for a period **not exceeding fifteen assessment years** immediately succeeding the assessment year in which such tax credit becomes available."

Analysis:

1. Mr. X has opted out of the default tax regime (Section 115BAC) and is under the optional (old/regular) tax regime.
2. Under the optional regime, if his adjusted total income triggers AMT liability (u/s 115JC) which is higher than his regular tax liability, he would pay AMT and generate AMT credit.
3. Section 115JEE(4) clearly states that this AMT credit can be carried forward for a maximum period of **15 assessment years**.

Conclusion:

An individual paying tax under the optional tax regime can carry forward the AMT credit generated for a maximum period of 15 assessment years.

Therefore, the correct option is: **d. 15 assessment years**

Question 4

Mr. Raj, aged 32 years, presents you the following data for A.Y. 2025-26:

Particulars	₹ in lakhs
Gross receipts from business conducted entirely through banking channels (opted for section 44AD)	70
Capital gains under section 112A (Transfer Date: 23.09.2024)	5
Capital gains under section 111A (Transfer Date: 15.01.2025)	3
Winnings from horse races	1

What would be the tax liability under optional tax regime as per the regular provisions of the Income-tax Act, 1961 of Mr. Raj for the A.Y. 2025-26?

- a. ₹1,28,440
- b. ₹1,51,190
- c. ₹1,67,830
- d. ₹1,45,080

Solution

(b)

Calculation of Tax Liability	
Particulars	₹
Capital gains under section 112A {12.5% × (₹5,00,000 – ₹1,25,000)}	46,875
Capital gains under section 111A (20% × ₹3,00,000)	60,000
Winnings from horse races (30% × ₹1,00,000)	30,000
Other Income of ₹4,20,000 (6% × ₹70,00,000)	
First ₹2,50,000	-
From ₹2,50,000 to ₹4,20,000 {5% × (₹4,20,000 – ₹2,50,000)}	8,500
	1,45,375
Add: Health and Education Cess @ 4%	5,815
Tax Liability	1,51,190

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