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TAXATION 101

SOLUTIONS GUIDE

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INCOME TAX LAWS

SOLUTIONS GUIDE

PREFACE

Dear Warriors,

Greetings! I hope you are enjoying the experience of learning from your very own **"Taxation 101: Concept Guide"**. I look forward to hearing your reviews and suggestions about the book soon!

It is famously said, *"What you hear, you may forget. What you see, you may remember, but it is what you do that you understand."* While I'm sure that you all may have gained a strong grip over the provisions of Income Tax, what good is an acquired knowledge, unless it is put to test?

To complement your theory reading with a touch of practical solutions, it gives me immense pleasure to share with you "**Taxation 101: Solutions Guide"**, a compilation of questions prepared using handwriting font and ruled page format to give the book a nice and a personal touch.

Each chapter in this book covers Questions from the ICAI educational materials applicable for May 2026, Sep 2026 and Jan 2027 examinations along with RTPs, MTPs and past examination papers of ICAI issued upto 31st August 2025 (aligned with the provisions applicable for AY 2026-27) and arranged topic wise as well as chapter wise for ease of preparation.
(Proper reference to the paper as well as the attempt has also been provided for the sake of student's convenience and trend analysis)

It is my utmost belief that this book exhaustively covers everything needed for a student to crack your exams and you may not be required to spend efforts on going through any other materials for practice.

All the best for your exams!
Cheers,

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P.s This book is prepared with the sole intention of helping students to better understand the application of the provisions of Income Tax Laws and how to prepare for and present in your exams. The book is in no way intended to act as a substitute to your primary reference material and should not be used independently while preparing for your exams.

CONTENTS

Happy Learning!!

Basics of Income Tax

SECTION A – SM QUESTIONS

General

Qn. 1	What are the two schools of Hindu law and where are they prevalent? Explain. Also, mention the difference between the two schools of Hindu Law.
Ans.	The two schools of Hindu law are Dayabaga school, prevalent in West Bengal and Assam, and Mitakshara school, prevalent in rest of India. Under the Dayabaga school of Hindu Law, nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property. Hence, the father and his brothers would be the coparceners of the HUF. Under the Mitakshara school of Hindu Law, one acquires the right to the family property by his birth and not by succession irrespective of the fact that his elders are living. Thus, every child born in the family acquires a right/share in the family property.
Qn. 2	What is the difference between an Association of Persons and Body of Individuals?
Ans.	In order to constitute an Association of Persons (AOP), persons must join for a common purpose or action and their object must be to produce income; it is not enough that the persons receive the income jointly. Body of Individuals denotes the status of persons like executors or trustees who merely receive the income jointly and who may be assessable in like manner and to the same extent as the beneficiaries individually. Thus, coexecutors or co-trustees are assessable as a BOI as their title and interest are indivisible. The difference between an AOP and BOI is that in case of a BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like company, firm etc. can be the member of AOP but not of BOI. In case of an AOP, members voluntarily come together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.
Qn. 3	The Jain HUF in Assam comprises of Mr. Suresh Jain, his wife Mrs. Sapna Jain, his son Mr. Sarthak Jain, his daughter-in-law Mrs. Preeti Jain, his daughter Miss Seema Jain and his unmarried brother Mr. Pritam Jain. Which of the members of the HUF are eligible for coparcenary rights
Ans.	Dayabaga school of Hindu law is prevalent in Assam. In Dayabaga school of Hindu law, nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property. Hence, Mr. Suresh Jain and his brother, Mr. Pritam Jain would be the coparceners of the Jain HUF and are eligible for coparcenary rights.
Qn. 4	Who is an "Assessee"?
Ans.	As per sec 2(7), assessee means a person by whom any tax or any other sum of money is payable under the Income-tax Act, 1961. In addition, the term includes – ▪ Every person in respect of whom any proceeding under the Act has been taken for the assessment of: - his income; or - the income of any other person in respect of which he is assessable; or - the loss sustained by him or by such other person; or - the amount of refund due to him or to such other person. ▪ Every person who is deemed to be an assessee under any provision of the Act;

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

Qn. 5 State any four instances where the income of the previous year is assessable in the PY itself instead of the AY.

Ans. The income of an assessee for a PY is charged to income-tax in the AY following the AY. However, in a few cases, the income is taxed in the PY in which it is earned. These exceptions have been made to protect the interests of revenue. The exceptions are as follows:

(i) Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.

(ii) Where it appears to the Assessing Officer that any individual may leave India during the current AY or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective PY up to the probable date of his departure from India is chargeable to tax in that AY.

(iii) If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/BOI is likely to be dissolved in the same year or in the next year, he can make assessment of the income up to the date of dissolution as income of the relevant AY.

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

(v) Where any business or profession is discontinued in any AY, the income of the period from the expiry of the PY up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that AY.

Marginal Relief

Qn. 6 Compute the tax liability of Mr. Kashyap (aged 35), having total income of ₹ 51,75,000 for the AY 2026-27. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit. Assume that Mr. Kashyap has exercised the option of shift out of the default tax regime u/s 115BAC.

Ans. Computation of tax liability of Mr. Kashyap for the AY 2026-27

(A)	Tax payable on ₹ 51,75,000	
	First 2,50,000	NIL
	Next 2,50,000 @ 5%	12,500
	Next 5,00,000 @ 20%	1,00,000
	Balance ₹ 41,75,000 @ 30%	12,52,500
	Basic Tax	13,65,000
	Add: Surcharge @ 10%	1,36,500
	Income Tax Payable (together with surcharge)	15,01,500
(B)	Tax Payable on ₹ 50,00,000	
	First 2,50,000	NIL
	Next 2,50,000 @ 5%	12,500
	Next 5,00,000 @ 20%	1,00,000
	Balance ₹ 40 lakhs @ 30%	12,00,000
	Basic Tax	13,12,500
(C)	Excess Tax payable [(A) - (B)]	1,89,000

(D)	Income earned in excess of nearest limit	1,75,000

For earning an Income of ₹ 1,75,000, Mr. Kashyap cannot be levied a tax liability of ₹ 1,89,000. Hence, ₹ 14,000 [(C) - (D)] shall be granted as Marginal Relief.

Tax Payable (₹ 15,01,500 – ₹ 14,000)	14,87,500
Add: Health & Education cess @ 4%	59,500
Total Tax Payable	**15,47,000**

Qn. 7 Compute the tax liability of Mr. C (aged 58), having total income of ₹ 2,01,00,000 for the AY 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. C has exercised the option to shift out of sec 115BAC.

Ans. Computation of tax liability of Mr. C for the AY 2026-27

(A)	Tax payable on ₹ 2.01 Crores	
	First 2,50,000	NIL
	Next 2,50,000 @ 5%	12,500
	Next 5,00,000 @ 20%	1,00,000
	Balance ₹ 191 lakhs @ 30%	57,30,000
	Basic Tax	58,42,500
	Add: Surcharge @ 25%	14,60,625
	Income Tax Payable (together with surcharge)	73,03,125
(B)	Tax Payable on ₹ 2 Crores	
	First 2,50,000	NIL
	Next 2,50,000 @ 5%	12,500
	Next 5,00,000 @ 20%	1,00,000
	Balance ₹ 190 lakhs @ 30%	57,00,000
	Basic Tax	58,12,500
	Add: Surcharge @ 15%	8,71,875
	Income Tax Payable (together with surcharge)	66,84,375
(C)	Excess Tax payable [(A) - (B)]	6,18,750
(D)	Income earned in excess of nearest limit	1,00,000

For earning an Income of ₹ 1 lakh, Mr. C cannot be levied a tax liability of ₹ 6,18,750. Hence, ₹ 5,18,750 [(C) - (D)] shall be granted as Marginal Relief.

Tax Payable (₹ 73,03,125 – ₹ 5,18,750)	67,84,375
Add: Health & Education cess @ 4%	2,71,375
Total Tax Payable	**70,55,750**

Computation of Tax Liability

Qn. 8 Mr. Agarwal aged 40 years and a resident in India, has a total income of ₹ 6,50,00,000, comprising long term capital gain taxable u/s 112 of ₹ 55,00,000, short term capital gain taxable u/s 111A of ₹ 65,00,000 and other income of ₹ 5,30,00,000. Compute his tax liability for AY 2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

Ans. **Computation of tax liability of Mr. Agarwal for the AY 2026-27 under default tax regime**

Particulars	₹	₹
Tax on total income of ₹ 6,50,00,000		
Tax @ 12.5% of ₹ 55,00,000		6,87,500
Tax @ 20% of ₹ 65,00,000		13,00,000
Tax on other income of ₹ 5,30,00,000		
₹ 4,00,000 – ₹ 8,00,000 @ 5%	20,000	
₹ 8,00,001 – ₹ 12,00,000 @ 10%	40,000	
₹ 12,00,001 – ₹ 16,00,000 @ 15%	60,000	
₹ 16,00,001 – ₹ 20,00,000 @ 20%	80,000	
₹ 20,00,001 – ₹ 24,00,000 @ 25%	1,00,000	
₹ 15,00,001 – ₹ 5,30,00,000 @ 30%	1,51,80,000	1,54,80,000
		1,74,67,500
Add: Surcharge @15% on ₹ 19,87,500	2,98,125	
@ 25% on ₹ 1,54,80,000	38,70,000	41,68,125
		2,16,35,625
Add: Health and education cess @ 4%		8,65,425
Tax Liability		**2,25,01,050**

Computation of tax liability of Mr. Agarwal for the AY 2026-27 under normal provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 6,50,00,000		
Tax @ 12.5% of ₹ 55,00,000		6,87,500
Tax @ 20% of ₹ 65,00,000		13,00,000
Tax on other income of ₹ 5,30,00,000		
₹ 2,50,000 – ₹ 5,00,000 @ 5%	12,500	
₹ 5,00,001 – ₹ 10,00,000 @ 20%	1,00,000	
₹ 10,00,001 – ₹ 5,30,00,000 @ 30%	1,56,00,000	1,57,12,500
		1,77,00,000
Add: Surcharge @15% on ₹ 19,87,500	2,98,125	
@ 37% on ₹ 1,57,12,000	58,13,625	61,11,750
		2,38,11,750
Add: Health and education cess @ 4%		9,52,470
Tax Liability		**2,47,64,220**

Qn. 9 Mr. Sharma aged 62 years and a resident in India, has a total income of ₹ 2,30,00,000, comprising long term capital gain u/s 112 of ₹ 52,00,000, short term capital gain u/s 111A of ₹ 64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for AY 2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

Ans. **Computation of tax liability of Mr. Sharma for the AY 2026-27 under the default tax regime**

Particulars	₹	₹
Tax on total income of ₹ 2,30,00,000		
Tax @ 12.5% of ₹ 52,00,000		6,50,000
Tax @ 20% of ₹ 64,00,000		12,80,000
Tax on other income of ₹ 1,14,00,000		
₹ 4,00,000 – ₹ 8,00,000 @ 5%	20,000	
₹ 8,00,001 – ₹ 12,00,000 @ 10%	20,000	

₹ 12,00,001 – ₹ 16,00,000 @ 15%	60,000	
₹ 16,00,001 – ₹ 20,00,000 @ 20%	80,000	
₹ 20,00,001 – ₹ 24,00,000 @ 20%	1,00,000	
₹ 24,00,001 – ₹ 1,14,00,000 @ 30%	27,00,000	30,00,000
		49,30,000
Add: Surcharge @ 15%		7,39,500
		56,69,500
Add: Health and education cess @ 4%		2,26,780
Tax Liability		**58,96,280**

Computation of tax liability of Mr. Sharma for the AY 2026-27 under normal provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 2,30,00,000		
Tax @ 12.5% of ₹ 52,00,000		6,50,000
Tax @ 20% of ₹ 64,00,000		12,80,000
Tax on other income of ₹ 1,14,00,000		
₹ 3,00,000 – ₹ 5,00,000 @ 5%	10,000	
₹ 5,00,001 – ₹ 10,00,000 @ 20%	1,00,000	
₹ 10,00,001 – ₹ 1,14,00,000 @ 30%	31,20,000	32,30,000
		51,60,000
Add: Surcharge @ 15%		7,74,000
		59,34,500
Add: Health and education cess @ 4%		2,37,360
Tax Liability		**61,71,360**

Section B – Blast from the Past

Qn. 1 Briefly explain the purpose for which the words "PROVISO" and "EXPLANATION" are incorporated under various sections of the Income-tax Act, 1961.

[May 18]

Ans. **Proviso**: The Proviso to a section is incorporated to specify the exception(s) to the provision contained in the respective section i.e., the proviso spells out the cases where the provision contained in the respective section would not apply or where the provision contained in the respective section would apply with certain modification.

Explanation: An Explanation is incorporated in a section to provide a clarification relating to the provision contained in that section. Generally, an Explanation is clarificatory in nature.

Section C – Additional questions for practice

Qn. 1 Compute the tax liability of Mr. Manikandan, for the AY 2026-27 in the following cases:

Particulars	Case I	Case II
Income from business	2,36,00,000	1,59,00,000
LTCG taxable u/s 112 @ 12.5%	38,00,000	12,00,000
LTCG taxable u/s 112A @ 12.5%	6,00,000	6,00,000
STCG taxable u/s 111A @ 20%	15,00,000	15,00,000
STCG (others)	-	38,00,000

Assume Mr. Manikandan wishes to opt out of the provisions of Sec 115BAC

Qn. 2 Mr. Prem a staff boy in a private firm receives a salary of ₹ 20,000 p.m. for his services rendered. Apart from this, Mr. Prem earns long term capital gains of ₹ 2,20,000 from sale of listed shares of RIL Ltd. in the stock market and winnings from lottery of ₹ 50,000. What will be the tax liability of Mr. Prem if he wishes to opt out of default tax regime u/s 115BAC assuming:

a) He is of age 42 years and is treated as Resident and ordinarily resident in India for AY 2026-27

b) He is of age 62 years and is treated as non-resident for the AY 2026-27

Section D – Only for Legends

Compute Tax liability in the following cases:

Qn. 1 __________, resident, 19 years has the following incomes.

Particulars	Amount
PGBP	4,75,000
STCG – 111A	30,000
Winnings	1,50,000

Qn. 2 __________, resident, 69 years has the following incomes.

Particulars	Amount
PGBP	8,00,000
IFOS	2,00,688
HP	2,00,000
Horse race winning	5,00,000
STCG - 111A	3,00,000
LTCG – 112A	2,00,000
STCG	6,00,003
LTCG – 112	9,01,332
Unexplained income	2,80,000

Qn. 3 __________, resident, 32 years, not opting for Sec 115BAC has the following incomes.

Particulars	Amount
PGBP	1,00,000
IFOS	1,50,000
HP	20,000
LTCG – 112A @ 12.5%	2,00,000
STCG – 111A @ 20%	25,000

Qn. 4 __________, resident, 19 years, not opting for Sec 115BAC has the following incomes.

Particulars	Amount
PGBP	1,00,000
LTCG – 112	1,00,000
LTCG – 112A	2,00,000
STCG – 111A	2,00,000

Qn. 5 __________, resident, 45 years, not opting for Sec 115BAC has the following incomes.

Particulars	Amount
PGBP	1,00,000
LTCG – 112 @ 12.5%	1,50,000
STCG – 111A @ 20%	1,50,000
Lottery	20,000

Qn. 6 __________, resident, 24 years, not opting for Sec 115BAC has the following incomes.

Particulars	Amount
PGBP	1,00,000
LTCG – 112A	2,00,000
STCG – 111A	1,70,000

(OR)

Particulars	Amount
PGBP	1,00,000
LTCG – 112A	2,00,000
LTCG – 112	40,000
STCG – 111A	1,30,000

Qn. 7 __________, resident, 63 years, not opting for Sec 115BAC has the following incomes.

Particulars	Amount
PGBP	1,64,00,000
LTCG – 112A	6,00,000
STCG – 111A	3,00,000
Dividend	9,00,000
STCG	20,00,000
LTCG – 112	15,00,000

Qn. 8 __________, non-resident, 76 years, not opting for Sec 115BAC has the following incomes.

Particulars	Amount
PGBP	1,80,00,000
LTCG – 112A	15,00,000
STCG – 111A	6,00,000

Compute Marginal Relief

Residential Status & Scope of Total Income

02

SECTION A – SM QUESTIONS

Residential Status of Individuals

Qn. 1 Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2025. From the following details for the PY 2025-26, determine the residential status of Mr. Anand for AY 2026-27, assuming that his stay in India in the last 4 PYs (preceding PY 2025-26) is 400 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6th June, 2025
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9th December, 2025

Ans. In this case, since Mr. Anand is an Indian citizen and leaving India during PY 2025-26 as a member of the crew of an Indian ship, he would be resident in India, only if he stayed in India for 182 days or more.

The voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of sec 6(1).

Therefore, the period beginning from 6th June, 2025 and ending on 9th December, 2025, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the PY 2025-26 would be 178 days [i.e., 365 days – 187 days]. Since his period of stay in India during the PY 2025-26 is less than 182 days, he is a non-resident for AY 2026-27.

Qn. 2 Mr. B, a Canadian citizen, comes to India for the first time during PY 2021-22. During the FYs 2021-22, 2022-23, 2023-24, 2024-25 and 2025-26, he was in India for 55 days, 60 days, 90 days, 150 days and 70 days, respectively. Determine his residential status for the AY 2026-27.

Ans. During the PY 2025-26, Mr. B was in India for 70 days and during the 4 years preceding the PY 2025-26, he was in India for 355 days (i.e., 55+ 60+ 90+150 days).

Thus, he does not satisfy sec 6(1). Therefore, he is a non-resident for the PY 2025-26

Qn. 3 Mr. Ram, an Indian citizen, left India on 22.09.2025 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the AY 2026-27.

Ans. U/s 6(1), an individual is said to be resident in India in any PY if he satisfies any one of the following conditions -

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

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

In the case of Indian citizens leaving India for employment, the period of stay during the PY must be 182 days instead of 60 days given in (ii) above.

During the PY 2025-26, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant PY, he is a non-resident for the AY 2026-27.

Qn. 4 Mr. Dey, a non-resident, residing in US since 1990, visits India for 30 days every year. He came back to India on 1.4.2024 for permanent settlement. What will be his residential status for AY 2026-27?

Ans. Mr. Dey is a resident in AY 2026-27 since he has stayed in India for a period of 365 days (more than 182 days) during the PY 2025-26.

As per sec 6(6), a person will be "Not ordinarily Resident" in India in any PY, if such person, inter alia:

(a) has been a non-resident in 9 out of 10 PYs preceding the relevant PY; or

(b) has during the 7 PYs immediately preceding the relevant PY been in India for 729 days or less.

If he does not satisfy either of these conditions, he would be a resident and ordinarily resident.

For the PY 2025-26 (AY 2026-27), his status would be "Resident but not ordinarily resident" since he was non-resident in 9 out of 10 PYs immediately preceding the PY 2025-26. He was resident only in the PY 2024-25. Prior to that, he was non-resident in all the years since his stay in India was only for 30 days each year.

He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 546 days (i.e., less than 730 days) in 7 PYs immediately preceding the PY 2025-26, which is less than 730 days.

Qn. 5 Bret Lee, an Australian cricket player visits India for 100 days in every FY. This has been his practice for the past 10 FYs.

(a) Find out his residential status for the AY 2026-27.

(b) Would your answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia and represents the Australian cricket team?

(c) What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including PY 2025-26?

Ans. (a) Determination of Residential Status of Mr. Bret Lee for the AY 2026-27:

Period of stay during the PY 2025-26 = 100 days

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

PY 2024-25	100 days
PY 2023-24	100 days
PY 2022-23	100 days
PY 2021-22	100 days
Total	400 days

Mr. Bret Lee has been in India for a period of more than 60 days during PY 2025-26 and for a period of more than 365 days during the 4 immediately preceding PYs. Therefore, since he satisfies one of the basic conditions u/s 6(1), he is a resident for the AY 2026-27.

Computation of period of stay during 7 preceding PYs = 100 x 7 = 700 days

2024-25	100 days
2023-24	100 days
2022-23	100 days
2021-22	100 days
2020-21	100 days
2019-20	100 days
2018-19	100 days
Total	700 days

Since his period of stay in India during the past 7 PYs is less than 730 days, he is a not-ordinarily resident during the AY 2026-27. (See Note below)

Therefore, Mr. Bret Lee is a resident but not ordinarily resident during the PY 2025-26 relevant to the AY 2026-27.

Note: An individual, not being an Indian citizen, would be not-ordinarily resident person if he satisfies any one of the conditions specified u/s 6(6), i.e., *(i) If such individual has been non-resident in India in any 9 out of the 10 PY preceding the relevant PY, or*

(ii) If such individual has during the 7 PYs preceding the relevant PY been in India for a period of 729 days or less.

In this case, since Mr. Bret Lee satisfies condition (ii), he is a not-ordinary resident for the AY 2026-27.

(b) If the above facts relate to Mr. Srinath, an Indian citizen, who residing in Australia, comes on a visit to India, he would be treated as non-resident in India, irrespective of his total income (excluding income from foreign sources), since his stay in India in the current FY is, in any case, less than 120 days.

(c) In this case, if Mr. Srinath's total income (excluding income from foreign sources) exceeds ₹ 15 lakh, he would be treated as resident but not ordinarily resident in India for PY 2025-26, since his stay in India is 120 days in the PY 2025-26 and 480 days (i.e., 120 days x 4 years) in the immediately four preceding PYs.

If his total income (excluding income from foreign sources) does not exceed ₹ 15 lakh, he would be treated as non-resident in India for the PY 2025-26, since his stay in India is less than 182 days in the PY 2025-26.

Residential Status of HUF

Qn. 6 The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the karta of the HUF, who was born in Kolkata, visits India during the PY 2025-26 after 15 years. He comes to India on 1.4.2025 and leaves for Australia on 1.12.2025. Determine the residential status of Mr. E and the HUF for AY 2026-27.

Ans. a) During the PY 2025-26, Mr. E has stayed in India for 245 days (i.e., 30+31+30+31+31+30+31+30+1 days). Therefore, he is a resident. However, since he has come to India after 15 years, he does not satisfy any of the conditions for being ordinarily resident. Therefore, the residential status of Mr. Aryan for the PY 2025-26 is resident but not ordinarily resident (RNOR).

b) Since the business of the HUF is transacted from Australia and policy decisions are taken there, it is assumed that the control and management is in Australia i.e., the control and management is wholly outside India. Therefore, the HUF is a non-resident for the PY 2025-26.

Scope of Total Income

Qn. 7 From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2026, compute the total income for the AY 2026-27, if he is:

(i) Resident and ordinary resident;

(ii) Resident but not ordinarily resident;

(iii) Non-resident

	Particulars	₹
(a)	Short-term capital gains on sale of shares in an Indian Company received in Germany	15,000
(b)	Dividend from a Japanese Company received in Japan	10,000
(c)	Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels	75,000
(d)	Dividend from RP Ltd., an Indian Company	6,000
(e)	Agricultural income from lands in Gujarat	25,000

Ans. **Computation of total income of Mr. Anirudh for AY 2026-27**

	Particulars	ROR	RNOR	NR
(a)	Short-term capital gains on sale of shares in an Indian Company received in Germany	15,000	15,000	15,000
(b)	Dividend from a Japanese Company received in Japan	10,000	-	-
(c)	Rent from property in London deposited in a bank in London [Note (i)]	52,500	-	-
(d)	Dividend from RP Ltd., an Indian Company [Taxable]	6,000	6,000	6,000
(e)	Agricultural income from lands in Gujarat [Note (ii)]	-	-	-
	Total Income	83,500	21,000	21,000

Notes:

(i) It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @ 30% u/s 24(a), has been provided and the net income so computed is taken into account for determining the total income of a resident and ordinarily resident.

Particulars	₹
Rent received (assumed as gross annual value)	75,000
Less: Deduction u/s 24 (30% of ₹ 90,000)	(22,500)
Income from House Property	52,500

(ii) Agricultural income is exempt u/s 10(1).

Qn. 8 Compute the total income in the hands of an individual aged 35 years, being a ROR, RNOR, and NR for the AY 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

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

[May 18]

Ans.

Computation of total income for the AY 2026-27

Particulars	ROR	RNOR	NR
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Short term capital gains on sale of shares of an Indian company received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Long term capital gain on sale of plant at Germany, 50% of profits are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled from Delhi, out of which ₹ 40,000 is received in India	70,000	70,000	40,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
Interest on debentures in an Indian company received in London	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Mumbai managed from London	26,000	26,000	26,000
Income from property situated in Nepal, received there	16,000	-	-
Past foreign untaxed income brought to India during the PY	-	-	-
Income from agricultural land in Nepal received there and then brought to India	18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
Gift received on the occasion of his wedding [not taxable]	-	-	-
Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
Income from a business in Russia, controlled from Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company	5,000	5,000	5,000
Agricultural income from a land in Rajasthan [Exempt u/s 10(1)]	-	-	-
Gross Total Income	**3,52,000**	**2,18,000**	**1,83,000**
Less: Deduction u/s 80TTA			
[Interest on savings bank account subject to a maximum of ₹ 10,000]	(10,000)	(10,000)	(10,000)
Total Income	**3,42,000**	**2,08,000**	**1,73,000**

Qn. 9 Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the FY 2025-26. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the AY 2026-27 assuming that both have exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

S.No.	Particulars	Mr. Ramesh (₹)	Mr. Suresh (₹)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000
2.	Dividend from British company received in London	28,000	20,000
3.	Profits from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000

8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Rent received in respect of house property at Bhopal	1,00,000	60,000
10.	Life insurance premium paid	-	30,000

Ans. Computation of total income of Mr. Ramesh & Mr. Suresh for the AY 2026-27

S.No.	Particulars	Mr. Ramesh (₹)	Mr. Suresh (₹)
1.	Interest on Canada Development Bonds (Note 2)	17,500	40,000
2.	Dividend from British company received in London (Note 3)	-	20,000
3.	Profits from a business in Nagpur, but managed directly from London (Note 2)	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India (Note 2)	60,000	90,000
5.	Income from a business in Chennai (Note 2)	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada (Note 2)	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi (Note 2)	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh (Note 4)	-	-
9.	Income from house property at Bhopal (Note 5)	70,000	42,000
	Gross Total Income	4,34,500	4,14,000
	Less: Deduction under Chapter VI-A		
	Sec 80C - Life insurance premium	-	(30,000)
	Section 80TTA (See Note 6)	(7,000)	(10,000)
	Total Income	**4,27,500**	**3,74,000**

Notes:

1. Mr. Ramesh is a NR since he has been living in Canada since 1996. Mr. Suresh, is settled in Delhi, and thus, assumed as a ROR.
2. In case of a ROR, his global income is taxable as per sec 5(1). However, as per sec 5(2), in case of a NR, only the following incomes are chargeable to tax:
   (i) Income received or deemed to be received in India; and
   (ii) Income accruing or arising or deemed to accrue or arise in India.
   Therefore, fees for technical services rendered in India would be taxable in the hands of Mr. Ramesh, even though he is a NR.
   The income referred to in Sl. No. 3,4,5 and 7 are taxable in the hands of both Mr. Ramesh and Mr. Suresh since they accrue or arise/ deemed to accrue or arise in India.
   Interest on Canada Development Bond would be fully taxable in the hands of Mr. Suresh, whereas only 50%, which is received in India, is taxable in the hands of Mr. Ramesh.
3. Dividend received from British company in London by Mr Ramesh, a NR, is not taxable since it accrued and is received outside India.
   However, such dividend received by Mr. Suresh is taxable, since he is a ROR.
4. Agricultural income from a land situated in India is exempt u/s 10(1) in the case of both non-residents and residents.
5. The net income from house property in India would be taxable in the hands of both Mr. Ramesh and Mr. Suresh, since the accrual and receipt of the same are in India.

Income from house property-	Mr. Ramesh	Mr. Suresh
Rent received	1,00,000	60,000
Less: Deduction u/s 24(a) @ 30%	(30,000)	(18,000)
Net income from house property	70,000	42,000

	6. In case of an individual, interest upto ₹ 10,000 from savings account with, inter alia, a bank is allowable as deduction u/s 80TTA.

Qn. 10 From the following particulars of income furnished by Mr. Ashutosh, aged 65 years, pertaining to year ended 31.03.2027, compute the total income for the AY 2026-27 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A), if he is

(a) Resident and ordinarily resident

(b) Non-resident

	Particulars	Amount (₹)
(i)	Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India. The consideration is also received outside India in foreign currency	1,50,000
(ii)	Rent from property in Delhi, let out to a branch of a foreign company. The rent agreement is entered outside India. Monthly rent is also received outside India	1,20,000
(iii)	Agricultural income from a land situated in Nepal, received in Nepal	55,000
(iv)	Interest on savings bank deposit in UCO Bank, Delhi	18,000
(v)	Income earned from business in London which is controlled from Delhi (₹ 35,000 is received in India)	60,000
(vi)	Gift received from his daughter on his birthday	55,000
(vii)	Past foreign taxed income brought to India	37,000
(viii)	Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000

Ans. <u>Computation of total income of Mr. Ashutosh for the AY 2026-27</u>

Particulars	ROR (₹)	NR (₹)
Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India and received outside India	1,50,000	1,50,000
Rent from property in Delhi, received outside India [₹ 1,20,000 – 30% of ₹ 1,20,000 u/s 24(a)]	84,000	84,000
Agricultural income from a land situated in Nepal, received in Nepal	55,000	-
Interest on savings bank deposit in UCO Bank, Delhi	18,000	18,000
Income earned from business in London which is controlled from Delhi	60,000	35,000
Gift received from daughter (Not taxable, since daughter is a relative)	-	-
Past foreign taxed income brought to India (Not taxable)	-	-
Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000	-
Gross Total Income	**3,79,000**	**2,87,000**
Less: Deduction u/s 80TTB/80TTA	(18,000)	(10,000)
[Interest on savings bank account subject to a maximum of ₹ 50,000/₹ 10,000]		
Total Income	**3,61,000**	**2,77,000**

Notes:

1. In case of a resident and ordinarily resident, global income is taxable as per sec 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:
   (i) Income received or deemed to be received in India; and
   (ii) Income accruing or arising or deemed to accrue or arise in India.
   Therefore, agricultural income from a land situated in Nepal, income earned from business in London which is controlled from Delhi, received outside India and fees for technical services from a non-resident for business outside India is not taxable in case of non-resident.
2. In case of a senior citizen, being a resident aged 60 years or more, interest upto ₹ 50,000 from saving account with, *inter alia*, a bank is allowable as deduction under section 80TTB while in case of a non-

resident, interest upto ₹ 10,000 from saving account with, *inter alia*, a bank is allowable as deduction u/s 80TTA.

Qn. 11 Mr. Dhanush, an Indian citizen aged 35 years, worked in ABC Ltd. in Mumbai. He got a job offer from XYZ Inc., USA on 01.06.2024. He left India for the first time on 31.07.2024 and joined XYZ Inc. on 08.08.2024. During the PY 2025-26, Mr. Dhanush visited India from 25.05.2025 to 22.09.2025. He has earned the following income for the PY 2025-26

Particulars	₹
Salary from XYZ Inc., USA received in USA	7,00,000
Dividend from Indian companies	5,50,000
Agricultural income from land situated in Punjab	55,000
Rent received/receivable from house property in Lucknow	4,00,000
Profits from a profession in USA, which was set up in India, received there	6,00,000

Determine the residential status of Mr. Dhanush and compute his total income for the AY 2026-27

Ans. As per sec 6(1), an Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India would be resident in India if he or she stays in India for a period of 182 days or more during the relevant PY in case such person has total income, other than the income from foreign sources, not exceeding ₹ 15 lakhs. However, if such person has total income, other than the income from foreign sources, exceeding ₹ 15 lakhs, he would also be a resident if he has been in India for at least 120 days during the relevant PY and has been in India during the 4 years immediately preceding the PY for a total period of 365 days or more. In such a case, he would be resident but not ordinarily resident in India.

Income from foreign sources means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India.

In this case, total income, other than the income from foreign sources, of Mr. Dhanush for PY 2025-26 would be

Particulars		Amount (₹)
Salary from XYZ Inc., USA received in USA (Not included in total income, since it is income from foreign source)		-
Dividend from Indian companies (Included in total income, since it is deemed to accrue or arise in India)		5,50,000
Agricultural income from land situated in Punjab [Exempt u/s 10(1)]		-
Rent received/receivable from house property in Lucknow (Included in total income, since it is deemed to accrue or arise in India)	4,00,000	
Less: 30% of ₹ 4 lakhs	(1,20,000)	2,80,000
Profits from a profession in USA, which was set up in India, received there		6,00,000
Total income, other than the income from foreign sources		**14,30,000**

Since, Mr. Dhanush is an Indian citizen who comes on a visit to India only for 121 days in the PY 2025-26 and his total income, other than income from foreign sources does not exceed ₹ 15 lakhs, he would be non-resident for the AY 2026-27.

A non-resident is chargeable to tax in respect of income received or deemed to receive in India and income which accrues or arises or is deemed to accrue or arise to him in India. Accordingly, his total income would be as follow –

Particulars	Amount (₹)
Salary from XYZ Inc., USA received in USA (Not taxable, since it neither accrues or arises in India nor is it received in India)	-
Dividend from Indian companies (Included in total income, since it is deemed to accrue or arise in India)	5,50,000

Agricultural income from land situated in Punjab [Exempt u/s 10(1)]		-
Rent received/receivable from house property in Lucknow (Included in total income, since it is deemed to accrue or arise in India)	4,00,000	
Less: 30% of ₹ 4 lakhs	(1,20,000)	2,80,000
Profits from a profession in USA, which was set up in India, received there		-
Total income, other than the income from foreign sources		**8,30,000**

Income deemed to accrue or arise in India – Sec 9

Qn. 12 Mr. David, a citizen of India, aged 40 years, a Govt. employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2025 due to his transfer to High Commission of Canada. He did not visit India any time during the PY 2025-26. He has received the following income for the FY 2025-26:

S.No.	Particulars	₹
(i)	Salary (Computed)	5,00,000
(ii)	Foreign Allowance	4,00,000
(iii)	Interest on fixed deposit from bank in India	1,00,000
(iv)	Income from agriculture in Nepal	2,00,000
(v)	Income from house property in Nepal	2,50,000

Compute his gross total income for AY 2026-27.

[Nov 16]

Ans. As per sec 6(1), Mr. David is a non-resident for the AY 2026-27, since he was not present in India at any time during the PY 2025-26.

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

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

(ii) Income accruing or arising or deemed to accrue or arise in India.

In view of the above provisions, income from agriculture in Nepal and income from house property in Nepal would not be chargeable to tax in the hands of David, assuming that the same were received in Nepal. Income from 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per sec 9(1)(iii). Hence, such income is taxable in the hands of Mr. David, even though he is a non-resident.

However, allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt u/s 10(7). Hence, foreign allowance of ₹ 4,00,000 is exempt u/s 10(7) in the hands of Mr. David.

<u>Gross Total Income of Mr. David for AY 2026-27</u>

Particulars	₹
Salaries	5,00,000
Income from other sources (Interest on fixed deposit in India)	1,00,000
Gross Total Income	**6,00,000**

Qn. 13 Miss Vivitha paid a sum of 5,000 USD to Mr. Kulasekhara, a management consultant practising in Colombo, specializing in project financing. The payment was made in Colombo. Mr. Kulasekhara is a non-resident. The consultancy is related to a project in India with possible Ceylonese collaboration. Is this payment chargeable to tax in India in the hands of Mr. Kulasekhara, since the services were used in India?

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

The income deemed to accrue or arise in India u/s 9 comprises, inter alia, income by way of fees for technical services, which includes any consideration for rendering of any managerial, technical or consultancy services. Therefore, payment to a management consultant relating to project financing is covered within the scope of "fees for technical services".

The Explanation below sec 9(2) clarifies that income by way of, inter alia, fees for technical services, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India or whether or not the non-resident has a residence or place of business or business connection in India.

In the instant case, since the services were utilized in India, the payment received by Mr. Kulasekhara, a non-resident, in Colombo is chargeable to tax in his hands in India, as it is deemed to accrue or arise in India.

Qn. 14 Examine the correctness or otherwise of the statement - "Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus".

[Jan 21]

Ans. This statement is correct.

As per Explanation to sec 9, income by way of interest, royalty or fees for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of sec 9(1), shall be included in the total income of the non-resident, whether or not –

(i) non-resident has a residence or place of business or business connection in India; or

(ii) the non-resident has rendered services in India.

In effect, the income by way of fees for technical services, interest or royalty from services utilised in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India and irrespective of whether the non-resident has a residence or place of business or business connection in India.

Qn. 15 Examine with reasons whether the following transactions attract income-tax in India in the hands of recipients:

(i) Salary payable by Central Government to Mr. John, a citizen of India ₹ 7,00,000 for the services rendered outside India considering that he pays tax as per the provisions of sec 115BAC

(ii) Interest on moneys borrowed from outside India ₹ 5,00,000 by a non-resident for the purpose of business within India say, at Mumbai.

(iii) Post office savings bank interest of ₹ 19,000 received by a resident assessee, Mr. Ram, aged 46 years if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

(iii) Royalty paid by a resident to a non-resident in respect of a business carried on outside India.

(iv) Legal charges of ₹ 5,00,000 paid in Delhi to a lawyer of United Kingdom who visited India to represent a case at the Delhi High Court.

Ans.

	Taxable / Not Taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	6,25,000	As per sec 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India. He would be entitled to standard deduction of ₹ 75,000 u/s 16(ia).
(ii)	Taxable	5,00,000	As per sec 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.
(iii)	Partly Taxable	5,500	The interest on Post Office Savings Bank a/c, would be exempt u/s 10(15)(i), only to the extent of ₹ 3,500 in case of an individual a/c. Further, interest upto ₹ 10,000, would be allowed as

			deduction u/s 80TTA from Gross Total Income. Balance ₹ 5,500 i.e., ₹ 19,000 - ₹ 3,500 - ₹ 10,000 would be taxable in the hands of Mr. Ram, a resident.
(iv)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in sec 9(1)(vi)(b).
(v)	Taxable	5,00,000	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a non-resident lawyer of UK, who visited India to represent a case at the Delhi High Court would be taxable in India.

Section B – Blast from the Past

Qn. 1 An individual, who is an Indian resident, is allowed to hold two different citizenships simultaneously. Is the citizenship a determining factor for residential status of an individual?

[ICAI – Old PM]

Ans. Citizenship of a country and residential status of that country are separate concepts. A person may be an Indian national /citizen, but may not be a resident in India. On the other hand, a person may be a foreign national /citizen, but may be a resident in India. The citizenship of an individual has no role in determining the residential status of an individual.

The residential status of resident, non-resident, etc. are determined on the basis of number of days an individual actually stays in India during the PY.

The provisions of sec 6 of the Income-tax Act, 1961 are the determining factor of residential status of an individual.

Qn. 2 Determine residential status of Sundaram (HUF) which carries out its transactions in Malaysia. Its affairs are partly controlled from India. The Karta of HUF, Mr. Sundaram who is from Chennai visits India on 01.06.2025 and leaves to Malaysia on 10.02.2026. He has not visited India for the past 11 years.

[Nov 20]

Ans. A HUF is said to be resident, if control and management of its affairs is situated wholly or partly in India. Since in the present case, the affairs of the HUF are partly controlled from India, it is said to be resident in India.

A HUF is said to be RNOR, if its Karta is RNOR. In the present case, Mr. Sundaram, being a karta of the HUF has not visited India for the past 11 years and hence he satisfies the condition for being a RNOR i.e., he is non-resident in India in 9 out 10 PYs immediately preceding the relevant PY or has been in India for 729 days or less in 7 PYs immediately preceding the relevant PY. Thus, Sundaram HUF is said to be RNOR for the AY 2026-27.

Qn. 3 DAISY Ltd. a foreign company incorporated in USA and engaged in the manufacturing and distribution of diamonds set up a branch office in India in June 2025. The branch office was required to purchase uncut and unassorted diamonds from the dealers of Mumbai and export them to USA. During the PY 2025-26, profit from such export amounted to ₹ 75 lakhs.

Out of 20 shareholders of DAISY Ltd., 12 shareholders are non-resident in India. All the major decisions were taken through Board Meetings held at USA.

(i) Determine the residential status of DAISY Ltd. for the AY 2026-27.

(ii) Discuss the tax treatment of profit from export business

[Nov 17]

Ans. (i) As per sec 6(3), a foreign company would be resident in India in the PY 2025-26, if its place of effective management (POEM), in that year, is in India.

"Place of Effective Management" means the place where key management and commercial decisions that are necessary for the conduct of business of an entity as a whole are, in substance, made.

In this case, since all major decisions were taken through Board Meetings held at the USA, the place of effective management of Daisy Ltd., a foreign company incorporated in the USA, is outside India.

Hence, Daisy Ltd. is a non-resident for the PY 2025-26 (AY 2026-27)

(ii) As per sec 5(2), in case of a non-resident, income which, inter alia, is deemed to accrue or arise to him in India is taxable in India.

As per Explanation 1(b) to sec 9(1)(i), in case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export.

Accordingly, profit of ₹ 75 lakhs from export of uncut and unassorted diamonds purchased from dealers of Mumbai by the branch office of Daisy Ltd. in India would not be deemed to accrue or arise in India in the hands of Daisy Ltd, being a non-resident. Hence, the same would not be taxable in India in the hands of Daisy Ltd.

Qn. 4 Mr. Kavin, a non-resident, entered into the following transactions during the FY 2025-26:

(a) Received ₹ 20 lakhs from a non-resident for use of patent for a business in India.

(b) Received foreign currency equivalent to ₹ 15 lakhs from a non-resident Indian for use of know-how for a business in Sri Lanka and this amount was received in Korea.

(c) Received ₹ 7 lakhs from RR Ltd., an Indian company as fees for providing technical services in India.

(d) Received ₹ 5 lakhs from R & Co., Mumbai, resident in India, for conducting the feasibility study for a new project in Nepal and the payment was made in Nepal.

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

[May 17]

Ans. <u>Taxability of certain receipts in the hands of Mr. Kavin, a non-resident, for AY 2026-27</u>

	Taxability	**Reason**
(a)	Taxable	Amount of ₹ 20 lakhs received from a non-resident is deemed to accrue or arise in India by virtue of sec 9(1)(vi)(c), since the patent was used for a business in India. Therefore, the amount is chargeable to tax in India.
(b)	Not Taxable	Foreign currency equivalent to ₹ 15 lakhs received in Korea from a non-resident for use of know-how for a business in Sri Lanka is not deemed to accrue or arise in India as per sec 9(1)(vi)(c), since it is in respect of a business carried on outside India. Also, the amount was received outside India. Therefore, the same is not chargeable to tax in India.
(c)	Taxable	Amount of ₹ 7 lakhs received from RR Ltd., an Indian Company, is deemed to accrue or arise in India by virtue of sec 9(1)(vii)(b), since it is for providing technical services in India. Therefore, the same is chargeable to tax in India.
(d)	Not Taxable	Amount of ₹ 5 lakhs received in Nepal from R & Co., a resident, for conducting feasibility study for the new project in Nepal is not deemed to accrue or arise in India as per sec 9(1)(vii)(b), since such study was done for a project outside India. The amount was also received outside India. Therefore, the same is not chargeable to tax in India.

Qn. 5 Mr. Thomas, a non-resident and citizen of Japan entered into following transactions during the PY ended 31.03.2026. Examine the tax implications in the hands of Mr. Thomas for the AY 2026-27 as per Income-tax Act, 1961. (Give brief reasoning)

(1) Interest received from Mr. Marshal, a non-resident outside India (The borrowed fund is used by Mr. Marshal for investing in Indian company's debt fund for earning interest).

	(2) Received ₹ 10 lakhs in Japan from a business enterprise in India for granting license for computer software (not hardware specific).
	(3) He is also engaged in the business of running news agency and earned income of ₹ 10 lakhs from collection of news and views in India for transmission outside India.
	(4) He entered into an agreement with SKK & Co., a partnership firm for transfer of technical documents and design and for providing services relating thereto, to set up a Denim Jeans manufacturing plant, in Surat (India). He charged ₹ 10 lakhs for these services from SKK & Co.
	[Nov 20]
Ans.	(1) Not taxable, since interest payable by a non-resident to another non-resident would be deemed to accrue or arise in India only if the borrowed fund is used for the purposes of business or profession carried on by him in India. In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is not taxable in India.
	(2) Royalty includes, inter alia, consideration for grant of license for computer software. Hence, the amount of ₹ 10 lakhs payable by a resident (business enterprise in India) for grant of license for computer software would be royalty which is deemed to accrue or arise in India in the hands of Mr. Thomas, a non-resident, since it is for the purpose of business in India. Hence, the royalty is taxable in India.
	(3) No income shall be deemed to accrue or arise to Mr. Thomas through or from activities which are confined to the collection of news and views in India for transmission outside India. Hence, ₹ 10 lakhs is not taxable in India in the hands of Mr. Thomas.
	(4) ₹ 10 lakhs is deemed to accrue or arise in India to Mr. Thomas, a non-resident, since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Denim Jeans manufacturing plant in Surat. Hence, the same would be taxable in India in the hands of Mr. Thomas.
Qn. 6	Mr. Pratham, a non-resident in India, received a sum of ₹ 1,14,000 from Mr. Rakesh, a resident and ordinarily resident in India. The amount was paid to Pratham on account of transfer of right to use the manufacturing process developed by Pratham. The manufacturing process was developed by Mr. Pratham in Singapore and Mr. Rakesh uses such process for his business carried on by him in Dubai
	[Jan 21]
Ans.	Consideration for transfer of right to use the manufacturing process falls within the definition of royalty. Income by way royalty payable by Mr. Rakesh, a resident and ordinarily resident, is not deemed to accrue or arise in India in the hands of Mr. Pratham as per sec 9(1)(vi)(b), since royalty is payable in respect of right used for the purposes of a business carried on by Mr. Rakesh outside India i.e., in Dubai.
Qn. 7	Mr. Madan, a citizen of India and the Karta of an HUF, is employed in M/s. PCS Pvt. Ltd. He is drawing monthly salary of ₹ 65,500 in India. On June 1, 2025 he purchased one residential house property in Mumbai for ₹ 18,00,000 in his individual capacity. The market value of the property is ₹ 32,00,000 and value for the purpose of charging stamp duty is ₹ 23,00,000. On August 31st, 2025 he was transferred to the branch office of M/s. PCS Pvt. Ltd. in U.S.A. and he left India on September 1st, 2025. The overseas branch paid him a salary of $ 2,500 per month in USA. He managed business of HUF from USA when he was not in India.
	He had also gone out of India for 99 days and 201 days in previous years 2024-25 and 2023-24, respectively. He had never gone out of India prior to that.
	He visited India from January 1, 2026 to January 15, 2026 for training on a project and received 15 days salary in India as per his Indian monthly salary before being transferred.
	Mr. Rajeev, one of his friends, gifted him a sculpture in India on August 10, 2025. The market value is ₹ 45,100.

Determine the residential status of Mr. Madan and his HUF and compute gross total income of Mr. Madan for the AY 2026-27 assuming he opted out of the default tax regime. The value of one USD ($) may be taken as ₹ 70.

[Sep 24]

Ans. **Residential Status of Mr. Madan**

Mr. Madan, an Indian citizen who left India on 1st September 2025 for the purpose of employment to USA, would be non-resident in India, since he stayed in India for 169 days (30+31+30+31+31+1+15) only during the PY 2025-26 which is less than 182 days

Residential Status of HUF

Since Mr. Madan is managing the HUF for part of the year from India, control and management of its affairs is situated partly in India. Hence, the HUF would be resident in India for the PY 2025-26.

A HUF is said to be "Resident and ordinarily resident" in India during the PY 2025-26, if Karta (Mr. Madan, in this case) satisfies both the following conditions:

- He is a resident in at least 2 out of 10 previous years preceding the relevant PY; and
- His stay in India in the last 7 years preceding the relevant PY is 730 days or more.

Mr. Madan has satisfied both the above conditions as he had never gone out of India except for 99 days and 201 days in the PY 2024-25 and PY 2023-24, respectively, the HUF would be ROR in India.

<u>Computation of Gross Total Income of Mr. Madan for the AY 2026-27</u>

	Amount in ₹
Income under the head "Salaries"	
Salary earned in India: [₹ 65,500 x 5 + ₹ 65,500 x 15/31]	3,59,194
Salary paid in USA: [Not taxable as Mr. Madan is a non-resident and such income does not accrue or arise or received in India]	Nil
Less: Standard Deduction	(50,000)
	3,09,194
Income from other sources	
Difference between the consideration of ₹ 18 lakhs and stamp duty value of ₹ 23 lakhs of the residential property acquired [Taxable, since the difference of ₹ 5 lakhs exceed ₹ 1,80,000, being the higher of 10% of the consideration and ₹ 50,000]	5,00,000
Sculpture received as gift from Rajeev, his friend in India [Not taxable as the value does not exceed ₹ 50,000]	Nil
Gross Total Income	**8,09,914**

Qn. 8 Miss Asha is an Indian citizen. She is a lawyer by profession. She started her consultancy profession in India in 2022 with the name "New way associates". In May 2024, she got married to Mr. Ram, an American citizen. Mr. Ram came to India for the first time on 1st May 2023 when he joined an MNC in India. He got a promotion and was transferred to Dubai. He left for Dubai on 1st October, 2024. Mrs. Asha accompanied him to Dubai. She started providing consultancy there. Both of them came to India for 3 months from June to August in 2025 to spend time with Asha's family. Following incomes were earned by Mr. Ram and Mrs. Asha during the PY 2025-26.

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

Income of Mrs. Asha	₹
Profit from consultancy profession in Dubai which was set up in India (not liable to tax in Dubai)	12,00,000
Profit from consultancy profession in India	3,00,000
Long term capital gain on sale of shares of British company, credited to her Dubai bank account	60,000
Short term capital loss on sale of listed shares of an Indian company	(42,000)

Determine the residential status of Mr. Ram and Mrs. Asha and their total income for the AY 2026-27 ignoring the provisions of sec 115BAC.

[RTP - Nov 23]

Ans. Determination of residential status of Mr. Ram

Mr. Ram is an American citizen who comes on a visit to India during the PY 2025-26 for 3 months. He has been in India from 1st May 2023 to 1st October 2024. Since Mr. Ram has been in India for a period of more than 60 days (i.e., 92 days) during the PY 2025-26 and for a period of more than 365 days (i.e., 519 days) during the 4 immediately preceding PYs, he satisfies one of the basic conditions and he is a resident for the AY 2026-27.

Since his period of stay in India during the preceding 7 PYs is less than 730 days (i.e., 519 days), he is a resident but not-ordinarily resident in India during the AY 2026-27.

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

Computation of total Income of Mr. Ram for the AY 2026-27

Particulars of income	(₹)
Salary from company in Dubai [Not taxable, since it accrues and arises outside India]	-
Long term capital gain on sale of shares of an Indian company [Taxable, since it accrues and arises in India]	2,50,000
Income from house property in Delhi [Taxable, since it accrues and arises in India]	4,60,000
Dividend from shares of an Indian company [Taxable, since it accrues and arises in India]	65,000
	7,75,000

Determination of residential status of Mrs. Asha

Mrs. Asha is an Indian citizen who comes on a visit to India during the PY 2025-26 for 3 months i.e., 92 days. Since she does not satisfy any of the basic conditions of staying in India for 182 days or 120 days during the PY 2025-26, she is not a resident in India as per sec 6(1).

Mrs. Asha would be a deemed resident u/s 6(1A) if her total income other than the income from foreign sources exceeds ₹ 15 lakhs during the PY 2025-26 as she is an Indian citizen and is not liable to tax in Dubai.

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

Particulars of income	(₹)
Profit from consultancy profession in Dubai which was set up in India [Includible]	12,00,000
Profit from consultancy profession in India [Includible]	3,00,000
Long term capital gain on sale of shares of British company [Not includible, since it is a foreign source income]	-
Short term capital loss on sale of listed shares of an Indian company [It accrues and arises in India. However, short term capital loss is not allowed to be set off from business or profession income, hence, not includible]	-
	15,00,000

Since, total income other than the income from foreign sources of Mrs. Asha does not exceed ₹ 15 lakhs, she would not be a deemed resident. Hence, Mrs. Asha is a non-resident during the AY 2026-27.

Since Mrs. Asha is a non-resident, income which accrues or arises in India, deemed to accrue or arises in India, received in India and deemed to be received in India is chargeable to tax in India in her hands.

Particulars of income	(₹)
Profit from consultancy profession in Dubai which was set up in India [Not taxable]	-
Profit from consultancy profession in India [Includible]	3,00,000
Long term capital gain on sale of shares of British company [Not taxable, since it accrues and arises outside India]	-
Short term capital loss on sale of listed shares of an Indian company [Since it accrues and arises in India, it is allowed to be carried forward to AY 2027-28]	-
	3,00,000

Section A – SM Questions

House Rent Allowance

Qn. 1 Mr. Raj Kumar has the following receipts from his employer:

i)	Basic pay	₹ 40,000 p.m.
ii)	Dearness allowance (D.A.)	₹ 6,000 p.m.
iii)	Commission	₹ 50,000 p.a.
iv)	Motor car for personal use (expenditure met by the employer)	₹ 1,500 p.m.
v)	House rent allowance	₹ 15,000 p.m.

Find out the amount of HRA eligible for exemption to Mr. Raj Kumar assuming that he paid a rent of ₹ 16,000 p.m. for his accommodation at Kanpur. DA forms part of salary for retirement benefits. Mr. Raj Kumar exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Ans.

HRA received		1,80,000
Less: Exempt u/s 10(13A)		
Lower of:		
a) Actual amount received (₹ 15,000 × 12)	1,80,000	
b) Rent paid (-) 10% of Salary for the relevant period		
= (₹ 16,000 × 12) (-) 10% of [(₹ 40,000 + ₹ 6,000) × 12]		
= ₹ 1,92,000 (-) ₹ 55,200	1,36,800	
c) 40% of Salary (as accommodation is in Kanpur)		
= 40% of [(₹ 40,000 + ₹ 6,000) × 12]	2,20,800	1,36,800
Taxable HRA		**43,200**

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

Qn. 2 Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. w.e.f. 1.01.2026. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 1.02.2026. Rent paid by him during the PY 2025-26 is as under:

April and May, 2025	Nil, as he stayed with his parents
June to October, 2025	₹ 6,000 p.m. for an accommodation in Faridabad
November, 2025 to March, 2026	₹ 8,000 p.m. for an accommodation in Delhi

Compute his gross salary for AY 2026-27 assuming he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Ans. Computation of gross Salary of Mr. Mohit for AY 2026-27

Particulars	₹
Basic Salary [(₹ 10,000 × 10) + (₹ 11,00 × 2)]	1,22,000
Dearness Allowance (100% of Basic Salary)	1,22,000
House Rent Allowance (Note)	21,300
Gross Salary	**2,65,300**

Note: Computation of Taxable HRA

Particulars	Apr – May	Jun - Oct	Nov - Dec	Jan	Feb - Mar
Basic Salary p.m.	10,000	10,000	10,000	10,000	11,000
Dearness Allowance (50% of Basic Salary included in terms)	5,000	5,000	5,000	5,000	5,500
a) Salary p.m. for the purpose of HRA	15,000	15,000	15,000	15,000	16,500

b) Relevant Period (in months)	2	5	2	1	2
c) Salary of relevant period (a × b)	30,000	75,000	30,000	15,000	33,000
d) Rent paid for relevant period	-	30,000	16,000	8,000	16,000
HRA received for relevant period (A)	12,000	30,000	12,000	7,000	14,000
Less: Exempt u/s 10(13A) - Least of:					
1. Actual HRA	-	30,000	12,000	7,000	14,000
2. Rent paid (-) 10% Salary	-	22,500	13,000	6,500	12,700
3. 40% of Salary for June – Oct 25	-	30,000			
50% of Salary for Nov 25 – Mar 26			15,000	7,500	16,500
Exempt HRA (B)	-	22,500	12,000	6,500	12,700
Taxable HRA (A – B)	**12,000**	**7,500**	**-**	**500**	**1,300**

Total Taxable HRA = ₹ 21,300

Special Allowances

Qn. 3 Mr. Srikant has two sons. He is in receipt of children education allowance of ₹ 150 p.m. for his elder son and ₹ 70 p.m. for his younger son. Both his sons are going to school. He also receives the following allowances:

Transport allowance	₹ 1,800 p.m.
Tribal area allowance	₹ 500 p.m.

Compute his taxable allowances.

Ans. If Mr. Srikant exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

a) Children Education allowance:		
i) Elder Son [(₹ 150 - ₹ 100) p.m. × 12 months]	600	
ii) Younger Son: Full exempt as below ₹ 100 p.m.	-	600
b) Transport allowance [₹ 1,800 × 12 months]		21,600
c) Tribal area allowance [(₹ 500 - ₹ 200) p.m. × 12 months]		3,600
Taxable allowance		**25,800**

If Mr. Srikant pays tax under default tax regime u/s 115BAC

Children Education Allowance [(₹ 150 + ₹ 70) p.m. × 12 months]	2,640
Transport allowance (₹ 1,800 p.m. × 12 months)	21,600
Tribal area allowance (₹ 500 p.m. × 12 months)	6,000
Taxable allowances	30,240

Leave Salary/Encashment

Qn. 4 Mr. Gupta retired on 1.12.2025 after 20 years of service, receiving leave salary of ₹ 5,00,000. Other details of his salary income are:

Basic Salary	₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 1.4.2025)
Dearness Allowance	₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission	₹ 500 p.m.
Bonus	₹ 1,000 p.m.
Leave availed during service	480 days

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

(a) He is a government employee.

(b) He is a non-government employee.

Ans. (a) He is a government employee

Leave Salary received at the time of retirement	5,00,000
Less: Exemption u/s 10(10AA)	(5,00,000)

Taxable Leave Salary		-

(b) He is a non-government employee

Leave Salary received at the time of retirement		5,00,000
Less: Exemption u/s 10(10AA) [Note]		(26,400)
Taxable Leave Salary		**4,73,600**

Note: Exemption u/s 10(10AA) - Least of

i)	Leave Salary received	5,00,000	
ii)	Statutory limit	25,00,000	
iii)	10 months salary based on avg. salary of last 10 months $10 \times \frac{[(₹ 5{,}000 \times 8) + (₹ 4{,}000 \times 2) + (60\% \times 3{,}000 \times 10)]}{10 \text{ months}}$	66,000	
iv)	Cash equivalent of leave standing at the credit of the employee based on the avg. salary of last 10 months (max. 30 days per year of service) $\frac{[(30 \text{ days per year} \times 20 \text{ years}) - 480 \text{ days}]}{30 \text{ days}} \times \frac{₹ 66{,}000}{10}$	26,400	26,400

Gratuity

Qn. 5 Mr. Ravi retired on 15.6.2025 after completion of 26 years 8 months of service and received gratuity of ₹ 15,00,000. At the time of retirement, his salary was:

Basic Salary	₹ 50,000 p.m.
Dearness Allowance	₹ 10,000 p.m. (60% of which is for retirement benefits)
Commission	1% of turnover (turnover in the last 12 months was ₹ 1.2 crores)
Bonus	₹ 25,000 p.a.

Compute his taxable gratuity assuming:

(a) He is private sector employee and covered by the Payment of Gratuity Act 1972.

(b) He is private sector employee and **not** covered by the Payment of Gratuity Act 1972.

(c) He is a Government employee.

Ans. (a) He is private sector employee and covered by the Payment of Gratuity Act 1972.

Gratuity received at the time of retirement		15,00,000
Less: Exemption u/s 10(10) – Least of:		
i) Gratuity received	15,00,000	
ii) Statutory limit	20,00,000	
iii) 15 days salary based on last drawn salary of each completed year of service or part thereof in excess of 6 months 15/26 × (₹ 50,000 + ₹ 10,000) × 27	9,34,615	9,34,615
Taxable Gratuity		**5,65,385**

(b) He is private sector employee and not covered by the Payment of Gratuity Act 1972.

Gratuity received at the time of retirement		15,00,000
Less: Exemption u/s 10(10) – Least of:		
i) Gratuity received	15,00,000	
ii) Statutory limit	20,00,000	
iii) Half month salary based on avg. salary of last 10 months preceding the month of retirement		

for each completed year of service

$$\frac{1}{2} \times \frac{[(₹\ 50{,}000 \times 10) + (₹\ 10{,}000 \times 60\% \times 10) + (1\% \times 1{,}20{,}00{,}000 \times 10/12)]}{10} \times 26 \quad \underline{8{,}58{,}000} \quad \underline{8{,}58{,}000}$$

Taxable Gratuity		**6,42,000**

(c) He is a government employee

Gratuity received at the time of retirement	15,00,000
Less: Exemption u/s 10(10)	(15,00,000)
Taxable Gratuity	-

Pension

Qn. 6 Mr. Sagar who retired on 1.10.2025 receiving ₹ 5,000 p.m. as pension. On 1.2.2026, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

(a) He is a government employee.
(b) He is a private sector employee, receiving gratuity of ₹ 5,00,000 at the time of retirement.
(c) He is a private sector employee and did not receive any gratuity at the time of retirement.

Ans. (a) He is a government employee

Uncommuted pension received (October - March)		24,000
[(₹ 5,000 x 4 months) + (40% of ₹ 5,000 x 2 months))		
Commuted pension received	3,00,000	
Less: Exempt u/s 10(10A)	(3,00,000)	-
Taxable pension		**24,000**

(b) He is a private sector employee, receiving gratuity of ₹ 5,00,000 at the time of retirement.

Uncommuted pension received (October - March)		24,000
[(₹ 5,000 x 4 months) + (40% of ₹ 5,000 x 2 months)]		
Commuted pension received	3,00,000	
Less: Exempt u/s 10(10A)		
$\frac{1}{3} \times ₹\ 3{,}00{,}000 \times \frac{100}{60}$	(1,66,667)	1,33,333
Taxable pension		**1,57,333**

(c) He is a private sector employee and is not in receipt of gratuity at the time of retirement.

Uncommuted pension received (October - March)		24,000
[(₹ 5,000 x 4 months) + (40% of ₹ 5,000 x 2 months)]		
Commuted pension received	3,00,000	
Less: Exempt u/s 10(10A)		
$\frac{1}{2} \times ₹\ 3{,}00{,}000 \times \frac{100}{60}$	(2,50,000)	50,000
Taxable pension		**74,000**

Voluntary Retirement Compensation

Qn. 7 Mr. Dutta received voluntary retirement compensation of ₹ 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary of ₹ 20,000 p.m.; Dearness allowance (which forms part of pay) ₹ 5,000 p.m. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief u/s 89.

Ans.	Voluntary retirement compensation received		7,00,000
	Less: Exemption u/s 10(C) – Least of:		
	i) Compensation received	7,00,000	
	ii) Statutory limit	5,00,000	
	iii) Last drawn salary × 3 × completed years of service		
	= (₹ 20,000 + ₹ 5,000) × 3 × 30 years	22,50,000	
	iv) Last drawn salary × remaining months of service		
	= (₹ 20,000 + ₹ 5,000) × 6 × 12 months	18,00,000	5,00,000
	Taxable VRS		**2,00,000**

Contribution to Funds

Qn. 8 Mr. A retires from service on December 31, 2025, after 25 years of service. Following are the particulars of his income/investments for the PY 2025-26:

Particulars	₹
Basic pay @ ₹ 16,000 p.m. for 9 months	1,44,000
Dearness pay (50% forms part of retirement benefits) - ₹ 8,000 p.m. for 9 months	72,000
Lumpsum payment received from Unrecognised Provident Fund	6,00,000
Deposits in PPF account	40,000

Out of the amount received from the unrecognized provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,50,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for AY 2026-27?

Will your answer be any different if fund mentioned above was a recognised provident fund?

Ans. Taxable portion of amount received from URPF in hands of Mr. A for the AY 2026-27 is:

Particulars	₹
a) Amount taxable under the head "Salaries"	
Employer's share in the payment received from URPF	2,20,000
Interest on the employer's share	50,000
	2,70,000
b) Amount taxable under the head "Income from other sources"	
Interest on the employee's share	60,000
Total Taxable Amount	**3,30,000**

Note: Since the employee is not eligible for deduction u/s 80C for contribution to URPF at the time of such contribution, the employee's share received from the URPF is not taxable at the time of withdrawal as this amount has already been taxed as his salary income.

Since the fund is a recognised one, and the maturity is taking place after a service of 25 years, the entire amount received on the maturity of the RPF will be fully exempt from tax.

Qn. 9 Mr. B is working in XYZ Ltd. and has given the details of his income for the PY 2025-26. You are required to compute his gross salary from the details given below:

Basic Salary	₹ 10,000 p.m.
D.A. (50% is for retirement benefits)	₹ 8,000 p.m.
Commission as a % of turnover	0.1%
Turnover during the year	₹ 50,00,000
Bonus	₹ 40,000
Gratuity	₹ 25,000
His own contribution in the RPF	₹ 20,000
Employer's contribution to RPF	20% of his basic salary

Interest accrued in the RPF @ 13% p.a. ₹ 13,000

Ans. Computation of Gross Salary of Mr. B for the AY 2026-27

Particulars	₹	₹
Basic Salary [₹ 10,000 × 12]		1,20,000
Dearness allowance [₹ 8,000 × 12]		96,000
Commission on turnover [0.1% × ₹ 50,00,000]		5,000
Bonus		40,000
Gratuity [Note 1]		25,000
Employee's contribution to RPF [Note 2]		-
Employer's contribution to RPF [20% of ₹ 1,20,000]	24,000	
Less: Exempt [Note 3]	20,760	3,240
Interest accrued in the RPF @ 13% p.a.	13,000	
Less: Exempt upto 9.5% p.a.	(9,500)	3,500
Gross Salary		2,92,740

Notes:
1. Gratuity received during service is fully taxable.
2. Employer's contribution to RPF is exempt up to 12% of salary.
   i.e., 12% of [Basic Salary + DA forming part of retirement benefits + Commission as a % of turnover]
   = 12% of [₹ 1,20,000 + (50% x ₹ 96,000) + 5,000] = ₹ 20,760
3. Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C. if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Qn. 10 Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2023. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2024, 31.3.2025 and 31.3.2026 is ₹ 9,81,137, ₹ 27,43,048 and ₹ 46,48,555 respectively. Compute the perquisite value chargeable in the hands of Mr. X u/s 17(2)(vii) and 17(2)(viia) for the AY 2025-26 and AY 2026-27. Prior to 1.9.2023, he was a consultant, whose professional fees was taxable under the head "Profits and gains of business or profession"

Ans. **For AY 2025-26**

Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the PY 2024-25 – ₹ 7,50,000 = ₹ 27,600

Annual accretion on perquisite taxable u/s 17(2)(viia) = ₹ 1,532

[(PC/2) * R + (PC1 + TP1) * R] = [(27,600/2) x 0.111 + 0]

Where,

PC	Amount or aggregate of amounts of employer's contribution in excess of Rs. 7.5 lakh to the RPF during the PY 2024-25	27,600
PC1	Amount or aggregate of amounts of employer's contribution in excess of Rs. 7.5 lakh to the RPF for the PY or years commencing on or after 1st April, 2020 other than the current PY.	Nil since employer's contribution is less than ₹ 7.5 lakh to recognized provident fund in PY 2023-24 and there is no employer's contribution in PY 2020-21, PY 2021-22 and PY 2022-23
TP1	Aggregate of taxable perquisite u/s 17(2)(viia) for the PY or years commencing on or after 1.4.2020 other than the current PY	Nil
R	I/ Favg	0.111

		(₹ 2,06,711/₹ 18,62,093)
I	RPF balance as on 31.3.2025 – employee's and employer's contribution during the year – RPF balance as on 1.4.2024	₹ 2,06,711 (₹ 27,43,048 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 9,81,137)
Favg	Balance to the credit of recognized provident fund as on 1st April, 2024 + Balance to the credit of recognized provident fund as on 31st March, 2025)/2	(₹ 9,81,137 + ₹ 27,43,048)/2 = ₹ 18,62,093

Note – Interest on the aggregate of following will also be chargeable to tax during AY 2025-26 –

(i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during PY 2023-24]

(ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during PY 2024-25]

(iii) Interest accrued on ₹ 2,03,600 being excess employee's contribution of PY 2023-24

For AY 2026-27

Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the PY 2025-26 – ₹ 7,50,000 = ₹ 27,600

Annual accretion on perquisite taxable u/s 17(2)(viia) = ₹ 4,069

[(PC/2) * R + (PC1 + TP1) * R] = [(27,600/2) x 0.09479 + (27,600 + 1,532) x 0.09479]

Where,

PC	Amount or aggregate of amounts of employer's contribution in excess of Rs. 7.5 lakh to the RPF during the PY 2025-26	27,600
PC1	Amount or aggregate of amounts of employer's contribution in excess of Rs. 7.5 lakh to the RPF in PY 2021-22, 2022-23 and 2023-24	27,600
TP1	Taxable perquisite under section 17(2)(viia) for the PY 2024-25	1,532
R	I/ Favg	0.09479
		(₹ 3,50,307/₹ 36,95,802)
I	RPF balance as on 31.3.2026 – employee's and employer's contribution during the year – RPF balance as on 1.4.2025	₹ 3,50,307 (₹ 46,48,555 - ₹ 7,77,600 - ₹ 7,77,600 - ₹ 27,43,048)
Favg	Balance to the credit of recognized provident fund as on 1st April, 2025 + Balance to the credit of recognized provident fund as on 31st March, 2026)/2	(₹ 27,43,048 + ₹ 46,48,555)/2 = ₹ 36,95,802

Note – Interest on the aggregate of following will also be chargeable to tax during AY 2026-27 –

(i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during PY 2023-24]

(ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during PY 2024-25]

(iii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during PY 2025-26]

(iv) interest accrued on ₹ 2,03,600 being excess employee's contribution of PY 2023-24

(v) interest accrued on ₹ 5,27,600 being excess employee's contribution of PY 2024-25

Leave Travel Allowance / Concession

Qn. 11 Mr. D went on a holiday on 25.12.2025 to Delhi with his wife and three children (one son - age 5 years; twin daughters - age 3 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount of LTC exempt if Mr. D exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Will there be any difference if among his 3 children the twins were 5 years old and son 3 years old?

[Nov 16]

Ans. Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt.

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

Taxable LTC = ₹ 15,000 × 1/3 = ₹ 5,000; LTC exempt is only ₹ 55,000 (i.e., ₹ 60,000 - ₹ 5,000)

Medical Treatment

Qn. 12 Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the PY 2025-26:

Medical premium paid for insuring health of Mr. G	₹ 7,000
Treatment of Mr. G by his family doctor	₹ 5,000
Treatment of Mrs. G in a Government hospital	₹ 25,000
Treatment of Mr. G's grandfather in a private clinic	₹ 12,000
Treatment of Mr. G's mother (68 years and dependant) by family doctor	₹ 8,000
Treatment of Mr. G's sister (dependant) in a nursing home	₹ 3,000
Treatment of Mr. G's brother (independent)	₹ 6,000
Treatment of Mr. G's father (75 years and dependant) abroad	₹ 50,000
Expenses of staying abroad of the patient	₹ 30,000
Limit specified by RBI	₹ 75,000

Ans. Computation of taxable value of perquisite in the hands of Mr. G

Particulars	₹	₹
Medical premium paid for insuring health of Mr. G		-
Treatment of Mr. G by his family doctor		5,000
Treatment of Mrs. G, being a family member in a Government hospital		-
Treatment of Mr. G's grandfather in a private clinic		12,000
Treatment of Mr. G's mother (dependant) by family doctor		8,000
Treatment of Mr. G's sister (dependant) in a nursing home		3,000
Treatment of Mr. G's brother (independent)		6,000
Treatment of Mr. G's father (75 years and dependant) abroad	50,000	
Expenses of staying abroad of the patient and attendant	30,000	
	80,000	
Less: Exempt upto limit specified by RBI	(75,000)	5,000
Taxable value of perquisite		**39,000**

Note: Grandfather & independent brother are not included within the meaning of family of Mr. G

Qn. 13 Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the PY 2025-26:

	Particulars	₹
1	Reimbursement of following medical expenses incurred by Ms. Rakhi	
	(A) On treatment of her self-employed daughter in a private clinic	4,000
	(B) On treatment of herself by family doctor	8,000
	(C) On treatment of her mother-in-law dependent on her, in a nursing home	5,000

2	Payment of premium on Mediclaim Policy taken on her health	7,500
3	Medical Allowance	2,000 p.m.
4	Medical expenses reimbursed on her son's treatment in a government hospital	5,000
5	Expenses incurred by company on the treatment of her minor son abroad including stay expenses	1,05,000
6	Expenses in relation to foreign travel of Rakhi and her son for medical treatment Note -Limit prescribed by RBI for expenditure on medical treatment and stay abroad is USD 2,50,000 per FY under liberalized remittance scheme.	1,20,000

Examine the taxability of the above benefits and allowances in the hands of Rakhi.

Ans. <u>Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi for AY 2026-27</u>

1. Reimbursement of medical expenses incurred by Ms. Rakhi
   (A) The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite.
   (B) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite.
   (C) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite.

   The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite
2. Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free perquisite as per clause (iii) of the first proviso to sec 17(2).
3. Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.
4. As per clause (ii)(a) of the first proviso to sec 17(2), reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is a tax free perquisite.
5. & 6. As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions –
   (i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India [₹ 1,05,000, in this case];
   (ii) Expenditure on travel and stay abroad of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [₹ 1,20,000, in this case].

   The conditions subject to which the above expenditure would be exempt are as follows -
   (i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India;
   (ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed ₹ 8 lakhs.

   Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed ₹ 8 lakhs.

<u>Rent-Free Accommodation (RFA)</u>

Qn. 14 Mr. C is a Finance Manager in ABC Ltd. The company has provided him with rent-free unfurnished accommodation in Mumbai. He gives you the following particulars:

Basic salary	₹ 8,500 p.m.
Dearness Allowance	₹ 2,000 p.m. (30% is for retirement benefits)
Bonus	₹ 1,500 p.m.

	Even though the company allotted the house to him on 1.4.2025, he occupied the same only from 1.11.2025. Calculate the taxable value of the perquisite for AY 2026-27.
Ans.	Value of the rent-free unfurnished accommodation = 10% of salary for the relevant period = 10% of [(₹ 8,500 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)] = 10% of ₹ 53,000 = ₹ 5,300
	Note: Since, Mr. C occupies the house only from 1.11.2025, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2025 to 31.03.2026) will be considered.
Qn. 15	Using the data given above, compute the value of the perquisite if Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.
Ans.	First of all, we have to see whether there is a concession in the matter of rent. In the case of accommodation owned by the employer in cities having a population exceeding ₹ 40 lakh, there would be deemed to be a concession in the matter of rent if 10% of salary exceeds rent recoverable from the employee. In this case, 10% of salary would be ₹ 5,300 (i.e. 10% of ₹ 53,000). The rent paid by the employee is ₹ 5,000 (i.e., ₹ 1,000 x 5). Since 10% of salary exceeds the rent recovered from the employee, there is a deemed concession in the matter of rent. Once there is a deemed concession, provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent-free unfurnished accommodation	5,300
Less: Rent paid by the employee [₹ 1,000 × 5]	(5,000)
Perquisite value of unfurnished accommodation given	300.

Qn. 16	Using the data given in Qn. 14, compute the value of the perquisite if ABC Ltd has taken this accommodation on a lease rent of ₹ 1,025 p.m. and Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.
Ans.	Here again, we have to see whether there is a concession in the matter of rent. In the case of accommodation taken on lease by the employer, there would be deemed to be a concession in the matter of rent if the rent paid by the employer or 10% of salary, whichever is lower, exceeds rent recoverable from the employee. In this case, 10% of salary is ₹ 5,300 (i.e. 10% of ₹ 53,000). Rent paid by the employer is ₹ 5,125 (i.e. ₹ 1,025 x 5). The lower of the two is ₹ 5,125, which exceeds the rent paid by the employee i.e. ₹ 5,000 (₹ 1,000 x 5). Therefore, there is a deemed concession in the matter of rent. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation: Lower of:		
i) Lease rent paid by company for relevant period	5,125	
ii) 10% of salary for the relevant period	5,300	5,125
Less: Rent paid by the employee [₹ 1,000 × 5]		(5,000)
Perquisite value of unfurnished accommodation given		125.

Qn. 17	Using the data given in Qn. 14, compute the value of the perquisite if ABC Ltd. has provided a television (WDV ₹ 10,000; Cost ₹ 25,000) and two air conditioners. The rent paid by the company for the air conditioners is ₹ 400 p.m. each. The television was provided on 1.1.2026. However, Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this furnished accommodation.

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

In this case, 10% of salary is ₹ 5,300 (i.e. 10% of ₹ 53,000). The rent paid by the employee is ₹ 5,000 (i.e. ₹ 1,000 x 5). The value of furniture of ₹ 4,625 (Refer Note below) is to be added to 10% of salary. Therefore, the accommodation would be deemed to have been provided at concessional rate.

Value of the rent-free unfurnished accommodation (computed earlier)	5,300
Add: Value of furniture provided by the employer [Note]	4,625
Value of the rent-free furnished accommodation	9,925
Less: Rent paid by the employee [₹ 1,000 × 5]	(5,000)
Perquisite value of furnished accommodation given	**4,925 .**

Note: Value of furniture provided = (₹ 400 p.m. × 2 × 5 months) + (₹ 25,000 × 10% p.a. for 3 months) = ₹ 4,000 + ₹ 625 = ₹ 4,625

Qn. 18 Using the data given in Qn. 17, compute the value of the perquisite if Mr. C is a Government employee. The license fees determined by the Govt. for this accommodation was ₹ 700 p.m.

Ans. In the case of Government employees, the excess of licence fees determined by the employer as increased by the value of furniture and fixture over and above the rent recovered/ recoverable from the employee and the charges paid or payable for furniture by the employee would be deemed to be the concession in the matter of rent. Therefore, the deemed concession in the matter of rent is ₹ 3,125 [i.e. ₹ 3,500 (licence fees: ₹ 700 x 5) + ₹ 4,625 (Value of furniture) - ₹ 5,000 (₹ 1,000 x 5)]. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation	3,500
Add: Value of furniture provided by the employer (computed earlier)	4,625
Value of the rent free furnished accommodation	8,125
Less: Rent paid by the employee [₹ 700 × 5]	(5,000)
Perquisite value of furnished accommodation given	**3,125 .**

ESOP / Sweat Equity Shares:

Qn. 19 AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2025. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

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

(ii) In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares?

Ans. (i) As per sec 17(2)(vi), the value of any sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares

Particulars	₹
FMV of shares of 1000 sweat equity shares @ ₹ 300 each	3,00,000
Less: Amount recovered from Sri Chand 1000 shares @ ₹ 200 per share	(2,00,000)
Taxable value of perquisite	**1,00,000**

(ii) As per sec 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation u/s 17(2)(vi).
Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be ₹ 3,00,000.

Transfer of Movable Assets

Qn. 20 Find out the taxable value of perquisite from the following particulars in case of an employee to whom the following assets held by the company were sold on 13.6.2025:

	Car	Laptop	Furniture
Cost of purchase (May 2023)	8,72,000	1,22,500	35,000
Sale price	5,15,000	25,000	10,000

The assets were put to use by the company from the date they were purchased

[CA Final Old SM]

Ans. The assets transferred by the company shall be considered for the purpose of valuation of perquisites u/s 17(2) of the Act read with Rules. The value of perquisite in respect of assets transferred is determined after allowing normal wear & tear for the period of use of such assets by employer.

	Car	Laptop	Furniture
Rate of depreciation	20%	50%	10%
Basis of depreciation	WDV	WDV	SLM
Cost of asset to company – May 2023	8,72,000	1,22,500	35,000
Less: Normal wear & tear upto May 2024	(1,74,400)	(61,250)	(3,500)
	6,97,600	61,250	31,500
Less: Normal wear & tear upto May 2025	(1,39,520)	(30,625)	(3,500)
WDV as on May 2025	5,58,080	30,625	28,000
Less: Sale Value on 13.06.2025	(5,15,000)	(25,000)	(10,000)
Value of Perquisite	**43,080**	**5,625**	**18,000**

Perquisites fully taxable

Qn. 21 Mr. X and Mr. Y are working for M/s. Gama Ltd. As per salary fixation norms, the following perquisites were offered:

(i) For Mr. X, who engaged a domestic servant for ₹ 500 p.m., his employer reimbursed the entire salary paid to the domestic servant

(ii) For Mr. Y, he was provided with a domestic servant @ ₹ 500 per month as part of remuneration package.

You are required to comment on the taxability of the above in the hands of Mr. X and Mr. Y, who are not specified employees.

Ans. In the case of Mr. X, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. Hence, the perquisite will be covered u/s 17(2)(iv) and will be taxable in the hands of Mr. X. This is taxable in the case of all employees.
In the case of Mr. Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by sec 17(2)(iii). Hence, there is no perquisite element in the hands of Mr. Y.

Qn. 22 X Ltd. provided the following perquisites to its employee Mr. Y for the PY 2025-26

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

2) Furniture, for which the hire charges paid by X Ltd. is ₹ 3,000 p.m. No amount is recovered from the employee in respect of the same.

3) A Car of 1,200 cc which is owned by X Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.

4) A gift voucher of ₹ 10,000 on his birthday.

Compute the value of perquisites chargeable to tax for the AY 2026-27, assuming his salary for perquisite valuation to be ₹ 10 lakh.

Ans. Computation of taxable value of perquisites in the hands of Mr. Y for the AY 2026-27

Particulars	₹		
1. Value of concessional accommodation			
a) Actual lease rent paid by X Ltd.	1,80,000		
b) 10% of Salary	1,00,000		
Lower of (a) & (b)		1,00,000	
Less: Rent paid by Mr. Y [₹ 5,000 × 12]		(60,000)	
		40,000	
Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y [₹ 3,000 × 12]		36,000	76,000
2. Perquisite value of motor car owned by X Ltd. and provided to Mr. Y for his personal and official use along with chauffeur [(₹ 1,800 + ₹ 900) × 12]			32,400
3. Value of gift Voucher*			10,000
Taxable value of Perquisite			**1,18,400**

* An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000

Comprehensive Questions

Qn. 23 Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire FY 2025-26:

(i) Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 p.m. The servant was engaged by him and the salary is reimbursed by the company (employer).
In case the company has employed the domestic servant, what is the value of perquisite?

(ii) Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 900 p.m. and for Ashok at ₹ 1,200 p.m. No amount was recovered by the company for such education facility from Bala.

(iii) The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000.

(iv) A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.

(v) Telephone provided at the residence of Shri Bala and the bill aggregating to ₹ 25,000 paid by the employer.

(vi) Housing loan @ 6% per annum. Amount outstanding as on 31.03.2025 is ₹ 6,00,000. Shri Bala pays ₹ 12,000 per month towards principal, on 5th of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the AY 2026-27.

The lending rate of State Bank of India as on 1.4.2025 for housing loan may be taken as 10%.

Ans. Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala

(i) Domestic servant was employed by the employee and the salary of such domestic servant was paid/ reimbursed by the employer. It is taxable as perquisite for all categories of employees.
Taxable perquisite value = ₹ 1,500 × 12 = ₹ 18,000.

If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be ₹ 18,000.

(ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed ₹ 1,000 p.m.
Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed ₹ 1,000 p.m. However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds ₹ 1,000 p.m. The taxable perquisite value would be ₹ 14,400 (₹ 1,200 × 12).
Note – An alternate view possible is that only the sum in excess of ₹ 1,000 p.m. is taxable. In such a case, the value of perquisite would be ₹ 2,400.

(iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is ₹ 1,10,000.
The perquisite value would be 10% of the actual cost i.e., ₹ 11,000, being 10% of ₹ 1,10,000.

(iv) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the PY is exempt. In this case, the amount was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.
Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.
Note- An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000

(v) Telephone provided at the residence of the employee and payment of bill by the employer is a tax-free perquisite.

(vi) The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant PY by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant PY in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

"Maximum outstanding monthly balance" means the aggregate outstanding balance for loan as on the last day of each month.
The perquisite value for computation is 10% - 6% = 4%

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
April, 2025	5,88,000	1,960
May, 2025	5,76,000	1,920
June, 2025	5,64,000	1,880
July, 2025	5,52,000	1,840
August, 2025	5,40,000	1,800

September, 2025	5,28,000	1,760
October, 2025	5,16,000	1,720
November, 2025	5,04,000	1,680
December, 2025	4,92,000	1,640
January, 2026	4,80,000	1,600
February, 2026	4,68,000	1,560
March, 2026	4,56,000	1,520
	Total value of this perquisite	**20,880**

Total value of taxable perquisite
= ₹ 74,280 [i.e., ₹ 18,000 + ₹ 14,400 + ₹ 11,000 + ₹ 10,000 + ₹ 20,880].

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

Qn. 24 Mr. Goyal receives the following emoluments during the PY ending 31.03.2026.

Basic pay	₹ 4,00,000
Dearness Allowance	₹ 1,50,000
Commission	₹ 1,00,000
Entertainment allowance	₹ 40,000
Medical expenses reimbursed	₹ 25,000
Professional tax paid	₹ 2,000 (₹ 1,000 was paid by his employer)

Mr. Goyal contributes ₹ 5,000 towards RPF. He has no other income. Determine the income from salary for AY 2026-27, if Mr. Goyal is a State Government employee.

Ans. Computation of salary of Mr. Gupta for AY 2026-27 under default tax regime u/s 115BAC

Particulars	₹	₹
Basic Salary		4,00,000
Dearness Allowance		1.50,000
Commission		1,00,000
Entertainment allowance received		40,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed		25,000
Professional tax paid by employer		1,000
Gross Salary		**7,16,000**
Less: Deduction u/s 16		
i) Standard deduction		(75,000)
Income from Salary		**6,41,000**

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.

Computation of salary of Mr. Gupta for AY 2026-27 under the optional tax regime

Particulars	₹	₹
Basic Salary		4,00,000
Dearness Allowance		1,50,000
Commission		1,00,000
Entertainment allowance received		40,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed		25,000
Professional tax paid by employer		1,000
Gross Salary		**7,16,000**
Less: Deduction u/s 16		

i) Standard deduction		(50,000)
ii) Entertainment allowance – Lower of:		
a) Allowance received	40,000	
b) 1/5 × ₹ 4,00,000	80,000	
c) Statutory Limit	5,000	(5,000)
iii) Professional Tax paid (both employee and employer)		(2,000)
Income from Salary		**6,59,000**

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.

Qn. 25 Mr. X is employed with AB Ltd. on a monthly salary of ₹ 25,000 p.m. and entertainment allowance and commission of ₹ 1,000 p.m. each. The company provides him with the following benefits:

1. A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 1.8.2025.
2. A personal loan of ₹ 5,00,000 on 1.7.2025 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (Assume SBI rate of interest on 1.4.2025 was 12.75% p.a.)
3. His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2022. The motor cycle was finally sold to him on 1.8.2025 for ₹ 30,000.
4. Professional tax paid by Mr. X is ₹ 2,000.

Compute the income from salary of Mr. X for the AY 2026-27 assuming Mr. X exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Ans. Computation of Income from Salary of Mr. X for the AY 2026-27

Particulars	₹	₹
Basic salary [₹ 25,000 × 12]		3,00,000
Commission [₹ 1,000 × 12]		12,000
Entertainment allowance [₹ 1,000 × 12]		12,000
Rent free accommodation [Note 1]	32,400	
Add: Value of furniture [₹ 2,40,000 × 10% p.a. for 8 months]	16,000	48,400
Interest on personal loan [Note 2]		22,500
Use of motor cycle [₹ 60,000 × 10% p.a. for 4 months]		2,000
Transfer of motor cycle [Note 3]		12,000
Gross Salary		**4,08,900**
Less: Deduction u/s 16		
▪ Standard deduction	50,000	
▪ Professional tax paid	2,000	(52,000)
Income from Salary		**3,56,900**

Note 1: Value of rent free unfurnished accommodation
= 10% of Salary for relevant period
= 10% of [₹ 3,00,000 + ₹ 12,000 + ₹ 12,000] = ₹ 32,400

Note 2: Value of perquisite for interest on personal loan
= [₹ 5,00,000 × (12.75% - 6.75%) for 9 months] = ₹ 22,500

Note 3: Depreciated value of the motor cycle
= Original cost – Depreciation @ 10% p.a. for 3 completed years.
= ₹ 60,000 – (₹ 60,000 × 10% p.a. × 3 years) = ₹ 42,000.
Perquisite = ₹ 42,000 – ₹ 30,000 = ₹ 12,000.

Qn. 26 Mr. X retired from the services of M/s Y Ltd. on 31.01.2026, after completing service of 30 years and one month. He had joined the company on 1.1.1996 at the age of 30 years and received the following on his retirement:

(i) Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.
(ii) Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
(iii) As per the scheme of the company, he was offered a car which was purchased on 30.01.2023 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
(iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
(v) Company presented him a gift voucher worth ₹ 6,000 on his retirement.
(vi) His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars:
(i) He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance per month for the period from 01.04.2025 to 31.01.2026.
(ii) Received pension of ₹ 5,000 per month for the period 01.02.2026 to 31.03.2026 after commutation of pension.

Compute his gross total income from the above for AY 2026-27 assuming he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Ans. Computation of Gross Total Income of Mr. X for AY 2026-27

Particulars	₹
Basic Salary = ₹ 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher (Note - 1)	6,000
Transfer of car (Note - 2)	56,000
Gratuity (Note - 3)	80,769
Leave encashment (Note - 4)	1,30,000
Uncommuted pension (₹ 5,000 x 2)	10,000
Commuted pension (Note - 5)	1,50,000
Gross Salary	7,32,769
Less: Standard deduction u/s 16(ia)	(50,000)
Taxable Salary /Gross Total Income	**6,82,769**

Notes:

1. As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the PY is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of ₹ 5,000.
   Therefore, the entire amount of ₹ 6,000 is liable to tax as perquisite.
   Note – An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 1,000 and gross taxable income would be ₹ 7,27,769.

2. **Perquisite value of transfer of car**: As per Rule 3(7)(viii), the value of benefit to the employee, arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% of WDV of such motor car for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	₹
Purchase price (30.1.2023)	5,00,000
Less: Depreciation @ 20%	(1,00,000)
WDV on 29.1.2024	4,00,000
Less: Depreciation @ 20%	(80,000)
WDV on 29.1.2025	3,20,000

Less: Depreciation @ 20%	(64,000)
WDV on 29.1.2026	2,56,000
Less: Amount recovered	(2,00,000)
Value of perquisite	**56,000**

The rate of 15% as well as the straight line method adopted by the company for depreciation of vehicle is not relevant for calculation of perquisite value of car in the hands of Mr. X.

3. Taxable gratuity

Particulars			**₹**
Gratuity received			6,00,000
Less: Exempt u/s 10(10) - Least of the following:			
(i)	Notified limit =	₹ 20,00,000	
(ii)	Actual gratuity =	₹ 6,00,000	
(iii)	15/26 x last drawn salary x no. of completed years of services or part in excess of 6 months		
	15/26 x ₹ 30,000 x 30 =	₹ 5,19,231	(5,19,231)
Taxable Gratuity			**80,769**

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

4. Taxable leave encashment

Particulars			**₹**
Leave Salary received			3,30,000
Less: Exempt u/s 10(10AA) - Least of the following:			
(i)	Notified limit	₹ 25,00,000	
(ii)	Actual leave salary	₹ 3,30,000	
(iii)	10 months x ₹ 20,000	₹ 2,00,000	
(iv)	Cash equivalent of leave to his credit [330/30 × 20,000]	₹ 2,20,000	(2,00,000)
Taxable Leave encashment			**1,30,000**

Note – It has been assumed that dearness allowance does not form part of salary for retirement benefits. In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption u/s 10(10AA) in respect of leave encashment would be ₹ 3,00,000 (i.e. 10 x ₹ 30,000) and the fourth limit ₹ 3,30,000, in which case, the taxable leave encashment would be ₹ 30,000 (₹ 3,30,000 - ₹ 3,00,000). In such a case, the gross total income would be ₹ 6,32,769.

5. Commuted Pension

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

Particulars	**₹**
Amount received	3,00,000
Exemption u/s 10(10A) = [1/3 × 3,00,000 × 3/2]	(1,50,000)
Taxable amount	**1,50,000**

6. The taxability provisions u/s 56(2)(x) are not attracted in respect of television received from colleagues, since television is not included in the definition of property therein.

Qn. 27 Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2026:

(i) Basic salary upto 31.10.2025 ₹ 50,000 p.m.
Basic salary from 01.11.2025 ₹ 60,000 p.m.
Note: Salary is due and paid on the last day of every month.

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

(iii) Bonus equal to one month salary. Paid in October 2025 on basic salary plus dearness allowance applicable for that month.

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

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

(vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2025.

(vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2025 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2025 to 31.03.2026, were fully met by the employer. The motor car was self-driven by the employee.

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

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the AY 2026-27 assuming he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[Nov 18]

Ans.

Computation of Taxable Salary of Mr. Balaji for AY 2026-27

Particulars		₹
Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]		6,50,000
Dearness Allowance (40% of basic salary)		2,60,000
Bonus (₹ 50,000 + 40% of ₹ 50,000) (Note 1)		70,000
Employer's contribution to recognised provident fund in excess of 12% of salary = 4% of ₹ 6,50,000 (Note 2)		26,000
Professional tax paid by employer		2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) (Note 4)		12,000
Gross Salary		**10,20,000**
Less: Deduction u/s 16		
Standard deduction u/s 16(ia)	₹ 50,000	
Professional tax u/s 16(iii) (Note 6)	₹ 2,500	(52,500)
Taxable Salary		9,67,500

Notes:

1. Since bonus was paid in the month of October, the basic salary of ₹ 50,000 for the month of October is considered for its calculation.
2. It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
3. As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.
4. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 2,400 per month. The car was provided to the employee from 01.11.2025, therefore the perquisite value has been calculated for 5 months.
5. Mr. Balaji can avail exemption u/s 10(5) on the entire amount of ₹ 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children

and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

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

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

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

Qn. 28 From the following details, find out the salary chargeable to tax for the AY 2026-27 assuming he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2025 in the scale of ₹ 20,000 - ₹ 1,000 - ₹ 30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. DA forms part of pay for retirement benefits.

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

(i) Facility of laptop costing ₹ 50,000.
(ii) Company reimbursed the medical treatment bill of his brother of ₹ 25,000, who is dependent on him.
(iii) The monthly salary of ₹ 1,000 of a house keeper is reimbursed by the company.
(iv) A gift voucher of ₹ 10,000 on the occasion of his marriage anniversary.
(v) Conveyance allowance of ₹ 1,000 p.m. is given by the company towards actual reimbursement of conveyance spent on official duty.
(vi) He is provided personal accident policy for which premium of ₹ 5,000 is paid by the company.
(vii) He is getting telephone allowance @ ₹ 500 p.m.

Ans. Computation of taxable salary of Mr. X for AY 2026-27

Particulars	₹
Basic pay [(₹ 20,000 × 9) + (₹ 21,000 × 3)] = ₹ 1,80,000 + ₹ 63,000	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus	21,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15% - 12% = 3% of ₹ 2,67,300) [Note 1]	8,019
Taxable allowances	
Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation [Note 1 & 2]	29,430
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher [Note 5]	10,000
Gross Salary	**3,78,749**
Less: Deduction u/s 16(ia) – Standard deduction	(50,000)
Salary income chargeable to tax	**3,28,749**

Notes:

1. Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly worked out.
2. Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.
   For the purposes of valuation of rent-free house, salary includes:
   (i) Basic salary i.e., ₹ 2,43,000
   (ii) Dearness allowance (assuming that it is included for calculating retirement benefits) i.e., ₹ 24,300
   (iii) Bonus i.e., ₹ 21,000
   (iv) Telephone allowance i.e., ₹ 6,000
   Therefore, salary works out to ₹ 2,43,000 + ₹ 24,300 + ₹ 21,000 + ₹ 6,000 = ₹ 2,94,300.
   10% of salary = ₹ 2,94,300 × 10/100 = ₹ 29,430
   Value of rent-free house = Lower of rent paid by the employer (i.e., ₹ 1,20,000) or 10% of salary (i.e., ₹ 29,430).
   Therefore, the perquisite value is ₹ 29,430.
3. Facility of use of laptop is not a taxable perquisite.
4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
5. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000. Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.
   Note - An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000.
6. Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.

Qn. 29 Mr. Kunal (age 27 years) is an employee in a private company posted in Delhi. He was appointed on 01.02.2024 in the scale of ₹ 60,000 - ₹ 1,000 - ₹ 70,000. He furnishes you the following information for the PY 2025-26:

(i) Dearness allowance @25% of basic salary (60% of DA forms part of retirement benefits)
(ii) Bonus equal to one month salary. Paid in November 2025 on basic salary applicable for that month.
(iii) Leave encashment for PY 2025-26 of ₹ 10,000.
(iv) He also received a motor car on 01.12.2025 (cubic capacity of engine exceeds 1.60 litres) along with chauffeur for both official and personal purpose. The motor car is owned by his employer and all expenses are met by the employer.
(v) His employer granted him a loan of ₹ 2,00,000 on 1st June, 2025 which is repayable in equal quarterly installments over 2 years starting from 1st October, 2025. The State Bank of India (SBI) lending rate for such loans is 9.5% per annum as on 01.04.2025, while the employer recovers interest @5.5% per annum from the employee.
(vi) His employer gave him a rent-free accommodation (fully furnished) in Delhi from 01.04.2024. This house is owned by the employer. The perquisite value of such furnished rent-free accommodation during the PY 2024-25 was valued at ₹ 92,000. Further, the accommodation is continued to be provided by the employer to the employee in PY 2025-26 also.
(vii) The furniture and appliances provided with the house were bought by the employer at an aggregate cost of ₹ 1,50,000 on 01.01.2024. Electricity and water bills of ₹ 5,000 p.m. for the said house were paid by the employer.
   Cost Inflation Index
   FY 2024-25-363, FY 2025-26-376.

(viii) His colleagues gifted him a mobile phone worth ₹ 45,000 from their own contribution on account of his marriage.

You are required to compute the income chargeable under the head Salaries in the hands of Mr. Kunal for the AY 2026-27 assuming that he wants to pay tax under default tax regime u/s 115BAC.

Ans. Computation of income chargeable under the head "Salaries" of Mr. Kunal for AY 2026-27 under default tax regime

	₹	₹
Basic Pay [₹ 61,000 x 10 + ₹ 62,000 x 2]		7,34,000
Dearness Allowance [₹ 7,34,000 x 25%]		1,83,500
Bonus		61,000
Leave encashment for PY 2025-26		10,000
Value of perquisite		
Perquisite of Motor Car [₹ 3,300 x 4]		13,200
As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 litres) owned by the employer is provided to employee with chauffeur for both official and personal use, the value of perquisite shall be ₹ 3,300 (₹ 2,400 + ₹ 900).		
The car was provided to employee from 01.12.2025, therefore the perquisite value has been calculated for 4 months.		
Perquisite of interest on loan (Working Note Below)		5,917
Value of Rent-free accommodation		
Value of Rent-free accommodation {10% of ₹ 9,15,100 i.e., [₹ 7,34,000, basic salary + ₹ 1,10,100 (₹ 1,83,500 x 60%, DA forming part of retirement benefits) + ₹ 10,000, leave encashment + ₹ 61,000, bonus]}	91,510	
Add: Value of furniture [₹ 1,50,000 × 10% p.a.]	15,000	
	1,06,510	
As per Rule 3, value of perquisite in case of accommodation continued to be provided to an employee for more than one PY, shall not exceed the amount calculated for first PY, as multiplied by the amount which is a ratio of CII for the PY for which the value is calculated and CII for the PY in which accommodation was initially provided to the employee.		
Accordingly, value of perquisite for PY 2025-26 to be restricted to = ₹ 92,000 x 376/363	95,295	95,295
Facility of use of electricity and water [Electricity and water bills paid by the employer would be taxable as perquisite] [₹ 5,000 x 12]		60,000
Mobile phone received as gift from colleagues (Not taxable under the head "Salaries")		Nil
Gross Salary		11,62,912
Less: Standard deduction u/s 16 [Actual salary or ₹ 75,000, whichever is less]		(75,000)
Net Salary		**10,87,912**

Working Note:

Perquisite of Interest on Loan

The value of the benefit to the assessee resulting from the concessional loan made to the employee during the relevant PY by the employer shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant PY in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

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

The perquisite value for computation is 9.5% - 5.5% = 4% p.a.

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
June, 2025	2,00,000	667
July, 2025	2,00,000	667
August, 2025	2,00,000	667
September, 2025	2,00,000	667
October, 2025	1,75,000	583
November, 2025	1,75000	583
December, 2025	1,75,000	583
January, 2026	1,50,000	500
February, 2026	1,50,000	500
March, 2026	1,50,000	500
	Taxable Value of perquisite	**5,917**

Relief u/s 89

Qn. 30 In the case of Mr. Hari, who turned 68 years on 28.3.2026, you are informed that the salary for the PY 2025-26 is ₹ 10,20,000 (computed) and arrears of salary received is ₹ 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

PYs	Taxable Salary	Arrears now received
2016-17	7,10,000	1,03,000
2017-18	8,25,000	1,17,000
2018-19	9,50,000	1,25,000

Compute the relief available u/s 89 and the tax payable for AY 2026-27. Assume that Mr. Hari exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Note: Rates of Taxes

AY	Slab rates of Income-Tax			
	For Resident individuals of age 60 yrs or more at any time during the PY		For other resident individuals	
	Slabs	Rate	Slabs	Rate
2017-18	Upto ₹ 3,00,000	NIL	Upto ₹ 2,50,000	NIL
	₹ 3,00,001 - ₹ 5,00,000	10%	₹ 2,50,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 10,00,000	20%	₹ 5,00,001 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%
2018-19	Upto ₹ 3,00,000	NIL	Upto ₹ 2,50,000	NIL
	₹ 3,00,001 - ₹ 5,00,000	10%	₹ 2,50,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 10,00,000	20%	₹ 5,00,001 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%
2019-20	Upto ₹ 3,00,000	NIL	Upto ₹ 2,50,000	NIL
	₹ 3,00,001 - ₹ 5,00,000	10%	₹ 2,50,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 10,00,000	20%	₹ 5,00,001 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%

Note: Education cess @ 2% and secondary and higher education cess @ 1% was attracted on the income-tax for AY 2017-18 & AY 2018-19

Ans. Step 1: Computation of Additional Tax payable by Mr. Hari for AY 2026-27

Particulars	Incl. arrears of salary	Excl. arrears of salary
Current Year Salary (computed)	10,20,000	10,20,000
Add: Arrears of Salary	3,45,000	-

Taxable Salary	13,65,000	10,20,000
Income-Tax thereon	2,19,000	1,16,000
Add: Health & Education cess @ 4%	8,780	4,640
Total Payable	**2,28,280**	**1,20,640**

Additional Tax Payable = ₹ 2,28,280 (-) ₹ 1,20,640 = 1,07,640

Step 2: Computation of Additional Tax payable in earlier years

Particulars	AY 2017-18		AY 2018-19		AY 2019-20	
	Incl. arrears	**Excl. arrears**	**Incl. arrears**	**Excl. arrears**	**Incl. arrears**	**Excl. arrears**
Taxable Salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Salary Arrears	1,03,000	-	1,17,000	-	1,25,000	-
Taxable Salary	8,13,000	7,10,000	9,42,000	8,25,000	10,75,000	9,50,000
Tax thereon	87,600	67,000	98,400	75,000	1,32,500	1,00,000
Add: cess @ 3%	2,628	2,010	2,952	2,250	5,300	4,000
Total Payable	**90,228**	**69,010**	**1,01,352**	**77,250**	**1,37,800**	**1,04,000**

Additional Tax payable = 3,29,380 (-) 2,50,260 = ₹ 79,120

Step 3: Relief u/s 89 = Step 1 (-) Step 2 = 28,250

Tax Payable for AY 2026-27 after relief u/s 89

Particulars	₹
Income Tax Payable on total income including arrears of salary	2,28,280
Less: Relief u/s 89 (Step 3)	(28,250)
Tax Payable after claiming relief	**1,99,760**

Qn. 31 Mr. Kadam is entitled to a salary of ₹ 40,000 per month. He is given an option by his employer either to take house rent allowance or a rent-free accommodation which is owned by the company. The HRA amount payable was ₹ 7,000 per month.

The rent for the hired accommodation was ₹ 6,000 per month at New Delhi. Advice Mr. Kadam whether it would be beneficial for him to avail HRA or Rent-Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kadam exercises the option to shift out of the default tax regime u/s 115BAC.

Ans. Computation of tax liability of Kadam under both the options

Particulars			Option I – HRA (₹)	Option II – RFA (₹)
Basic Salary (₹ 40,000 x 12 Months)			4,80,000	4,80,000
Perquisite value of rent-free accommodation (10% of ₹ 4,80,000)			N.A.	48,000
House rent Allowance (₹ 7,000 x 12 Months)		₹ 84,000		
Less: Exempt u/s 10(13A) – least of the following -				
- 50% of Basic Salary	₹ 2,40,000			
- Actual HRA received	₹ 84,000			
- Rent paid less 10% of salary	₹ 24,000	(₹ 24,000)	60,000	-
Gross Salary			5,40,000	5,28,000
Less: Standard deduction u/s 16(ia)			(50,000)	(50,000)
Net Salary			**4,90,000**	**4,78,000**
Less: Deduction under Chapter VI-A			-	-
Total Income			4,90,000	4,78,000

Tax on total income	12,000	11,400
Less: Rebate u/s 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,000, since total income does not exceed ₹ 5,00,000	(12,000)	(11,400)
	Nil	Nil
Add: Health and Education cess @ 4%	Nil	Nil
Tax liability	Nil	Nil
Tax liability (Rounded off)	**Nil**	**Nil**

Cash Flow Statement

Particulars	Option I – HRA	Option II – RFA
Inflow: Salary	5,64,000	4,80,000
Less: Outflow: Rent paid	(72,000)	-
Tax on total income	Nil	Nil
Net Inflow	**4,92,000**	**4,80,000**

Since the net cash inflow under option I (HRA) is higher than in Option II (RFA), it is beneficial for Mr. Kadam to avail Option I, i.e., House Rent Allowance.

Section B – Blast from the Past

Qn. 1 Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company's product. He has been staying in India for atleast 184 days every year.

He submits the following information:

Salary received outside India (For 6 months) ₹ 50,000 P.M

Salary received in India (For 6 months) ₹ 50,000 P.M.

He has been given rent free accommodation in U.S.A. for which company pays ₹ 15,000 p.m. as rent, but when he comes to India, he stays in the guest house of the company. During this period he is given free lunch facility. For the PY, company incurred an expenditure of ₹ 48,000 on this facility.

He has been provided a car of 2000 cc capacity in U.S.A. which is used by him for both office and private purposes. The actual cost of the car is ₹ 8,00,000. But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is ₹ 5,000. His elder son is studying in India for which his employer spends ₹ 12,000 per year whereas his younger son is studying in U.S.A. and stays in a hostel for which Mr. Honey gets ₹ 3,000 per month as combined allowance.

The company has taken an accident insurance policy and a life insurance policy. During the PY, the company paid premium of ₹ 5,000 and ₹ 10,000, respectively.

Compute Mr. Honey's taxable income from salary for the AY 2026-27 assuming Mr. Honey wishes to opt out of the default tax regime of Sec 115BAC

[May 18]

Ans. Since Mr. Honey stays in India for atleast 184 days every year, he is resident and ordinarily resident in India, every year. Therefore, his global income would be taxable in India. The salary received by him in India and outside India would be taxable in India as per the provisions of the Income-tax Act, 1961.

Computation of total income from salary of Mr. Honey for the AY 2026-27

Particulars	₹	₹
Basic Salary		
Salary received outside India for 6 months (₹ 50,000 x 6)	3,00,000	
Salary received in India for 6 months (₹ 50,000 x 6)	3,00,000	6,00,000
Children Education and Hostel Allowance		
Amount received from employer (₹ 3,000 x 12)	36,000	

[No exemption is available in respect of allowance received for any education or hostel facility of children outside India]	Nil	36,000
Value of rent-free accommodation in USA		63,600
Lower of:		
- (10% of ₹ 6,36,000)	63,600	
- Rent paid by employer = ₹ 15,000 x 12	1,80,000	
Value of guest house in India		
[not taxable, since it is provided for stay when he visits India wholly for official purposes]		-
Lunch facility provided by employer [Taxable perquisite, since the value exceeds ₹ 50 per meal] [Note 1]		48,000
Motor car provided by employer [₹ 14,400 + ₹ 70,000] [Note 2]		84,400
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹ 14,400 [₹ 2,400 x 6], since cubic capacity exceeds 1.6 litres, assuming that expenses are fully met by employer	14,400	
Used for personal purposes by his family members for 6 months when he is in India		
Actual running and maintenance expenditure [₹ 5,000 x 6] 30,000		
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12 40,000	70,000	
Education expenditure of elder son in India met by employer [Fully taxable perquisite]		12,000
Life insurance premium paid by the employer – any sum payable by the employer to effect an assurance on the life of the employee is a taxable perquisite		
		10,000
Accident insurance premium paid by employer – exempt perquisite, since such policy is taken by the employer in business interest so as to indemnify the company from payment of compensation.		-
Gross Salary		8,54,000
Less: Standard Deductions u/s 16		(50,000)
Taxable Salary		**8,04,000**

Notes:

(1) Lunch facility provided to Mr. Honey is a taxable perquisite as per Rule 3(7)(iii). The benefit under the proviso to this Rule would be available only if the value does not exceed ₹ 50 per meal. In this case since the value far exceeds ₹ 50 per meal, the benefit under the proviso to Rule 3(7)(iii) is not available. The above solution has been worked out accordingly.

However, in page 17 of the CBDT Circular No. 29/2017 dated 5.12.2017, the method of valuation of perquisite of free lunch facility has been explained. As per the said circular, a fixed sum of ₹ 50 per meal has to be reduced to arrive at the value of perquisite of free food provided by the employer. If the beneficial view given in the circular is considered for answering this question, an assumption as to the number of working days per month has to be made and thereafter, calculation for 6 months has to be made to arrive at the value of taxable and exempt perquisite of provision of lunch facility.

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

Particulars	₹
Motor car provided by employer [₹ 5,400 + ₹ 40,000]	
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹ 900 p.m., since cubic capacity exceeds 1.6 litres,	5,400
Used for personal purposes by his family members for 6 months when he is in India	
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12	40,000
	45,400

Income from House Property

04

SECTION A – SM QUESTIONS

Qn. 1 Jayashree owns 5 houses in India, all of which are let-out. Compute the GAV of each house from the information given below:

Particulars	House I	House II	House III	House IV	House V
Municipal Value	80,000	55,000	65,000	24,000	80,000
Fair Rent	90,000	60,000	65,000	25,000	75,000
Standard Rent	N.A.	75,000	58,000	N.A.	78,000
Actual rent	72,000	72,000	60,000	30,000	72,000

Ans. As per sec 23(1), Gross Annual Value (GAV) is the higher of Expected rent and actual rent received. Expected rent is higher of municipal value and fair rent but restricted to standard rent.

Particulars	House I	House II	House III	House IV	House V
(i) Municipal Value	80,000	55,000	65,000	24,000	80,000
(ii) Fair Rent	90,000	60,000	65,000	25,000	75,000
(iii) Higher of (i) & (ii)	90,000	60,000	65,000	25,000	80,000
(iv) Standard Rent	N.A.	75,000	58,000	N.A.	78,000
(v) Expected Rent [Lower of (iii) & (iv)]	90,000	60,000	58,000	25,000	78,000
(vi) Actual rent	72,000	72,000	60,000	30,000	72,000
GAV [Higher of (v) & (vi)]	**90,000**	**72,000**	**60,000**	**30,000**	**78,000**

Qn. 2 Rajesh, a British national, is a resident and ordinarily resident in India during the PY 2025-26. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the PY 2025-26. The value of one £ in ₹ to be taken at ₹ 95. Compute Rajesh's Net Annual Value of the property for the AY 2026-27.

Ans. For the PY 2025-26, Mr. Rajesh, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is be to allowed as deduction from the gross annual value.

Computation of Net Annual Value of the property of Mr. Rajesh for AY 2026-27

Particulars	₹
Gross Annual Value [£ 10,000 × 12 × ₹ 95]	1,14,00,000
Less: Municipal Taxes [£ 8,000 × ₹ 95]	(7,60,000)
Net Annual Value	**1,06,40,000**

Qn. 3 Mr. Manas owns two house properties one at Mumbai, wherein his family resides and the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Mumbai, he has taken a loan of ₹ 30 lakh @ 10% p.a. on 1.4.2024. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of ₹ 5 lakh @ 11% p.a. on 1.10.2024 towards repairs. Compute the deduction which would be available to him u/s 24(b) for AY 2026-27 in respect of interest payable on such loan if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Ans. Mr. Manas can claim benefit of Nil Annual Value in respect of his house property at Mumbai and Delhi, since no benefit is derived by him from such properties, and he cannot occupy such properties due to reason of his employment at Chandigarh, where he lives in a rented house.

Computation of deduction u/s 24(b) for AY 2026-27

Particulars	₹
i) Interest on loan taken for acquisition of residential house property at Mumbai	
₹ 30,00,000 × 10% = ₹ 3,00,000 (Restricted to ₹ 2,00,000)	2,00,000

ii) Interest on loan taken for repair of residential house property at Delhi ₹ 5,00,000 × 11% = ₹ 50,000 (Restricted to ₹ 30,000)	30,000
Total Interest	**2,30,000**
Deduction u/s 24(b) in respect of (I) & (II) above to be restricted to	**2,00,000**

Qn. 4 Anirudh has a property whose municipal valuation is ₹ 1,30,000 p.a. The fair rent is ₹ 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is 1,20,000 p.a. The property was let out for a rent of ₹ 11,000 p.m. throughout the PY. Unrealised rent was ₹ 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @ 10% of municipal valuation. Interest on borrowed capital was ₹ 40,000 for the year. Compute the income from house property of Anirudh for AY 2026-27.

Ans. Computation of Income from House Property of Mr. Anirudh for AY 2026-27

Particulars	Amount (in ₹)	
(i) Municipal Value	1,30,000	
(ii) Fair Rent	1,10,000	
(iii) Higher of (i) & (ii)	1,30,000	
(iv) Standard Rent	1,20,000	
(v) Expected Rent [Lower of (iii) & (iv)]	1,20,000	
(vi) Actual rent (-) Unrealised rent	1,21,000	
Gross Annual Value [Higher of (v) & (vi)]		**1,21,000**
Less: Municipal Taxes paid by owner [10% of ₹ 1,30,000]		(13,000)
Net Annual Value		**1,08,000**
Less: Deduction u/s 24		
a) 30% of NAV	32,400	
b) Interest on borrowed capital (Actuals without any ceiling limit)	40,000	(72,400)
Income from House Property		**35,600**

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 1,32,000, being higher of expected rent of ₹ 1,20,000 and actual rent of ₹ 1,32,000.
Thereafter, unrealized rent of ₹ 11,000 and municipal taxes of ₹ 13,000 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 1,08,000.

Qn. 5 Ganesh has a property whose municipal valuation is ₹ 2,50,000 p.a. The fair rent is ₹ 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 2,10,000 p.a. The property was let out for a rent of ₹ 20,000 p.m. However, the tenant vacated the property on 31.1.2026. Unrealised rent was ₹ 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @ 8% of municipal valuation. Interest on borrowed capital was ₹ 65,000. Compute the income from house property of Ganesh for AY 2026-27.

Ans. Computation of Income from House Property of Ganesh for AY 2026-27

Particulars	Amount (in ₹)	
(i) Municipal Value	2,50,000	
(ii) Fair Rent	2,00,000	
(iii) Higher of (i) & (ii)	2,50,000	
(iv) Standard Rent	2,10,000	
(v) Expected Rent [Lower of (iii) & (iv)]	2,10,000	
(vi) Actual rent (-) Unrealised rent	1,80,000	
Gross Annual Value *[Shall be taken as (vi) since Actual Rent ignoring vacancy is ₹ 2,20,000 which is higher than expected rent (v)]*		**1,80,000**
Less: Municipal Taxes paid by owner [8% of ₹ 2,50,000]		(20,000)
Net Annual Value		**1,60,000**
Less: Deduction u/s 24		

a) 30% of NAV	48,000	
b) Interest on borrowed capital (Actuals without any ceiling limit)	65,000	(1,13,000)
Income from House Property		**47,000**

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 2,00,000, being the actual rent, since the actual rent is lower than the expected rent of ₹ 2,10,000 owing to vacancy. Thereafter, unrealized rent of ₹ 20,000 and municipal taxes of ₹ 20,000 would be deducted from GAV of ₹ 2,00,000 to arrive at the NAV of ₹ 1,60,000.

Qn. 6 Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is ₹ 25,000 p.m. The municipal valuation is ₹ 2,80,000. Municipal taxes paid is ₹ 8,000. The house construction began in April, 2019 with a loan of ₹ 20,00,000 taken from SBI Housing Finance Ltd @ 9% p.a. on 1.4.2019. The construction was completed on 30.11.2021. The accumulated interest up to 31.3.2021 is ₹ 3,60,000. On 31.3.2026, Poorna paid ₹ 2,40,000 which included ₹ 1,80,000 as interest. There was no principal repayment prior to that date. Compute Poorna's income from house property for AY 2026-27 assuming that she has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Ans. Computation of Income from House Property of Smt. Poorna for AY 2026-27

Particulars	₹
Annual Value of house used for self-occupation u/s 23(2)	NIL
Less: Deduction u/s 24 - Interest on borrowed capital	
Interest on loan was taken for construction of house on or after 1.4.99 and same was completed within the prescribed time - interest paid or payable subject to a maximum of ₹ 2,00,000 (including apportioned pre-construction interest) will be allowed as deduction.	
In this case the total interest is ₹ 1,80,000 + ₹ 72,000 (Being 1/5th of ₹ 3,60,000) = ₹ 2,52,000. However, the interest deduction is restricted to ₹ 2,00,000	(2,00,000)
Income from House Property	**(2,00,000)**

Qn. 7 Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is ₹ 5,00,000, fair rent is ₹ 4,20,000 and standard rent is ₹ 4,80,000. The property was let-out for ₹ 50,000 p.m. upto December 2025. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2024 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @ 12% during the year. She had paid interest of ₹ 25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the AY 2026-27.

[Nov 18]

Ans. Computation of Income from House Property of Smt. Rajalakshmi for AY 2026-27

Particulars	Amount (in ₹)	
(i) Municipal Value	5,00,000	
(ii) Fair Rent	4,20,000	
(iii) Higher of (i) & (ii)	5,00,000	
(iv) Standard Rent	4,80,000	
(v) Expected Rent [Lower of (iii) & (iv)]	4,80,000	
(vi) Actual rent (-) Unrealised rent	3,50,000	
Gross Annual Value [Higher of (v) & (vi)]		**4,80,000**
Less: Municipal Taxes paid by owner [12% of ₹ 5,00,000]		(60,000)
Net Annual Value		**4,20,000**
Less: Deduction u/s 24		
a) 30% of NAV	1,26,000	

b) Interest on borrowed capital	25,000	(1,51,000)
Income from House Property		**2,69,000**

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 4,80,000, being higher of expected rent of ₹ 4,80,000 and actual rent of ₹ 4,50,000.

Thereafter, unrealized rent of ₹ 1,00,000 and municipal taxes of ₹ 60,000 would be deducted from GAV of ₹ 4,80,000 to arrive at the NAV of ₹ 3,20,000. The deduction u/s 24(a) would be ₹ 96,000, being 30% of ₹ 3,20,000. The income from house property would, therefore, be ₹ 1,99,000.

Qn. 8 Prem owns a house in Madras. During the PY 2025-26, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹ 8,000 p.m. Municipal value of the property is ₹ 3,00,000 p.a., fair rent is ₹ 2,70,000 p.a. and standard rent is ₹ 3,30,000 p.a. He paid municipal taxes @ 10% of municipal value during the year. A loan of ₹ 25,00,000 was taken by him during the year 2021 for acquiring the property. Interest on loan paid during the PY 2025-26 was ₹ 1,20,000. Compute Prem's income from house property for the AY 2026-27 assuming that she has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

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

<u>Computation of income from house property of Mr. Prem for AY 2026-27</u>

Particulars	Amount (in ₹)	
A. <u>Self-Occupied Property (2/3rd area)</u>		
Net Annual Value		-
Less: Deduction u/s 24(b) i.e., 2/3rd of ₹ 1,20,000		(80,000)
Income from Self-Occupied Property		**(80,000)**
B. <u>Let-out Property (1/3rd area)</u>		
(i) Municipal Value (1/3rd of ₹ 3,00,000)	1,00,000	
(ii) Fair Rent (1/3rd of ₹ 2,70,000)	90,000	
(iii) Higher of (i) & (ii)	1,00,000	
(iv) Standard Rent (1/3rd of ₹ 3,30,000)	1,10,000	
(v) Expected Rent [Lower of (iii) & (iv)]	1,00,000	
(vi) Actual rent (₹ 8,000 × 12)	96,000	
Gross Annual Value [Higher of (v) & (vi)]		**1,00,000**
Less: Municipal Taxes [1/3rd of (10% of ₹ 3,00,000)]		(10,000)
Net Annual Value		**90,000**
Less: Deduction u/s 24		
a) 30% of NAV	27,000	
b) Interest on borrowed capital (1/3rd of ₹ 1,20,000)	40,000	(67,000)
Income from Let-Out Property		**23,000**
Loss under the head Income from House Property = ₹ (80,000) + ₹ 23,000 = ₹ (57,000)		

Qn. 9 Mr. Anand sold his residential house property in March, 2025.

In June, 2025, he recovered rent of ₹ 10,000 from Mr. Gaurav, to whom he had let out his house for 2 years from April 2019 to March 2021. He could not realise 2 months rent of ₹ 20,000 from him and to that extent his actual rent was reduced while computing income from house property for AY 2021-22.

Further, he had let out his property from April, 2021 to February, 2025 to Mr. Satish. In April, 2023, he had increased the rent from ₹ 12,000 to ₹ 15,000 per month and the same was a subject matter of dispute. In September, 2025, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2023 to February, 2025.

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

Ans. Since the unrealised rent was recovered in the PY 2025-26, the same would be taxable in the AY 2026-27 u/s 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the PY 2025-26, and hence the same would be taxable in the AY 2026-27 u/s 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for AY 2026-27

Computation of income from house property of Mr. Anand for AY 2026-27

Particulars	₹
i) Unrealised Rent recovered	10,000
ii) Arrears of rent received	69,000
	79,000
Less: Deduction @ 30%	(23,700)
Income from House Property	**55,300**

Qn. 10 Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of ₹ 50,00,000 @ 10% taken on 1.4.2024 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of ₹ 3,00,000 @ 12% on 1.10.2024 for repairs of this flat. Compute the deduction which would be available to Ms. Aparna and Ms. Dimple u/s 24(b) for AY 2026-27 if both exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Ans. Computation of deduction u/s 24(b) available to Ms. Aparna for AY 2026-27

Particulars	₹
i) Interest on loan taken for acquisition of residential house property at Calcutta [₹ 50,00,000 × 10% = ₹ 5,00,000]	
Ms. Aparna's share = 50% of ₹ 5,00,000 = ₹ 2,50,000, restricted to	2,00,000
ii) Interest on loan taken for repair of flat at Pune [₹ 3,00,000 × 12% = ₹ 36,000], restricted to	30,000
Total Interest	2,30,000
Deduction u/s 24(b) in respect of (i) and (ii) above restricted to	**2,00,000**

Computation of deduction u/s 24(b) available to Ms. Dimple for AY 2026-27

Particulars	₹
Interest on loan taken for acquisition of residential house property at Calcutta	
[₹ 50,00,000 × 10% = ₹ 5,00,000]	
Ms. Dimple's share = 50% of ₹ 5,00,000 = ₹ 2,50,000, restricted to	2,00,000
Deduction u/s 24(b)	**2,00,000**

Qn. 11 Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property.

Particulars	₹
Municipal value of the property	1,60,000
Fair rent	1,50,000
Standard rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹ 25,000, out of which ₹ 21,000 has been paid. Interest on the unpaid interest is ₹ 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is ₹ 5,000. The municipal taxes of ₹ 5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of Mr. Raman for the AY 2026-27.

Ans. Computation of income from house property of Mr. Raman for AY 2026-27

Particulars	₹	₹
Gross Annual Value (Note 1)		1,80,000
Less: Municipal taxes – paid by the tenant, hence not deductible		Nil
Net Annual Value (NAV)		1,80,000
Less: Deductions u/s 24		
(i) 30% of NAV	54,000	
(ii) Interest on housing loan (Note 2)		
- Interest on loan taken from bank	25,000	
- Interest on fresh loan to repay old loan for this property	5,000	(84,000)
Income from house property		96,000
50% share taxable in the hands of Mr. Raman (Note 3)		**48,000**

Notes:

1. Computation of Gross Annual Value (GAV)

   GAV is the higher of Expected rent and actual rent received. Expected rent is the higher of municipal value and fair rent, but restricted to standard rent.

Particulars	₹	₹	₹	₹
(a) Municipal value of property	1,60,000			
(b) Fair rent	1,50,000			
(c) Higher of (a) and (b)		1,60,000		
(d) Standard rent		1,70,000		
(e) Expected rent [lower of (c) and (d)]			1,60,000	
(f) Actual rent [₹ 15,000 x 12]			1,80,000	
(g) Gross Annual Value [higher of (e) and (f)]				1,80,000

2. Interest on housing loan is allowable as a deduction u/s 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction u/s 24.
3. Sec 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sec 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

Qn. 12 Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹ 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the PY 2025-26 are as under:

Standard rent	₹ 1,62,000 p.a.
Municipal valuation	₹ 1,90,000 p.a.
Fair rent	₹ 1,85,000 p. a
Municipal tax (Paid by Mr. X)	5% of municipal valuation
Light and water charges	₹ 500 p.m.
Interest on borrowed capital	₹ 1,500 p.m.
Lease money	₹ 1,200 p.a.
Insurance charges	₹ 3,000 p.a.
Repairs	₹ 12,000 p.a.

Compute income from house property of Mr. X for the AY 2026-27 if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Ans. Computation of Income from house property for AY 2026-27

Particulars	₹	₹
(A) Rented unit (50% of total area – Note)		
Step I - Computation of Expected Rent		
Municipal valuation (₹ 1,90,000 x ½)	95,000	
Fair rent (₹ 1,85,000 x ½)	92,500	
Standard rent (₹ 1,62,000 x ½)	81,000	
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
Step II - Actual Rent		
Rent receivable for the whole year (₹ 8,000 x 12)	96,000	
Step III – Computation of Gross Annual Value		
Actual rent received owing to vacancy (₹ 96,000 – ₹ 16,000)	80,000	
Since, owing to vacancy, the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual Value		
Gross Annual Value		**80,000**
Less: Municipal taxes (15% of ₹ 95,000)		(4,750)
Net Annual value		**75,250**
Less: Deductions u/s 24 -		
(i) 30% of net annual value	22,575	
(ii) Interest on borrowed capital (₹ 750 x 12)	9,000	(31,575)
Taxable income from let out portion		43,675
(B) Self occupied unit (50% of total area – Note)		
Annual value	Nil	
Less: Deduction u/s 24 -		
Interest on borrowed capital (₹ 750 x 12)	9,000	9,000
Loss from self-occupied portion		**(9,000)**
Income from house property		**34,675**

Note: No deduction will be allowed separately for light and water charges, lease money paid, insurance charges and repairs.

Qn. 13 Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 (per annum), respectively. During the FY 2025-26, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @ 11% of municipal value was paid during the year.

The construction of the house began in June, 2018 and was completed on 31-5-2021. Vikas took a loan of ₹ 1,00,000 on 1-7-2018 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the AY 2026-27 if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans. Computation of income from house property of Mr. Vikas for the AY 2026-27

Particulars	₹	₹
Income from house property		
I. Self-occupied portion (Two third)		
Net Annual value		Nil
Less: Deduction u/s 24(b)		

Interest on loan (Note) (₹ 18,600 x 2/3)		(12,400)
Loss from self-occupied property		(12,400)
II. Let-out portion (One third)		
Gross Annual Value		
(a) Actual rent received (₹ 5,000 x 12) 60,000		
(b) Expected rent 36,000		
[higher of municipal valuation (i.e., ₹ 96,000) and fair rent		
(i.e., ₹ 1,26,000) but restricted to standard rent (i.e., ₹ 1,08,000)]		
= ₹ 1,08,000 x 1/3		
Higher of (a) or (b)	60,000	
Less: Municipal taxes (₹ 96,000 x 11% x 1/3)	(3,520)	
Net Annual Value	**56,480**	
Less: Deductions u/s 24		
(a) 30% of NAV	16,944	
(b) Interest on loan (Note) (₹ 18,600 x 1/3)	6,200	33,336
Income from house property		**20,936**

Note: Interest on loan taken for construction of building

Interest for the year (1.4.2025 to 31.3.2026) = 12% of ₹ 1,00,000 = ₹ 12,000

Pre-construction period interest = 12% of ₹ 1,00,000 for 33 months (from 1.07.2018 to 31.3.2021) = ₹ 33,000

Pre-construction period interest to be allowed in 5 equal annual instalments of ₹ 6,600 from the year of completion of construction i.e., from FY 2021-22 till FY 2025-26.

Therefore, total interest deduction u/s 24 = ₹ 12,000 + ₹ 6,600 = ₹ 18,600.

Qn. 14 Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the FY 2025-26. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is $ 20,000. The value of one USD ($) may be taken as ₹ 75.

She took ownership and possession of a flat in Chennai on 1.7.2025, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2026. The municipal valuation is ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

Property Tax ₹ 16,200
Sewerage Tax ₹ 1,800

She had taken a loan from Standard Chartered Bank in June, 2023 for purchasing this flat. Interest on loan was as under:

Particulars	₹
Period prior to 1.4.2025	49,200
1.4.2025 to 30.6.2025	50,800
1.7.2025 to 31.3.2026	1,31,300

She had a house property in Bangalore, which was sold in March, 2022. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2026. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the AY 2026-27 if she has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Would your answer change if she pays tax under the default tax regime u/s 115BAC?

[Nov 17]

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

She possesses a self-occupied house at Los Angeles as well as at Chennai. She can take the benefit of "Nil" Annual Value in respect of both the house properties.

As regards the Bangalore house, arrears of rent will be chargeable to tax as income from house property in the year of receipt u/s 25A. It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction.

Accordingly, the income from house property of Mrs. Rohini Ravi for AY 2026-27 will be calculated as under:

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

Note: Interest on borrowed capital

Particulars	₹
Interest for the current year (₹ 50,800 + ₹ 1,31,300)	1,82,100
Add: 1/5th of pre-construction interest (₹ 49,200 x 1/5)	9,840
Interest deduction allowable u/s 24	**1,91,940**

Yes, the answer would change if she pays tax under the default tax regime u/s 115BAC. Under the default tax regime, deduction u/s 24(b) for interest is not available. Hence, she cannot claim deduction of ₹ 1,91,940 in respect of the Chennai house. Accordingly, income from house property would be ₹ 42,000.

Qn. 15 Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the FY 2017-18. The property consists of eight identical units and is situated at Cochin. During the FY 2025-26, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 p.m. per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

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

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

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

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the FY 2025-26.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the AY 2026-27 if they pay tax under the default tax regime u/s 115BAC.

Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans. If Arun and Bimal pay tax under the default tax regime u/s 115BAC

Computation of total income for the AY 2026-27

Particulars	Arun (₹)	Bimal (₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction u/s 24(b)	Nil	Nil
Loss from self occupied property	Nil	Nil
II. Let-out portion (75%) –Working Note	1,25,850	1,25,850
Income from house property	**1,25,850**	**1,25,850**
Other Income	2,90,000	1,80,000
Total Income	**4,15,850**	**3,05,850**

If Arun and Bimal have exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Computation of total income for the AY 2026-27

Particulars	Arun (₹)	Bimal (₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction u/s 24(b)		
Interest on loan taken for construction ₹ 37,500 (being 25% of ₹ 1.5 lakh)	(37,500)	(37,500)
Loss from self-occupied property	(37,500)	(37,500)
II. Let-out portion (75%) –Working Note	1,25,850	1,25,850
Income from house property	**88,350**	**88,350**
Other Income	2,90,000	1,80,000
Total Income	**3,78,350**	**2,68,350**

Working Note – Computation of Income from Let-Out Portion of House Property

Particulars	₹	₹
Let-out portion (75%)		
Gross Annual Value		
(a) Municipal value (75% of ₹ 9 lakh)	6,75,000	
(b) Actual rent [(₹ 12000 x 6 x 12) – (₹ 12,000 x 1 x 4)]	8,16,000	
=₹ 8,64,000 - ₹ 48,000		
- whichever is higher		8,16,000
Less: Municipal taxes 75% of ₹ 1,80,000 (20% of ₹ 9 lakh)		(1,35,000)
Net Annual Value (NAV)		6,81,000
Less: Deduction u/s 24		
(a) 30% of NAV	2,04,300	
(b) Interest on loan taken for the house [75% of ₹ 3 lakh]	2,25,000	4,29,300
Income from let-out portion of house property		**2,51,700**
Share of each co-owner (50%)		**1,25,850**

Qn. 16 Mr. Roxx, a citizen of the Country Y, is a resident but not ordinarily resident in India during the FY 2025-26. He owns two house properties in Country Y, one is used as his residence. Another house property is rented for a monthly rent of $ 18,000. Fair rent of the house property is $ 20,000. The value of one CYD ($) may be taken as ₹ 78.

He took ownership and possession of a flat in Delhi on 1.10.2025, which is used for self-occupation, while he is in India. The flat was used by him for 2 months at the time when he visited India during the PY

2025-26. The municipal valuation is ₹ 4,58,000 p.a. and the fair rent is ₹ 3,60,000 p.a. He paid property tax of ₹ 13,800 and ₹ 2,800 as Sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of ₹ 18,00,000 @ 9.5% from HDFC Bank on 1st August, 2023 for purchasing this flat. No amount is repaid by him till 31.03.2026.

He also had a house property in Bangalore which is let out on a monthly rent of ₹ 40,000. The fair rent of which is ₹ 4,58,000 p.a. and Municipal value of ₹ 25,00,000 @ 10% from one of his friends, residing in Country Y for this house. Municipal tax of ₹ 5,400 is paid by him in respect of this house during the PY 2025-26.

Compute the income chargeable from house property of Mr. Roxx for the AY 2026-27 if he has shifted out of the default tax regime.

Ans. Since Mr. Roxx, is a resident but not ordinarily resident in India, only the income in respect of properties situated in India would be taxable in his hands.

Thus, the rental income which accrues or arises in Country Y from the letout property and annual value of self-occupied property would not be taxable in his hands. However, income arising from properties in India are taxable in the hands of Mr. Roxx.

Accordingly, the income from house property of Mr. Roxx for AY 2026-27 will be calculated as under:

Particulars	₹	₹
1. Self-occupied house at Delhi		
Annual value		Nil
Less: Deduction u/s 24		
Interest on borrowed capital (See Note below)		2,00,000
Chargeable income from this house property		(2,00,000)
2. Let out house property at Bangalore		
Expected rent, being higher of ₹ 3,58,000 municipal value and fair rent of ₹ 4,58,000 but restricted to Standard rent of ₹ 4,20,000	4,20,000	
Actual rent [₹ 40,000 x 12]	4,80,000	
Gross Annual Value, being higher of expected rent and actual rent		4,80,000
Less: Municipal taxes		(5,400)
Net Annual Value		4,74,600
Less: Deduction u/s 24		
- 30% of net annual value [30% x ₹ 4,74,600]	1,42,380	
- Interest on borrowed capital (actual allowable as deduction without any ceiling limit)	2,50,000	(3,92,380)
		82,220
Loss under the head "Income from house property" (₹ 2,00,000 - ₹ 82,220)		**(1,17,780)**

Note: Interest on borrowed capital

Particulars	₹
Interest for the current year [₹ 18,00,000 x 9.5%]	1,71,000
Add: 1/5th of pre-construction interest (₹ 2,85,000 x 1/5)	57,000
1.8.2023 to 31.03.2024 – (₹ 18,00,000 x 9.5% x 8/12) 1,14,000	
1.4.2024 to 31.03.2025 – (₹ 18,00,000 x 9.5%) 1,71,000	2,28,000
Interest deduction allowable u/s 24, restricted to	**2,00,000**

Qn. 17 Mr. Roy owns a house in Kolkata. During the PY 2025-26, 3/4th portion of the house was self-occupied and 1/4th portion was let out for residential purposes at a rent of ₹ 12,000 p.m. The tenant vacated the property on 28th February, 2026. The property was vacant during March, 2026. Rent for the months of January 2026 and February 2026 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied.

Municipal value of the property is ₹ 4,50,000 p.a., fair rent is ₹ 4,70,000 p.a. and standard rent is ₹ 5,00,000. He paid municipal taxes @ 10% of municipal value during the year. A loan of ₹ 30,00,000 was taken by him during the year 2018 for acquiring the property. Interest on loan paid during the PY 2025-26 was ₹ 1,51,000. Compute Roy's income from house property for the AY 2026-27 if he has shifted out of the default tax regime.

Ans. There are two units of the house. Unit I with 3/4th area is used by Mr. Roy for self-occupation throughout the year and no benefit is derived from that unit, hence, it will be treated as self-occupied and its annual value will be nil. Unit 2 with 1/4th area is let-out during the PY and its annual value has to be determined as per sec 23(1).

Computation of Income from house property of Mr. Roy for the AY 2026-27

Particulars	₹	
Unit I (3/4th area – self-occupied)		
Annual Value		Nil
Less: Deduction u/s 24(b) 3/4th of ₹ 1,51,000		1,13,250
Income from Unit I (self-occupied)		**(1,13,250)**
Unit II (1/4th area – let out)		
Computation of GAV		
Step 1 – Computation of Expected Rent (ER)		
ER = Higher of municipal value (MV) and fair rent (FR), but restricted to standard rent (SR).	1,17,500	
However, in this case, standard rent of ₹ 1,25,000 (1/4th of ₹ 5,00,000) is more than the higher of MV of ₹ 1,12,500 (1/4th of ₹ 4,50,000) and FR of ₹ 1,17,500 (1/4th of ₹ 4,70,000). Hence the higher of MV and FR is the ER. In this case, it is the fair rent.		
Step 2 – Computation of actual rent received/receivable		
₹ 12,000 × 9 = 1,08,000	1,08,000	
[The property was let-out for 11 months. However, rent for 2 months i.e., January and February, 2026 could not be realized. Actual rent should not include any amount of rent which is not capable of being realized. Therefore, actual rent has been computed for 9 months]		
Step 3 – Computation of GAV		
The actual rent of ₹ 1,08,000 is lower than expected rent of ₹ 1,17,500 owing to vacancy, since had the property not been vacant in March 2026, the actual rent would have been ₹ 1,20,000 (i.e. ₹ 1,08,000 + ₹ 12,000), which is higher than the ER of ₹ 1,17,500. Therefore, actual rent is the GAV.	1,08,000	
Gross Annual Value (GAV)		1,08,000
Less: Municipal taxes paid by the owner during the PY relating to let-out portion 1/4th of (10% of ₹ 4,50,000) =₹ 45,000/4 = ₹ 11,250		(11,250)
Net Annual Value (NAV)		96,750
Less: Deductions u/s 24		
(a) 30% of NAV = 30% of ₹ 96,750	29,025	
(b) Interest paid on borrowed capital (relating to let out portion) [1/4th of ₹ 1,51,000]	37,750	(66,775)
Income from Unit II (let-out)		**29,975**
Loss under the head "Income from house property" (-₹ 1,13,250 + ₹ 29,975)		**(83,275)**

Note – Alternatively, as per income-tax returns, unrealized rent can be deducted from GAV. In such a case, GAV would be ₹ 1,32,000, being higher of expected rent of ₹ 1,17,500 and actual rent of ₹ 1,32,000.

Thereafter, unrealized rent of ₹ 24,000 and municipal taxes of ₹ 11,250 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 96,750.

Qn. 18 Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the PY 2025-26 are as under:

Particulars	House I	House II	House III
Municipal Valuation p.a.	3,00,000	3,60,000	3,30,000
Fair Rent p.a.	3,75,000	2,75,000	3,80,000
Standard Rent p.a.	3,50,000	3,70,000	3,75,000
Date of completion/purchase	31.3.1999	31.3.2002	1.4.2016
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	55,000	-
Interest for current year on money borrowed in April 2018 for purchase of property			1,75,000

Compute Ganesh's income from house property for AY 2026-27 and suggest which house should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans. Step 1: Computation of Income from House Property assuming houses all are Self-occupied

Particulars	House I	House II	House III
NAV	-	-	-
Less: Deduction u/s 24			
a) 30% of NAV	-	-	-
b) Interest on borrowed capital [Note 1]	-	(30,000)	(1,75,000)
Income from House Property	**-**	**(30,000)**	**(1,75,000)**

Step 2: Computation of Income from House Property assuming houses all are deemed let out

Particulars	House I	House II	House III
GAV i.e. Higher of MV and FR, but restricted to SR	3,50,000	3,60,000	3,75,000
Less: Municipal Taxes paid	(36,000)	(28,800)	(19,800)
NAV	**3,14,000**	**3,31,200**	**3,55,200**
Less: Deduction u/s 24			
a) 30% of NAV	(94,200)	(99,360)	(1,06,560)
b) Interest on borrowed capital	-	(55,000)	(1,75,000)
Income from House Property	**2,19,800**	**1,76,840**	**73,640**

Ganesh can opt to treat any 2 of the above house properties as self-occupied

Particulars	If HP treated as deemed let out is		
	House I	**House II**	**House III**
IFHP of House I	2,19,800	-	-
IFHP of House II	(30,000)	1,76,840	(30,000)
IFHP of House III [Note 2]	(1,70,000)	(1,75,000)	73,640
Total Income from House Property	**19,800**	**1,840**	**43,640**

Since Income from House Property in Case 2 is lowest, Ganesh opt to treat House I and House III as self-occupied and House II as deemed-let out. His income from house property would be ₹ 1,840 for the AY 2025-26.

Notes:

1. Since the money borrowed for House II is for repairs, maximum interest which shall be allowed as deduction in case the property is treated as self-occupied is ₹ 30,000
2. As per Sec 24(b), the aggregate of interest on self-occupied properties allowable as deduction during the year shall not exceed ₹ 2,00,000. In Case 1, since the total interest allowable on House II and House III is ₹ 2,05,000 [₹ 30,000 + 1,75,000], the same shall be restricted to ₹ 2,00,000.

SECTION A – SM QUESTIONS

Depreciation – Sec 32

Qn. 1 A car purchased by Dr. Soman on 10.08.2022 for ₹ 5,25,000 for personal use is brought into professional use on 1.07.2025 by him, when its market value was ₹ 2,50,000.

Compute the actual cost of the car and the amount of depreciation for the AY 2026-27 assuming the rate of depreciation to be 15%.

Ans. As per sec 43(1), the expression "actual cost" would mean the actual cost of asset to the assessee.

The purchase price of ₹ 5,25,000 is, therefore, the actual cost of the car to Dr. Soman. Market value (i.e., ₹ 2,50,000) on the date when the asset is brought into professional use is not relevant.

Therefore, amount of depreciation on car as per sec 32 for the AY 2026-27 would be ₹ 78,750, being ₹ 5,25,000 x 15%.

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

Qn. 2 Mr. Prem has following assets as on 01.04.2025:

(i) A machinery costing ₹ 4 lakh, which was used for scientific research related to business and deduction u/s 35 was allowed and claimed.

(ii) A laptop received as a gift from his friend costing ₹ 60,000. It was purchased on 01.04.2024 by his friend.

(iii) A temporary wooden structure costing ₹ 70,000 erected in Dec. 25 which was used for business purposes.

Compute the depreciation allowed on these assets for FY 2025-26.

[Jan 25]

Ans. Computation of Depreciation to Mr. Prem for PY 2025-26

Particulars	Amount (₹)
Depreciation on machinery used for scientific research @ 15% on ₹ 3,60,000 [₹ 4,00,000, being actual cost – ₹ 4,00,000, being deduction allowed u/s 35]	Nil
Depreciation on laptop received as a gift @ 40% on ₹ 36,000 [₹ 60,000, being actual cost to previous owner – ₹ 24,000, being depreciation for PY 2024-25 allowable to assessee if it was the only asset]	14,400
Depreciation on temporary wooden structure @ 40% x 50% on ₹ 70,000 [Since it is put to use for less than 180 days]	14,000
	28,400

Qn. 3 Mr. X, a proprietor engaged in manufacturing business, furnishes the following particulars:

Particulars	₹
(1) Opening WDV of plant and machinery as on 1.4.2025	30,00,000
(2) New plant and machinery purchased and put to use on 08.06.2025	20,00,000
(3) New plant and machinery acquired and put to use on 15.12.2025	8,00,000
(4) Computer acquired and installed in the office premises on 2.1.2026	3,00,000

Compute the amount of depreciation and additional depreciation as per the Income-tax Act for the AY 2026-27 if Mr. X has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Assume that all the assets were purchased by way of a/c payee cheque.

Ans. Computation of depreciation and additional depreciation for AY 2026-27

Particulars	Plant & Machinery (15%)	Computer (40%)
Normal depreciation		
@ 15% on ₹ 50,00,000 [Working Notes 1 & 2]	7,50,000	-
@ 7.5% (50% of 15%, since put to use for less than 180 days) on ₹ 8,00,000	60,000	-
@ 20% (50% of 40%, since put to use for less than 180 days) on ₹ 3,00,000	-	60,000
Additional depreciation		
@ 20% on ₹ 20,00,000 (new plant and machinery put to use for more than 180 days)	4,00,000	-
@ 10% (50% of 20%, since put to use for less than 180 days) on ₹ 8,00,000	80,000	-
Total Depreciation	12,90,000	60,000

Working Note: Computation of written down value of Plant & Machinery as on 31.03.2026

Particulars	Plant & Machinery	Computer
Written down value as on 1.4.2025	30,00,000	-
Add: Plant & Machinery purchased on 08.6.2025	20,00,000	-
Add: Plant & Machinery acquired on 15.12.2025	8,00,000	-
Computer acquired and installed in the office premises	-	3,00,000
Written down value as on 31.03.2026	58,00,000	3,00,000

Notes:

1. As per the second proviso to sec 32(1)(ii), where an asset acquired during the PY is put to use for less than 180 days in that PY, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage

   Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2025 and computer acquired and installed on 02.01.2026, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to ₹ 80,000, being 10% (i.e., 50% of 20%) of ₹ 8 lakh.
2. As per third proviso to sec 32(1)(ii), the balance additional depreciation of ₹ 80,000 being 50% of ₹ 1,60,000 (20% of ₹ 8,00,000) would be allowed as deduction in the AY 2027-28
3. As per sec 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged, *inter alia*, in the business of manufacture or production of any article or thing, @ 20% of the actual cost of such machinery or plant. However, additional depreciation shall not be allowed in respect of, *inter alia*, any machinery or plant installed in office premises, residential accommodation or in any guest house.

   Accordingly, additional depreciation is not allowable on computer installed in the office premises.

Qn. 4 A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during FY 2025-26 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for AY 2026-27. Assume that all the assets were purchased by way of account payee cheque.

S.No	Description	Date of Acquisition	Date when put to use	Amount
1	Computers including computer software	27 Sept 2025	1 Oct 2025	35,000
2	Computer UPS	2 Oct 2025	8 Oct 2025	8,500

3	Computer Printer	1 Oct 2025	1 Oct 2025	12,500
4	Books (other than annual publications of ₹ 12,000)	1 Apr 2025	1 Apr 2025	13,000
5	Office furniture (Acquired from practicing CA)	1 Apr 2025	1 Apr 2025	3,00,000
6	Laptop	26 Sept 2025	8 Oct 2025	43,000

Ans. <u>Computation of depreciation allowable for AY 2026-27</u>

	Asset	Rate	Depreciation
Block 1	Furniture [Working Note]	10%	30,000
Block 2	Plant [Computer including computer software, computer UPS, laptop, computer printer & books)	40%	34,500
	Total Depreciation allowable		**64,500**

Working Note: <u>Computation of Depreciation</u>

Block of Asset	₹
Block 1: Furniture [Rate of depreciation – 10%]	
Put to use for more than 180 days [₹ 3,00,000@10%]	30,000
Block 2: Plant [Rate of depreciation - 40%]	
Computer including computer software (put to use for more than 180 days) [₹ 35,000 @ 40%]	14,000
Computer UPS (put to use for less than 180 days) [₹ 8,500@ 20%] [Note]	1,700
Computer Printer (put to use for more than 180 days) [₹ 12,500 @ 40%]	5,000
Laptop (put to use for less than 180 days) [₹ 43,000 @ 20%] [Note]	8,600
Books (being annual publications or other than annual publications) (Put to use for more than 180 days) [₹ 13,000 @ 40%]	5,200
	34,500

Note - Where an asset is acquired by the assessee during the PY and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the PY 2025-26 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

Qn. 5 Mr. Venus, engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2026:

	(₹ in lacs)
WDV of Plant and Machinery on 31.3.2025	30
Depreciation including additional depreciation for PY 2024-25	4.75
New machinery purchased on 1-9-2025	10
New machinery purchased on 1-12-2025	8
Computer purchased on 3-1-2026	4

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2025 and computer have been installed in the office.
- During the year ended 31-3-2025, a new machinery had been purchased on 31-10-2024, for ₹ 10 lacs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.
- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2025

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2026 if:

(i) he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

(ii) he pays tax under the default tax regime u/s 115BAC.

Ans. Computation of written down value of block of assets of Mr. Venus as on 31.3.2026

Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
Written down value (as on 31.3.2025)	30.00	-
Less: Depreciation including additional depreciation for PY 2024-25	(4.75)	-
Opening balance as on 01.04.2025	25.25	Nil
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2025	10	-
New machinery purchased on 1.12.2025	8	–
Computer purchased on 3.1.2026	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2026)	43.25	4.00

If Mr. Venus exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

In this case, since his income would be computed under the optional tax regime as per the normal provisions of the Act, he would be entitled for normal depreciation and additional depreciation, subject to fulfilment of conditions.

Computation of Depreciation for AY 2026-27

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I.	**Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation**		
	Normal Depreciation		
	- Opening WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2025 (₹ 10 lacs x 15%)	1.50	-
	(A)	5.29	-
	Additional Depreciation		
	- New Machinery purchased on 1.9.2025 (₹ 10 lakhs x 20%)	2.00	-
	- Balance additional depreciation in respect of new machinery purchased on 31.10.2024 and put to use for less than 180 days in the PY 2024-25 (₹ 10 lakhs x 20% x 50%)	1.00	
	(B)	3.00	
II.	**Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any**		
	Normal Depreciation		
	- New machinery purchased on 1.12.2025 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	- Computer purchased on 3.1.2026 [₹ 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	**8.89**	**0.80**

Notes:

(1) As per sec 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005, by an assessee engaged, *inter alia*, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, *inter alia*,–

(i) any office appliances or road transport vehicles;

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

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

(i) Machinery purchased on 1.12.2025, installed in office and

(ii) Computer purchased on 3.1.2026, installed in office.

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

Hence, in this case, the balance additional depreciation @ 10% (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the PY 2024-25 and put to use for less than 180 days in that year can be claimed in PY 2025-26 being immediately succeeding PY.

If Mr. Venus pays tax under default tax regime u/s 115BAC

In this case, under the default tax regime as per sec 115BAC, he would be entitled only for normal depreciation but not additional depreciation.

Computation of Depreciation for AY 2026-27

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I.	**Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation**		
	Normal Depreciation		
	- Opening WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2025 (₹ 10 lacs x 15%)	1.50	-
	(A)	5.29	-
II.	**Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation**		
	Normal Depreciation		
	- New machinery purchased on 1.12.2025 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	- Computer purchased on 3.1.2026 [₹ 4 lacs x 20% (50% of 40%)]	-	0.80
	(B)	0.60	0.80
	Total Depreciation (A+B)	**5.89**	**0.80**

Qn. 6 Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the AY 2026-27 assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A):

		(₹ in lacs)
(i)	WDV of block as on 31.03.2025 (15% rate)	50
(ii)	Depreciation for PY 2024-25	7.50
(ii)	New machinery purchased on 12-10-2025	10

(iii)	Machinery imported from Colombo on 12-4-2025 This machine had been used only in Colombo earlier and the assessee is the first user in India.	9
(iv)	New computer installed in generation wing unit on 15-7-2025	2

All assets were purchased by A/c payee cheque.

Ans.

Computation of depreciation u/s 32 for AY 2026-27

Particulars	₹	₹
Normal Depreciation		
Depreciation @ 15% on ₹ 51,50,000, being machinery put to use for more than 180 days [WDV as on 31.3.2025 of ₹ 50,00,000 – Depreciation for PY 2024-25 of ₹ 7,50,000 + Purchase cost of imported machinery of ₹ 9,00,000]	7,72,500	
Depreciation @ 7.5% on ₹ 10,00,000, being new machinery put to use for less than 180 days	75,000	
	8,47,500	
Depreciation @ 40% on computers purchased ₹ 2,00,000	80,000	9,27,500
Additional Depreciation (Refer Note below)		
Additional Depreciation @ 10% of ₹ 10,00,000 [being actual cost of new machinery purchased on 12-10-2025]	1,00,000	
Additional Depreciation @ 20% on new computer installed in generation wing of the unit [20% of ₹ 2,00,000]	40,000	1,40,000
Depreciation on Plant and Machinery		10,67,500

Note:-

Mr. Abhimanyu is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, *inter alia*, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing units eligible for additional depreciation @ 20%.

Since the new machinery was purchased only on 12.10.2025, it was put to use for less than 180 days during the PY, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the AY 2026-27. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, *inter alia*, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.

Qn. 7 Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2025. The manufacturing unit was set up on 1.5.2025. He commenced his manufacturing operations on 1.6.2025. The total cost of the plant and machinery installed in the unit is ₹ 120 crore. The said plant and machinery included second hand plant and machinery bought for ₹ 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹ 15 crore.

Compute the amount of depreciation allowable u/s 32 of the Income-tax Act, 1961 in respect of the AY 2026-27. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Ans.

Computation of depreciation allowable for the AY 2026-27 in the hands of Mr. Gamma

Particulars		₹ in crore	
Total cost of plant and machinery		120.00	
Less: Used for Scientific Research (Note 1)		(15.00)	
		105.00	
Normal Depreciation at 15% on ₹ 105 crore			15.75
Additional Depreciation:			
Cost of plant and machinery		120.00	
Less: Second hand plant and machinery (Note 2)	20.00		
Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction u/s 35(1)(iv) r.w.d 35(2)(ia) (Note 2)	15.00	(35.00)	
		85.00	
Additional Depreciation at 20%			17.00
Depreciation allowable for AY 2026-27			**32.75**

Notes:

1. As per sec 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since deduction is allowable u/s 35 in respect of such capital expenditure.
2. As per sec 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in, *inter alia*, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

   However, additional depreciation shall not be allowed in respect of, *inter alia*,

   (i) any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;

   (ii) any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profit and gains of business or profession" of any one PY.

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

   (i) Second hand plant and machinery;

   (ii) New plant and machinery purchased for scientific research relating to assessee's business in respect of which the whole of the capital expenditure can be claimed as deduction u/s 35(1)(iv) r.w.s 35(2)(ia) & (iv).

Scientific Research Expenses – Sec 35

Qn. 8 Mr. A, furnishes the following particulars for the PY 2025-26. Compute the deduction allowable u/s 35 for AY 2026-27, while computing its income under the head "Profits and gains of business or profession", if:

(i) he is paying tax under default tax regime u/s 115BAC

(ii) he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

	Particulars	₹
1.	Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3.	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	4,00,000
4.	Expenditure incurred on in-house research and development facility as approved by the prescribed authority	

Revenue expenditure on scientific research	3,00,000
Capital expenditure (including cost of acquisition of land ₹ 5,00,000) on scientific research	7,50,000

Ans. If Mr. A is paying tax under default tax regime under section 115BAC

Computation of deduction u/s 35 for the AY 2026-27

Particulars	₹	Sec	% of deduction	Amount of deduction
Payment for scientific research				
Indian Institute of Science	1,00,000	35(1)(ii)	0%	-
IIT, Delhi	2,50,000	35(2AA)	0%	-
X Ltd.	4,00,000	35(1)(iia)	0%	-
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)	2,50,000	35(1)(iv) r.w.s 35(2)(ia)	100%	2,50,000
Deduction allowable u/s 35				**5,50,000**

If Mr. A has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Computation of deduction u/s 35 for the AY 2026-27

Particulars	₹	Sec	% of deduction	Amount of deduction
Payment for scientific research				
Indian Institute of Science	1,00,000	35(1)(ii)	100%	1,00,000
IIT, Delhi	2,50,000	35(2AA)	100%	2,50,000
X Ltd.	4,00,000	35(1)(iia)	100%	4,00,000
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)	2,50,000	35(1)(iv) r.w.s 35(2)(ia)	100%	2,50,000
Deduction allowable u/s 35				**13,00,000**

Note: Only company assessees are entitled to deduction @ 100% u/s 35(2AB) in respect of in-house research and development expenditure incurred. However, in this case, the assessee is an individual. Therefore, he would be entitled to deduction @ 100% of the revenue expenditure incurred u/s 35(1)(i) and 100% of the capital expenditure incurred under section 35(1)(iv) r.w.s 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.

Qn. 9 Mr. Piyush runs a sole proprietorship firm and owns four machines which was put in use for business in March, 2025. The depreciation on these machines is charged @ 15%. The written down value of these machines as on 1st April, 2025 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2025 for ₹ 10,00,000. A second-hand plant was bought for ₹ 6,10,000 on 30th December, 2025.

Further, Mr. Piyush has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2026:

Sl. No.	Particulars	₹ (in lakhs)
(i)	Payment made to UV University, an approved University	15
(ii)	Payment made to Satywati College	17

Compute the following for AY 2026-27
(i) Claim of depreciation
(ii) Deduction available u/s 35 if he has shifted out of the default tax regime

Ans. (i) Computation of depreciation for AY 2026-27

Particulars	₹
W.D.V. of the block as on 1.4.2025	7,70,000
Add: Purchase of second hand plant during the year [in December, 2025]	6,10,000
	13,80,000
Less: Sale consideration of old machinery during the year [in July, 2025]	(10,00,000)
W.D.V of the block as on 31.03.2026	3,80,000
Depreciation @ 15% but restricted to 50% thereon.	28,500
[Since the value of the block as on 31.3.2026 represents part of actual cost of second hand plant purchased in December, 2025, which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 28,500 being 7½% of ₹ 3,80,000]	

(ii) Computation of deduction allowable u/s 35

Particulars	Amount (₹ in lakhs)	Section	% of weighted deduction	Amount of deduction (₹ in lakhs)
Payment for scientific research				
UV University, an approved University	15	35(1)(ii)	100%	15
Satyawati College [Since it is not mentioned as an approved University]	17	-	NIL	NIL
Deduction allowable u/s 35				**15**

Specified Business – Sec 35AD

Qn. 10 Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2025. He incurred capital expenditure of ₹ 50 lakh during the period January, 2025 to March, 2025 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2025. Further, during the PY 2025-26, he incurred capital expenditure of ₹ 2 crore (out of which ₹ 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head "Profits and gains of business or profession" for the AY 2026-27, assuming that he has fulfilled all the conditions specified for claim of deduction u/s 35AD and opted for claiming deduction u/s 35AD and has not claimed any deduction under Chapter VI-A under the heading "C. – Deductions in respect of certain incomes". He has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

The profits from the business of running this hotel (before claiming deduction u/s 35AD) for the AY 2026-27 is ₹ 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the AY 2026-27. Also, assume that payments for capital expenditure were made by net banking.

Ans. Computation of profits and gains of business or profession for AY 2026-27

Particulars	₹ (in lakhs)	
Profits from the specified business of new hotel in Madurai (before providing deduction u/s 35AD)		25
Less: Deduction u/s 35AD		

Capital expenditure incurred during the PY 2025-26 (excluding the expenditure incurred on acquisition of land) = ₹ 200 lakh – ₹ 150 lakh	50	
Capital expenditure incurred prior to 1.4.2025 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2025	50	
Total deduction u/s 35AD for AY 2026-27		(100)
Loss from the specified business of new hotel in Madurai		**(75)**
Profit from the existing business of running a hotel in Coimbatore		120
Net profit from business after set-off of loss of specified business against profits of another specified business u/s 73A		**45**

Qn. 11 Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2025. He incurred capital expenditure of ₹ 80 lakh, ₹ 60 lakh and ₹ 50 lakh, respectively, on purchase of land and building during the period January, 2025 to March, 2025 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2025. The cost of land included in the above figures are ₹ 50 lakh, ₹ 40 lakh and ₹ 30 lakh, respectively. Further, during the PY 2025-26, he incurred capital expenditure of ₹ 20 lakh, ₹ 15 lakh & ₹ 10 lakh, respectively, for extension/reconstruction of the building purchased and used exclusively for the above businesses.

Compute the income under the head "Profits and gains of business or profession" for the AY 2026-27 and the loss to be carried forward, assuming that Mr. A is exercising the option of shifting out of the default tax regime provided u/s 115BAC(1A) and has fulfilled all the conditions specified u/s 35AD and wants to claim deduction u/s 35AD and has not claimed any deduction under Chapter VI-A under the heading "C – Deductions in respect of certain incomes".

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction u/s 35AD and sec 32) for the AY 2026-27 is ₹ 16 lakhs, ₹ 14 lakhs and ₹ 31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

Ans. Computation of profits and gains of business or profession for AY 2026-27

Particulars	₹ (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation u/s 32)	31
Less: Depreciation u/s 32	
10% of ₹ 30 lakh, being (₹ 50 lakh – ₹ 30 lakh + ₹ 10 lakh)	(3)
Income chargeable under "Profits and gains from business or profession"	**28**

Computation of income/loss from specified business u/s 35AD

	Particulars	Food Grains	Sugar	Total
		₹ (in lakhs)		
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 35AD)	16	14	30
	Less: Deduction u/s 35AD			
(B)	Capital expenditure incurred prior to 1.4.2025 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2025 (excluding the expenditure incurred on acquisition of land) = ₹ 30 lakh (₹ 80 lakh – ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh – ₹ 40 lakh)	30	20	50
(C)	Capital expenditure incurred during the PY 2025-26	20	15	35
(D)	**Total capital expenditure (B + C)**	**50**	**35**	**85**
(E)	**Deduction u/s 35AD**			

	100% of capital expenditure (food grains/sugar)	50	35	85
	Total deduction u/s 35AD for AY 2026-27	**50**	**35**	**85**
(F)	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction u/s 35AD) to be carried forward as per sec 73A (A-E)	(34)	(21)	(55)

Notes:

1. Deduction of 100% of the capital expenditure is available u/s 35AD for AY 2026-27 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012 or on or after 01.04.2009, respectively.
2. However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction u/s 35AD in respect of capital expenditure incurred in respect of such business.
3. Mr. A can, however, claim depreciation @ 10% u/s 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the PY 2025-26.
4. Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

Qn. 12 Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil.

Unit A commenced operations on 1.4.2024 and it claimed deduction of ₹ 100 lacs incurred on purchase of two buildings for ₹ 50 lacs each (for operating a warehousing facility for storage of sugar) u/s 35AD for AY 2025-26. However, in February, 2026, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of Mr. Arnav.

Ans. Since the capital asset, in respect of which deduction of ₹ 50 lacs was claimed u/s 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the PY 2025-26, the deeming provision u/s 35AD(7B) is attracted during the AY 2026-27.

Particulars	₹
Deduction allowed u/s 35AD for AY 2025-26	50,00,000
Less: Depreciation allowable u/s 32 for AY 2025-26 [10% of ₹ 50 lacs]	(5,00,000)
Deemed income u/s 35AD(7B)	**45,00,000**

Mr. Arnav, however, by virtue of proviso to *Explanation 13* to sec 43(1), can claim depreciation u/s 32 on the building in Unit B for AY 2026-27. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	₹
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for AY 2025-26 [10% of ₹ 50 lacs]	(5,00,000)
Actual cost in the hands of Mr. Arnav in respect of building in Unit B	**45,00,000**

Deductions u/s 36

Qn. 13 X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in sec 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees. Compute the amount of deduction allowable u/s 36(1)(iva), if the basic salary of the employees aggregate to ₹ 10 lakh. Would disallowance u/s 40A(9) be attracted, and if so, to what extent?

Ans. Computation of deduction u/s 36(1)(iva) and disallowance u/s 40A(9)

Particulars	₹
Basic Salary	10,00,000
Dearness Allowance @ 40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of sec 36(1)(iva) (Basic Salary + DA)	**14,00,000**
Actual contribution (20% of basic salary i.e., 20% of ₹ 10 lakh)	2,00,000
Less: Permissible deduction u/s 36(1)(iva) (14% of basic salary plus dearness pay = 14% of ₹ 14,00,000)	**(1,96,000)**
Excess contribution disallowed u/s 40A(9)	4,000

TDS Defaults – Sec 40(a)

Qn. 14 Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2026 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the FY 2025-26, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

	Particulars	Amount (₹)
(1)	Salary to its employees (credited and paid in March, 2026)	14,00,000
(2)	Directors' remuneration (credited in March, 2026 and paid in April, 2026)	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2026 at the time of payment and remitted the same in July, 2026?

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

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible u/s 194J, would attract disallowance @ 30% u/s 40(a)(ia). Whereas in case of salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the PY 2025-26, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed u/s 40(a)(ia) while computing business income for AY 2026-27 is as follows:

Particulars	Amount paid in ₹	Disallowance u/s 40(a)(ia) @ 30%
(1) Salary [tax is deductible u/s 192]	14,00,000	4,20,000
(2) Directors' remuneration [tax is deductible u/s 194J without any threshold limit]	28,000	8,400
Disallowance u/s 40(a)(ia)		**4,28,400**

If the tax is deducted on directors' remuneration in the next year i.e., PY 2026-27 at the time of payment and remitted to the Government, the amount of ₹ 8,400 would be allowed as deduction while computing the business income of AY 2027-28.

Qn. 15 During the FY 2025-26, the following payments/expenditure were made/incurred by Mr. Yuvan Raja, a resident individual (whose turnover during the year ended 31.3.2025 was ₹ 99 lacs):

(i) Interest of ₹ 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;

(ii) ₹ 15,00,000 was paid as salary to a resident individual without deduction of tax at source;

(iii) Commission of ₹ 26,000 was paid to Mr. Vidyasagar on 2.7.2025 without deduction of tax at source.

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

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

(i) The obligation to deduct tax at source from interest paid to a resident arises u/s 194A in the case of an individual, whose total turnover in the immediately preceding PY, i.e., PY 2024-25 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source. Hence, disallowance u/s 40(a)(ia) is not attracted in this case.

(ii) The disallowance of 30% of the sums payable u/s 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Sec 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source u/s 192 arises, in the hands all assessee employer even if the turnover amount does not exceed ₹ 1 crore in the immediately preceding PY.

Therefore, in the present case, the disallowance u/s 40(a)(ia) is attracted for failure to deduct tax at source u/s 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

(iii) The obligation to deduct tax at source u/s 194H from commission paid in excess of ₹ 20,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding PY, i.e., PY 2024-25 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed ₹ 50 lakh during the PY 2025-26. Therefore, disallowance u/s 40(a)(ia) is not attracted in this case.

<u>Deduction allowed on payment basis – Sec 43B</u>

Qn. 16 Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

(i)	Andhra Pradesh State Financial Corporation (PYs 2024-25 & 2025-26)	15,00,000
(ii)	Indian Bank (PY 2025-26)	<u>30,00,000</u>
		<u>45,00,000</u>

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2025-26, converted the above interest payable by Hari to them as a loan repayable in 60 equal instalments. During the year ended 31.3.2026, Hari paid 5 instalments to APSFC and 3 instalments to Indian Bank.

Hari claimed the entire interest of ₹ 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Examine whether his claim is valid and if not what is the amount of interest, if any, allowable.

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

In the given case of Hari, the unpaid interest of ₹ 15,00,000 due to APSFC and of ₹ 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of ₹ 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the FY. Accordingly, the amount of interest eligible for deduction for the AY 2026-27 shall be calculated as follows:

	Interest Outstanding	Number of Instalments	Amount per instalment	Instalments paid	Interest allowable
APSFC	15 lakhs	60	25,000	5	1,25,000
Indian Bank	30 lakhs	60	50,000	3	1,50,000
Total amount eligible for deduction					**2,75,000**

Special Provisions for Firm & LLP – Sec 40(b)

Qn. 17 A firm has paid ₹ 8,50,000 as remuneration to its partners for the PY 2025-26, in accordance with its partnership deed, and it has a book profit of ₹ 10 lakh. What is the remuneration allowable as deduction?

Ans. The allowable remuneration calculated as per the limits specified in sec 40(b)(v) would be –

Particulars	₹
On first ₹ 6 lakh of book profit [₹ 6,00,000 × 90%]	5,40,000
On balance ₹ 4 lakh of book profit [₹ 4,00,000 × 60%]	2,40,000
	7,80,000

The excess amount of ₹ 70,000 (i.e., ₹ 8,50,000 – ₹ 7,80,000) would be disallowed as per sec 40(b)(v).

Qn. 18 Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 17,00,000 before deduction of the following items:

(1) Salary of ₹ 40,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
(2) Depreciation on plant and machinery u/s 32 (computed) ₹ 1,50,000.
(3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is ₹ 5,00,000.
(4) Carry forward loss of PY 2024-25 - ₹ 50,000

Compute:
(i) Book-profit of the firm u/s 40(b) of the Income-tax Act, 1961.
(ii) Allowable working partner salary for the AY 2026-27 as per sec 40(b).

[Jan 21]

Ans. (i) As per Explanation 3 to sec 40(b), "book profit" shall mean the net profit as per the profit and loss account for the relevant PY computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm u/s 40(b)

Particulars	₹	₹
Net Profit (before deduction of depreciation, salary and interest)		17,00,000
Less: Depreciation u/s 32	1,50,000	

Interest @ 12% p.a. [being the maximum allowable as per sec 40(b)] (₹ 5,00,000 × 12%)	60,000	(2,10,000)
Book Profit		**14,90,000**

"Book profit" means the net profit as per the profit and loss account for the relevant PY computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit. Hence, brought forward loss of ₹ 50,000 of PY 2024-25 is not allowed to be set off for computation of "book profit".

(ii) Salary actually paid to working partners = ₹ 40,000 × 2 × 12 = ₹ 9,60,000.

As per the provisions of sec 40(b)(v), the salary paid to the working partners is allowed subject to the following limits –

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

Therefore, the allowable working partners' salary for AY 2025-26 in this case would be:

Particulars	₹
On the first ₹ 6,00,000 of book profit [(₹ 3,00,000 or 90% of ₹ 6,00,000) whichever is more]	5,40,000
On the balance of book profit [60% of (₹ 14,90,000 - ₹ 6,00,000)]	5,34,000
Maximum allowable partners' salary	10,74,000

Hence, allowable working partners' salary for the AY 2026-27 as per the provisions of sec 40(b)(v) is ₹ 9,60,000.

Qn. 19 AB Light LLP consists of 2 working partners, Mr. Anand and Mr. Bheem with 60% and 40% share, respectively. As per the partnership deed, they are eligible for interest on capital @ 15% p.a. on their capital contribution of ₹ 15 lakhs each and remuneration of ₹ 50,000 p.m. to Anand and ₹ 40,000 p.m. to Bheem. The firm is engaged in manufacturing business. During the year ended 31.3.2026, the net profit as per profit and loss account was ₹ 25,86,000 before considering interest on capital and remuneration to partners as well as the following items:

	₹
(i) Current year revenue expenditure on scientific research	2,40,000
(ii) Unabsorbed capital expenditure on scientific research relating to PY 2022-23	85,000
(iii) Brought forward business loss of AY 2017-18	40,000
(iv) Unabsorbed depreciation of AY 2017-18	52,000
(v) Current year depreciation u/s 32	4,70,000
(vi) Brought forward business loss of AY 2021-22	49,000
(vii) Current year capital expenditure on scientific research	3,45,000

You are required to compute the total income of AB Light LLP for AY 2026-27 after considering the above items. Also, determine the amount of remuneration taxable in the hands of Mr. Anand and Mr. Bheem.

Ans. <u>Computation of total income of AB Light LLP for the AY 2026-27</u>

Particulars	Amount (₹)	
Net profit as per profit and loss account before interest on capital and remuneration to partners and other items		25,86,000
Less: Expenditure allowable from business income		
- Interest @ 12% p.a. [being the maximum allowable as per sec 40(b) (₹ 15,00,000 × 12% × 2)	3,60,000	
- Current year revenue expenditure on scientific research u/s 35(1)(i)	2,40,000	(6,00,000)
		19,86,000
- Current year depreciation u/s 32(1)	4,70,000	

	- Current year capital expenditure on scientific research u/s 35(1)(iv)	3,45,000	
	- Unabsorbed depreciation of AY 2017-18 u/s 32(2)	52,000	
	- Unabsorbed capital expenditure on scientific research relating to PY 2022-23 u/s 35(4)	85,000	9,52,000
	Book Profit		**10,34,000**
	Less: Partners' remuneration allowable u/s 40(b)		
	(i) As per limit prescribed in sec 40(b)		
	On first ₹ 6,00,000 @ 90%	5,40,000	
	On the balance ₹ 4,34,000 @ 60%	2,60,400	
		8,00,400	
	(ii) Remuneration actually paid or payable [₹ 50,000 x 12 + ₹ 40,000 x 12]	10,80,000	
	(i) or (ii) whichever is less, is deductible		(8,00,400)
	Profit from manufacturing business		2,33,600
	Less: Brought forward business loss of AY 2017-18 [Not allowed to set off since 8 years have been already expired]	-	
	Less: Brought forward business loss of AY 2021-22	49,000	(49,000)
	Profits and gains of business or profession		**1,84,600**

Remuneration taxable in the hands of Mr. Anand as business income = ₹ 8,00,400 x 6,00,000/10,80,000 = ₹ 4,44,667

Remuneration taxable in the hands of Mr. Bheem as business income = ₹ 8,00,400 x 4,80,000/10,80,000 = ₹ 3,55,733

Maintenance of Accounts and Audit – Secs 44AA and 44AB

Qn. 20 Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

FY 2022-23	1,15,000
FY 2023-24	1,80,000
FY 2024-25	2,10,000

What is his obligation regarding maintenance of books of account for AY 2026-27 u/s 44AA of Income-tax Act, 1961?

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

As per Rule 6F, a person carrying on a notified profession shall be required to maintain specified books of account, only if:

(i) his gross receipts in all the three years immediately preceding the relevant PY has exceeded ₹ 1,50,000; or

(ii) it is a new profession which is setup in the relevant PY, it is likely to exceed ₹ 1,50,000 in that PY.

In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded ₹ 1,50,000 in FY 2022-23, the requirement u/s 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

Mr. Vinod, however, required to maintain such books of account as would enable the Assessing Officer to compute his total income.

Presumptive Taxation

Qn. 21 Let us consider the following particulars relating to a resident individual, Mr. A, being an eligible assessee carrying on retail trade business whose total turnover do not exceed ₹ 2 crore in any of the PY relevant to AY 2026-27 to AY 2028-29

Particulars	AY 2026-27	AY 2027-28	AY 2028-29
Total turnover (₹)	1,80,00,000	1,90,00,000	2,00,00,000
Amount received through prescribed electronic modes on or before 31st October of the AY	1,60,00,000	1,45,00,000	1,80,00,000
Income offered for taxation (₹)	11,20,000	12,30,000	10,00,000
% of gross receipts	6% on ₹ 1.60 cr and 8% on ₹ 20 lakhs	6% on ₹ 1.45 cr and 8% on ₹ 45 lakhs	5% on ₹ 2 cr
Offered income as per presumptive taxation scheme u/s 44AD	Yes	Yes	No

Ans. In the above case, Mr. A, an eligible assessee, opts for presumptive taxation u/s 44AD for AY 2026-27 and AY 2027-28 and offers income of ₹ 11.20 lakh and ₹ 12.30 lakh on gross receipts of ₹ 1.80 crore and ₹ 1.90 crore, respectively.

However, for AY 2028-29, he offers income of only ₹ 10 lakh on turnover of ₹ 2 crore, which amounts to 5% of his gross receipts. He maintains books of account u/s 44AA and gets the same audited u/s 44AB. Since he has not offered income in accordance with the provisions of sec 44AD(1) for 5 consecutive AYs, after AY 2026-27, he will not be eligible to claim the benefit of sec 44AD for next 5 AYs succeeding AY 2028-29 i.e., from AY 2029-30 to 2033-34.

Qn. 22 Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the FY 2025-26. Amount received in cash during the PY 2025-26 is ₹ 14,00,000 and balance through prescribed electronic modes on or before 31st July 2026. His income from the said business as per books of account is ₹ 15,00,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. AY 2025-26 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

(i) Is Mr. Praveen eligible to opt for presumptive taxation scheme in respect of his income from retail trade for the AY 2026-27?

(ii) If so, determine his income from retail trade as per the applicable presumptive provision assuming that whole of the turnover represents cash receipts.

(iii) In case Mr. Praveen does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?

(iv) What is the due date for filing his return of income under both the options?

Ans.
(i) Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover (14,00,000/2,98,50,000 x 100) and his total turnover for the FY 2025-26 is below ₹ 300 lakhs, he is eligible for presumptive taxation scheme u/s 44AD in respect of his retail trade business.

(ii) His income from retail trade, applying the presumptive tax provisions u/s 44AD, would be ₹ 18,19,000 (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).

(iii) Mr. Praveen had declared profit for the PY 2023-24 in accordance with the presumptive provisions and if he does not opt for presumptive provisions for any of the 5 consecutive AYs i.e., AY 2026-27 to AY 2030-31, he would not be eligible to claim the benefit of presumptive taxation for 5 AYs subsequent to the AY relevant to the PY in which the profit has not been declared in accordance the presumptive provisions i.e., if he does not opt for presumptive taxation in say PY 2025-26 relevant to AY 2026-27, then he would not be eligible to claim the benefit of presumptive taxation for AY 2027-28 to AY 2031-32.

Consequently, Mr. Praveen is required to maintain the books of account and get them audited u/s 44AB, since his income exceeds the basic exemption limit.

(iv) In case he opts for the presumptive taxation scheme u/s 44AD, the due date would be 31st July, 2026.

In case he does not opt for presumptive taxation scheme, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2026.

Qn. 23 Mr. X commenced the business of operating goods vehicles on 1.4.2025. He purchased the following vehicles during the PY 2025-26. Compute his income u/s 44AE for AY 2026-27.

	Gross Vehicle Weight (in Kg)	Number	Date of purchase
(1)	7,000	2	10.04.2025
(2)	6,500	1	15.03.2026
(3)	10,000	3	16.07.2025
(4)	11,000	1	02.01.2026
(5)	15,000	2	29.08.2025
(6)	15,000	1	23.02.2026

Would your answer change if the two goods vehicles purchased in April, 2025 were put to use only in July, 2025?

Ans. Since Mr. X does not own more than 10 vehicles at any time during the PY 2025-26, he is eligible to opt for presumptive taxation scheme u/s 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

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

(1) No. of Vehicles	(2) Date of purchase	(3) No. of months for which vehicle is owned	(4) No. of months × No. of vehicles [(1) × (3)]
		Heavy goods vehicle	
2	29.08.2025	8	16
1	23.02.2026	2	2
			18
		Goods vehicle other than heavy goods vehicle	
2	10.4.2025	12	24
1	15.3.2026	1	1
3	16.7.2025	9	27
1	2.1.2026	3	3
			55

The presumptive income of Mr. X u/s 44AE for AY 2026-27 would be ₹ 6,82,500, i.e., (55 × ₹ 7,500, being for other than heavy goods vehicle) + (18 x ₹ 1,000 x 15 ton being for heavy goods vehicle).

The answer would remain the same even if the two vehicles purchased in April, 2025 were put to use only in July, 2025, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Qn. 24 Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2025, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2nd May, 2025, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2025. This new vehicle could however be put to use only on 15th June, 2025.

Compute the total income of Mr. Sukhvinder for the AY 2026-27, taking note of the following data:

Particulars	₹	₹
Freight charges collected		12,70,000
Less: Operational expenses	6,25,000	
Depreciation as per section 32	1,85,000	
Other office expenses	15,000	(8,25,000)

Net Profit		**4,45,000**
Other business and non- business income		70,000

Ans. Sec 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the PY.

Sec 44AE provides for computation of business income of such assessees on a presumptive basis. The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the PY or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of sec 44AE is ₹ 13,72,500 (Notes 1 & 2) and his total income would be ₹ 14,42,500.

However, as per sec 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per sec 44AA and gets the same audited and furnishes a report of such audit as required u/s 44AB. If he does so, then his income for tax purposes from goods carriages would be ₹ 4,45,000 instead of ₹ 13,72,500 and his total income would be ₹ 5,15,000.

Notes:

1. Computation of total income of Mr. Sukhvinder for AY 2026-27

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

2. Calculation of presumptive income as per sec 44AE

Type of carriage	**No. of months**	**Rate per ton per month**	**Ton**	**Amount ₹**
(1)	**(2)**	**(3)**	**(4)**	
Heavy goods vehicle				
1 goods carriage upto 1st May	2	1,000	15 (15,000/1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/1,000)	9,00,000
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 6th May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000
Total				**13,72,500**

Comprehensive Questions

Qn. 25 Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the AY 2026-27 if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

(i) Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.

(ii) Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to ₹ 4,50,000.

(iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted. The sales for the PY 2024-25 was ₹ 202 lakhs. Mr. X has not paid the tax, if any, on such interest.

(iv) Commodities transaction tax paid ₹ 20,000 on sale of bullion.

Ans. Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

(i) Construction of school building in compliance with CSR activities

U/s 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sec 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in sec 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction u/s 37.

Accordingly, the amount of ₹ 5,60,000 incurred by Mr. Manav, towards construction of school building in compliance with CSR activities shall not be allowed as deduction u/s 37.

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

Mr. Manav, would be eligible for investment-linked tax deduction u/s 35AD @ 100% in respect of amount of ₹ 4,50,000 invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (PY 2025-26, in this case).

Therefore, the deduction u/s 35AD while computing business income of such specified business would be ₹ 4,50,000, if Mr. Manav opts for sec 35AD.

(iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted

As per sec 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the PY 2024-25 exceeds ₹ 1 crore.

Therefore, ₹ 15,000, being 30% of ₹ 50,000, would be disallowed u/s 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source u/s 194A on interest of ₹ 50,000 paid by it to Mr. X.

The balance ₹ 35,000 would be allowed as deduction u/s 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

(iv) Commodities transaction tax of ₹ 20,000 paid on sale of bullion

Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the PY is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".

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

Qn. 26 Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the AY 2026-27:

(i) Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filing return.

(ii) Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.

(iii) Tax on non-monetary perquisite provided to an employee ₹ 20,000.

(iv) Payment of ₹ 50,000 by using credit card for fire insurance.

(v) Salary payment of ₹ 10,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.

(vi) Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods

Ans. (i) **Not allowable as deduction:** As per sec 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:

(1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund or;

(2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the PY.

Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed u/s 40A(7), since, no payment has been actually made on account of gratuity.

Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

(ii) **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance u/s 40A(3) is attracted even though the cash payment for the expense exceeds ₹ 10,000.

Therefore, in the given case, disallowance u/s 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

(iii) **Not allowable as deduction:** Income-tax of ₹ 20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee u/s 10(10CC).

As per sec 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

(iv) **Allowable as deduction:** Payment for fire insurance is allowable as deduction u/s 36(1). Since payment is made by credit card, which is a prescribed electronic mode, disallowance u/s 40A(3) is not attracted in this case.

(v) **Not allowable as deduction:** Disallowance u/s 40(a)(iii) is attracted in respect of salary payment of ₹ 2,00,000 outside India by a company without deduction of tax at source.

(vi) **Allowable as deduction:** The limit for attracting disallowance u/s 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is ₹ 35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance u/s 40A(3) is not attracted for payment of ₹ 30,000 made in cash to a transporter for carriage of goods.

Qn. 27 Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

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

(ii) Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a cheque crossed, ₹ 25,000 can be the profits and gains of business u/s 40A(3A) in the year of payment.

(iii) It is mandatory to provide for depreciation u/s 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession".

(iv) The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by a draft, on 27.12.2025 is a deductible expenditure u/s 36.

(v) U/s 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.

(vi) An individual engaged in trading activities and exercising the option of shifting out of the default tax regime provided u/s 115BAC(1A) can claim additional depreciation u/s 32(1)(iia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.

(vii) It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.

(viii) Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, *inter alia*, from the amounts payable to a non-resident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income.

Ans. (i) **True:** Sec 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the PY as deduction from the business income of a dealer in shares and securities.

(ii) **True:** As per sec 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any PY on due basis, and payment exceeding ₹ 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.

(iii) **True:** According to the Explanation 5 to sec 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/ profession whether or not the assessee has claimed the same while computing his total income.

(iv) **True:** Sec 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction u/s 36(1)(ib).

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

(vi) **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.
In this case, the assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the assessee will not be entitled to claim additional depreciation u/s 32(1)(iia).

(vii) **True:** It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same as bad debt u/s 36(1)(vii). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDSs notified under sec 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.

(viii) **True:** Sec 40(a)(i) provides that failure to deduct tax at source from, *inter alia*, rent or royalty payable to a non-resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.

Qn. 28 Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2026:

Trading and Profit and Loss Account for the year ended 31.03.2026

Particulars	₹	Particulars	₹
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		
	1,13,97,600		1,13,97,600

To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares (Short term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

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

Opening stock	₹ 9,000
Closing stock	₹ 18,000

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

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

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

The opening balance of plant and machinery (i.e., the written down value as on 31.3.2025 minus depreciation for PY 2024-25) is ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2025 for ₹ 70,000. Two old plants were sold on 1.10.2025 for ₹ 50,000.

(v) Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2026.

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

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

Ans.

Computation of business income of Mr. Sivam for the AY 2026-27

Particulars	₹	₹
Net Profit as per profit and loss account		50,000
Add: Inadmissible expenses/ losses		
Under valuation of closing stock	18,000	
Salary paid to brother – unreasonable [Sec 40A(2)]	2,000	
Printing and stationery -whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds ₹ 10,000 [Sec 40A(3)]	23,200	
Depreciation (considered separately)	1,05,000	
Short term capital loss on shares	8,100	
Donation to public charitable trust	2,000	1,58,300
		2,08,300
Less: Items to be deducted:		
Under valuation of opening stock	9,000	
Income from UTI [Chargeable under the head "Income from Other Sources]	2,400	(11,400)
Business income before depreciation		1,96,900
Less: Depreciation (Note 1)		(66,000)
		1,30,900

Computation of business income as per sec 44AD:

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

Notes:

1. Calculation of depreciation

Particulars	₹
Opening balance of plant & machinery as on 1.4.2025 (i.e. WDV as on 31.3.2025 (-) depreciation for PY 2024-25)	4,20,000
Add: Cost of new plant & machinery	70,000
	4,90,000
Less: Sale proceeds of assets sold	(50,000)
WDV of the block of plant & machinery as on 31.3.2026	4,40,000
Depreciation @ 15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income u/s 139(1), the same is deductible.

Qn. 29 Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2026:

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2026

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

Following are the further information relating to the FY 2024-25:

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

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

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

(iv) Bank term loan interest actually paid upto 31.03.2026 was ₹ 20,000 and the balance was paid in November 2026.

(v) Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in PY 2024-25 for self-occupation. Interest on housing loan was ₹ 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.

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

Plant & Machinery (Depreciation rate @ 15%)	₹
WDV (as on 31.03.2025) minus Depreciation for PY 2024-25	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the AY 2026-27 assuming he pays tax under default tax regime.

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

Ans. Computation of total income of Mr. Raju for the AY 2026-27

Particulars	₹	₹
Profits and gains of business or profession		
Net profit as per profit and loss account		5,00,000
Add: Excess commission paid to brother disallowed u/s 40A(2)	10,000	
Disallowance u/s 40A(3) is not attracted since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators. Therefore, amount of ₹ 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
Bank term loan interest paid after the due date of filing of return u/s 139(1) – disallowed as per sec 43B	40,000	
State GST penalty paid disallowed [Note 2]	5,000	
Depreciation debited to profit and loss account	2,00,000	2,55,000
		7,55,000
Less: Dividend from domestic companies [Chargeable to tax under the head "Income from Other Sources"]	15,000	
Income from agriculture [Exempt u/s 10(1)]	1,80,000	
Salary paid to staff not recorded in the books (Assuming it was erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same would be allowable as deduction while computing profits and gains of business and profession [Note 1]	48,000	
Depreciation under the Income-tax Act, 1961 (Working note)	2,23,500	(4,66,500)
		2,88,500
Income from house property		
Annual value of self-occupied property	Nil	
Less: Deduction u/s 24(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]	Nil	Nil
Income from Other Sources		
Dividend from domestic companies		15,000
Gross Total Income		**3,03,500**
Less: Deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime]		Nil
Total Income		**3,03,500**

Working Note:

Computation of depreciation under the Income-tax Act, 1961

Particulars	₹
Depreciation @ 15% on ₹ 13.9 lakh (WDV as on 31.3.2025 of ₹ 14 lakh less Depreciation for PY 2024-25 of ₹ 2.10 lakh plus assets purchased during the year and used for more than 180 days ₹ 2 lakh)	2,08,500
Depreciation @ 7.5% on ₹ 2 lakh (Assets used for less than 180 days)	15,000
	2,23,500

Since Mr. Raju is paying tax as per default tax regime, additional depreciation u/s 32(1)(iia) would not be available to him.

Notes (Alternate views):

1. It is also possible to take a view that the salary not recorded in the books of account is in the nature of unexplained expenditure and hence, would be deemed to be income as per Sec 69C and would be taxable @ 60% u/s 115BBE. In such a case, no deduction would be allowable in respect of such expenditure.
2. Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.

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

Section B – Blast from the Past

Qn. 1 Mr. Rangamannar resides in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 21-09-2025, for the purpose of his business as per following details:

Cost of car (excluding GST)	12,00,000
Add: Delhi GST at 14%	1,68,000
Add: Central GST at 14%	1,68,000
Total price of car	15,36,000

He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase.

Determine the depreciation allowable on car for the AY 2026-27, if this is the only asset in the block. Rate of depreciation may be taken at 15%

If this car were to be used in the subsequent AY 2027-28 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961.

[Nov 18]

Ans. Since the car was put to use for more than 180 days in the PY 2025-26, full depreciation @ 15% is allowable on the actual cost of ₹ 15,36,000, which is the total price (inclusive of GST). However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.

Depreciation for PY 2025-26 = 15% x ₹ 15,36,000 x 75% = ₹ 1,72,800

Written Down Value as on 1.4.2026 = ₹ 15,36,000 – ₹ 1,72,800 = ₹ 13,63,200

Depreciation for PY 2026-27 = 15% x ₹ 13,63,200 x 75% = ₹ 1,53,360

Note - As per sec 17(5) of the CGST Act, 2017, input tax credit would not be available in respect of motor vehicles having approved seating capacity of not more than thirteen persons except if they are used for making taxable supply of such vehicles or for transportation of goods or passengers or for imparting training on driving such vehicles. In this case, the question mentions that the car is the only asset in the block. In the absence of any information in the question to the contrary, it is logical to assume that the car is not used for making the above taxable supplies. Accordingly, input tax credit would not be available and hence, GST would form part of actual cost of car. The above solution has been worked out accordingly.
However, input tax credit would be available if it is assumed that the car is used in making the above taxable supplies or in transportation of goods, the answer would be as follows –

Alternative Answer
Since the car was put to use for more than 180 days in the PY 2025-26, full depreciation @ 15% is allowable on the actual cost of ₹ 12 lakh (exclusive of GST of ₹ 3,36,000), assuming that input tax credit is available in respect of GST.
Further, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.
Depreciation for PY 2025-26 = 15% x ₹ 12,00,000 x 75% = ₹ 1,35,000
Written Down Value as on 1.4.2026 = ₹ 12,00,000 – ₹ 1,35,000 = ₹ 10,65,000
Depreciation for PY 2026-27 = 15% x ₹ 10,65,000 x 75% = ₹ 1,19,813

Qn. 2 Mr. Querashi is a business man. During the year ended 31-03-2026, he was engaged in the business of Hypermarket and Super Market. He maintains proper books of accounts for both businesses in mercantile system. Sales from Hypermarket achieved a turnover of ₹ 75 Lakhs and all receipts were in cash. However, Supermarket business is through online and entire receipts of ₹ 50 lakhs during the year were received online in his bank account. The expenses were incurred in the ratio 65:35.
Following additional information is furnished:

	₹
To Salary	10,00,000
To Repairs on building	1,81,000
To Interest	1,10,000
To Travelling	1,30,550
To Depreciation	8,12,000
Net profit	3,93,950

(a) In addition to the above, repairs of ₹ 1,00,000 was incurred for building a new room which was debited to P & L A/c.
(b) Depreciation as per Income-tax Act, 1961 is ₹ 7,17,000.
(c) ₹ 75,000 was paid in cash on 30-09-2025 to Mrs. Ann, accountant for preparation of the accounts for the year ended 31-03-2025 and adjusted under the head "expenses payable" account.
(d) He was forced to shutdown his furniture business in the year 2023 as his accountant absconded with cash of ₹ 5 Lakhs and fully allowed in that year. Unabsorbed business loss of furniture business is ₹ 3 lakhs. ₹ 4 lakhs was received as insurance compensation on 31-03-2026 for the cash theft.
(e) Mr. Querashi wants to declare income under "Presumptive income" basis.

Compute the income chargeable under the head "Profits and gains of business or profession" of Mr. Querashi under presumptive Income scheme u/s 44AD and his Total Income for AY 2026-27

[May 18]

Ans. <u>Computation of profits and gains of business or profession of Mr. Querashi under Presumptive Income scheme as per sec 44AD</u>
For the PY 2025-26, the turnover of Mr. Querashi from Hypermarket business is ₹ 75 lakhs and Supermarket business is ₹ 50 lakhs. Since his turnover in respect of such business is less than ₹ 200 lakhs, he is eligible to opt for presumptive tax scheme u/s 44AD in respect of these businesses.

The presumptive income u/s 44AD would be as under:

(i) Hypermarket business (100% cash sales) = 8% x ₹ 75 lakhs ₹ 6,00,000

(ii) Supermarket business (online sales) = 6% x ₹ 50 lakhs ₹ 3,00,000

No deduction in respect of any expenditure is allowed while computing presumptive business income as per the provisions of sec 44AD.

In the question it is stated that Mr. Querashi "maintains proper books of accounts for both businesses in mercantile system". The income as per regular books of account has to be computed and if such income is more than the presumptive income computed u/s 44AD, the higher income can be declared u/s 44AD.

Hence, income of Mr. Querashi for the AY 2026-27 as per books of account is computed below:

Computation of Profits and gains of business as per books of account

Particulars		₹
Net Profit (as given in question)		3,93,950
Add: Depreciation debited in the books		8,12,000
Cash payment in excess of ₹ 10,000 made in the current year in respect of expenditure allowed on mercantile basis in the PY, would be deemed as income in the current year		75,000
Building construction expenditure debited to P & L A/c		1,00,000
		13,80,950
Less: Depreciation as per Income-tax Act, 1961	7,17,000	
Depreciation on building extension of a room @ 10% [Working Note 1]	10,000	(7,27,000)
Profits and gains of business computed as per books of account		**6,53,950**

Note: The assessee's total income from hypermarket and supermarket business computed as per books of account is less than the income computed u/s 44AD. The question states that the assessee wants to declare income under presumptive provision i.e., sec 44AD. Hence, the total income computation would include only the presumptive income computed u/s 44AD for both hypermarket and supermarket businesses.

Computation of Total Income

Particulars		₹
Profits and gains from business: [As per sec 44AD]		
Hypermarket business ₹ 75 lakhs @ 8%		6,00,000
Supermarket business ₹ 50 lakhs @ 6%		3,00,000
Furniture business [Discontinued]		
Amount of insurance compensation deemed as income	4,00,000	
Less: Unabsorbed business loss of discontinued business	(3,00,000)	1,00,000
Total Income		**10,00,000**

Note: It is assumed that since capital repairs of ₹ 1 lakh on building has been debited to profit and loss account, depreciation in respect of the same is not included in the figure of ₹ 7,17,000 computed as per the Income-tax Act, 1961. Alternatively, if it is assumed that the same is included in the said figure, ₹ 95,000, being the difference between ₹ 8,12,000 and ₹ 7,17,000 has to be added back. In such a case, the adjusted net profit would be ₹ 6,63,950.

Capital Gains

SECTION A – SM QUESTIONS

Classification of capital assets

Qn. 1 How will you calculate the period of holding in case of the following assets?

(1) Shares held in a company in liquidation

(2) Bonus shares

(3) Flat in a co-operative society

Ans. (1) Shares held in a company in liquidation - The period after the date on which the company goes into liquidation shall be excluded while calculating the period of holding. Therefore, the period of holding shall commence from the date of acquisition and end with the date on which the company goes into liquidation.

(2) Bonus shares - The period of holding shall be reckoned from the date of allotment of bonus shares and will end with the date of transfer.

(3) Flat in a co-operative society - The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

Note – Any transaction whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a transfer as per sec 2(47)(vi).

Hence, it is possible to take a view that any date from which such right is obtained may be taken as the date of acquisition.

Qn. 2 Examine, with reasons, whether the following statements are True or False.

(i) Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated as "transfer" for the purpose of capital gains.

(ii) Zero coupon bonds of eligible corporation, held for 14 months, will be long-term capital assets.

(iii) Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.

Ans. (i) False: As per sec 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as "transfer" for the purpose of capital gains.

(ii) True: Sec 2(42A) defines the term 'short-term capital asset'. Under the proviso to sec 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.

(iii) True: As per sec 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.

Transactions not regarded as transfer – Sec 47

Qn. 3 In which of the following situations capital gains tax liability does not arise?

(i) Mr. A purchased gold in 1970 for ₹ 25,000. In the PY 2025-26, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹ 1,00,000.

(ii) A house property is purchased by a Hindu undivided family in 1945 for ₹ 20,000. It is given to one of the family members in the PY 2025-26 at the time of partition of the family. FMV on the day of partition was ₹ 12,00,000.

(iii) Mr. B purchased 50 convertible debentures for ₹ 40,000 in 1995 which are converted in to 500 shares worth ₹ 85,000 in November 2025 by the company.

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

(i) As per the provisions of sec 47(iii), transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

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

(iii) As per the provisions of sec 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

Qn. 4 Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly instalments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

Ans. Sec 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

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

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

Exceptions to the year of taxability

Qn. 5 Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident which occurred in December 2025.

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening WDV of the block as on 1-4-2025 was ₹ 10,80,000.

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

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

(i)	Towards loss of stock	₹ 4,80,000
(ii)	Towards damage of machinery	₹ 6,00,000
(iii)	Towards gold chain and diamond ring	₹ 1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961.

Ans. (i) Compensation towards loss of stock: Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head “Profit and gains of business or profession”.

Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head “Profits and gains of business or profession”.

(ii) Compensation towards damage to machinery: The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e., ₹ 10,80,000) over the insurance compensation (i.e., ₹ 6,00,000) will be assessable as a short-term capital loss.

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

(iii) Compensation towards loss of gold chain and diamond ring: Gold chain and diamond ring are capital assets as envisaged by sec 2(14). They are not "personal effects", which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.

Qn. 6 A is the owner of a car. On 1-4-2025, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2026 and gets a profit of ₹ 1 lakh. Discuss the tax implication in his hands under the head "Capital gains".

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

Qn. 7 X converts his capital asset (acquired on June 10, 2006 for ₹ 60,000) into stock-in-trade on March 10, 2025. The fair market value on the date of the above conversion was ₹ 5,50,000. He subsequently sells the stock-in-trade so converted for ₹ 6,00,000 on June 10, 2025. Discuss the year of chargeability of capital gains

Ans. Since the capital asset is converted into stock-in-trade during the PY relevant to the AY 2025-26, it will be a transfer u/s 2(47) during the PY 2024-25. However, the profits or gains arising from the above conversion will be chargeable to tax during the AY 2026-27, since the stock-in-trade has been sold only on June 10, 2025. For this purpose, the fair market value on the date of such conversion (i.e., 10th March, 2025) will be the full value of consideration for computation of capital gains. The business income of ₹ 50,000 (i.e., ₹ 6,00,000 (-) ₹ 5,50,000, being the fair market value on the date of conversion) would also be taxable in the AY 2026-27. Thus, both capital gains and business income would be chargeable to tax in AY 2026-27.

Qn. 8 Mr. A converts his capital asset acquired for an amount of ₹ 50,000 in June, 2004 into stock-in-trade in the month of November, 2024. The fair market value of the asset on the date of conversion is ₹ 4,50,000. The stock-in-trade was sold for an amount of ₹ 6,50,000 in the month of September, 2025. What will be the tax treatment?

Ans. The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. PY 2024-25) but will be taxable only in the year in which the stock-in-trade is sold (i.e. PY 2025-26). Profits from business will also be taxable in the year of sale of the stock-in-trade (PY 2025-26).

The long-term capital gains and business income for the AY 2026-27 are calculated as under:

Particulars	₹	₹
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	
Less: Cost of the stock-in-trade (FMV on the date of conversion)	(4,50,000)	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Cost of acquisition	(50,000)	4,00,000

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered. However, since capital asset is converted on or after 23.7.2024, no indexation benefit is allowed.

Qn. 9 Aarav converts his plot of land purchased in July, 2004 for ₹ 80,000 into stock-in-trade on 31st March, 2025. The fair market value as on 31.3.2025 was ₹ 3,00,000. The stock-in-trade was sold for ₹ 3,25,000 in the month of January, 2026.

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

Cost Inflation Index: FY 2004-05:113; FY 2024-25: 363; FY 2025-26: 376

Ans. Conversion of a capital asset into stock-in-trade is a transfer within the meaning of sec 2(47) in the previous year in which the asset is so converted. However, the capital gains will be charged to tax only in the year in which the stock-in-trade is sold.

The cost inflation index of the financial year in which the conversion took place should be considered for computing indexed cost of acquisition. Further, the fair market value on the date of conversion would be deemed to be the full value of consideration for transfer of the asset as per section 45(2). The sale price less the fair market value on the date of conversion would be treated as the business income of the year in which the stock-in-trade is sold.

Therefore, in this problem, both capital gains and business income would be charged to tax in the AY 2026-27.

Particulars	**₹**
Capital Gains	
Full value of consideration (Fair market value on the date of conversion)	3,00,000
Less: Cost of acquisition [No indexation benefit since conversion took place on or after 23.7.2024)	(80,000)
Long-term capital gain	2,20,000
Profits & Gains of Business or Profession	
Sale price of stock-in-trade	3,25,000
Less: Fair market value on the date of conversion	(3,00,000)
	2,45,000

Qn. 10 Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the FY 2004-05 and held the same as her capital asset till 20th March, 2024. She started her real estate business on 21st March 2024 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2026. She sold 10 flats at ₹ 30 lakhs per flat in March, 2026. The remaining 5 flats were held in stock as on 31st March, 2026.

She invested ₹ 50 lakhs in bonds issued by National Highway Authority of India on 31st March, 2026 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2026.

Compute the amount of chargeable capital gain and business income in the hands of Ms. Harshita arising from the above transactions for AY 2026-27 indicating clearly the reasons for treatment for each item. [Cost Inflation Index: FY 2004-05: 113; FY 2023-24: 348; FY 2025-26: 376]

[Nov 16]

Ans. Computation of capital gains and business income of Harshita for AY 2026-27

Particulars	₹
a) Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of sec 45(2)	2,10,00,000
Less: Indexed cost of acquisition [₹ 35,00,000 × 348/113]	(1,07,78,761)

	1,02,21,239
Proportionate capital gains arising during AY 2026-27 [₹ 1,02,21,239 × 2/3]	68,14,159
Less: Exemption u/s 54EC	(50,00,000)
Capital gains chargeable to tax for AY 2026-27	18,14,159
b) Business Income	
Sale price of flats [10 × ₹ 30 lakhs]	3,00,00,000
Less: Cost of flats	
FMV of land on the date of conversion [₹ 210 lacs × 2/3]	(1,40,00,000)
Cost of construction of flats [10 × ₹ 10 lakhs]	(1,00,00,000)
Business income chargeable to tax for AY 2026-27	60,00,000

Notes:

1. The conversion of a capital asset into stock-in-trade is treated as a transfer u/s 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade. (i.e., PY 2023-24, in this case)
2. However, as per sec 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
3. Since the capital asset is converted into stock in trade in PY 2023-24 i.e., before 23.7.2024, the indexation benefit would be available. However, it will be available only up to the year of conversion of capital asset into stock-in-trade (i.e., PY 2023-24) and not up to the year of sale of stock-in-trade (i.e., PY 2025-26).
4. For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.
   In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the PY 2025-26, only proportionate capital gains (i.e., 2/3rd) would be chargeable in the AY 2026-27.
5. On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be computed after deducting the fair market value on the date of conversion of the capital asset into stock-in-trade.
6. In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in- trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption u/s 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption u/s 54EC. With respect to long-term capital gains arising in any FY, the maximum deduction u/s 54EC would be ₹ 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same FY or next FY or partly in the same FY and partly in the next FY.
   Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHAI during the PY 2025-26 and investment of ₹ 50 lakhs has been made in bonds of RECL during the PY 2026-27, both within the stipulated six month period, the maximum deduction allowable for AY 2026-27, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the PY 2025-26, is only ₹ 50 lakhs.

Computation of capital gains in special scenarios

Qn. 11 Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2024. He has also received dividend of ₹ 10 per share on 01.05.2025.

He sold all the shares on 01.10.2025 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and STT of 0.02% to celebrate his 75th birthday.

Compute his total income and tax liability for AY 2026-27 if Mr. Mithun opts out of default tax regime, assuming that he is having other income of ₹ 8,00,000. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

Ans.

Computation of total income and tax liability of Mr. Mithun for AY 2026-27

Particulars		₹
Long term capital gains on sale of original shares		
Gross sale consideration (100 x ₹ 4,000)		4,00,000
Less: Brokerage @ 1%		(4,000)
Net sale consideration		3,96,000
Less: Cost of acquisition (100 x ₹ 2,000) (Note 2)		(2,00,000)
Long term capital gains		1,96,000
Short term capital gains on sale of bonus shares		
Gross sale consideration (100 x ₹ 4,000)		4,00,000
Less: Brokerage @ 1%		(4,000)
Net sale consideration		3,96,000
Less: Cost of acquisition of bonus shares		NIL
Short term capital gains		3,96,000
Income from other sources		
Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share]		2,000
Other Income		8,00,000
Total Income		**13,94,000**
Tax Liability		
Tax on STCG u/s 111A – 20% of ₹ 3,96,000		79,200
Tax on LTCG u/s 112A – 12.5% of (₹ 1,96,000 - ₹ 1,25,000) since it is transferred on or after 23.7.2024		8,875
Tax on other income of ₹ 8,02,000		
₹ 3,00,000 to ₹ 5,00,000@ 5%	20,000	
₹ 5,00,000 to ₹ 8,02,000 @ 10%	60,400	72,900
		1,60,975
Add: Health and education cess @ 4%		6,439
Tax payable		**1,67,414**
Tax payable (rounded off)		**1,67,410**

Notes:

(1) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of

- Cost of acquisition i.e., ₹ 1,000 per share and
- lower of

  Fair market value of such asset i.e., ₹ 2,000 per share and

  Full value of consideration i.e., ₹ 4,000 per share.

Therefore, the cost of acquisition of original share is ₹ 2,000 per share.

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

Qn. 12 Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2024. The depreciation on these machines is charged @ 15%. The opening balance of these machines after providing depreciation for PY 2024-25 was ₹ 8,50,000. Three of the old machines were sold on 10th June, 2025 for ₹ 11,00,000. A second hand plant was bought for ₹ 8,50,000 on 30th November, 2025. You are required to:

(i) determine the claim of depreciation for AY 2026-27.

(ii) compute the capital gains liable to tax for AY 2026-27.

(iii) If Singhania & Co. had sold the three machines in June, 2025 for ₹ 21,00,000, will there be any difference in your above workings? Examine.

[May 19]

Ans. (i) Computation of depreciation for AY 2026-27

Particulars	₹
Opening Balance of the block as on 1.4.2025	8,50,000
Add: Purchase of second-hand plant during the year	8,50,000
	17,00,000
Less: Sale consideration of old machinery during the year	(11,00,000)
W.D.V of the block as on 31.03.2026	6,00,000

Since the value of the block as on 31.3.2026 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 45,000, being 7½% of ₹ 6,00,000.

(ii) The provisions u/s 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

(a) When one or some of the assets in the block are sold for consideration more than the value of the block.

(b) When all the assets are transferred for a consideration more than value of the block.

(c) When all the assets are transferred for a consideration less than value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value exceeds the sale consideration, the resultant figure would be a short-term capital loss.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the W.D.V of the block.

(iii) If the three machines are sold in June, 2025 for ₹ 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of written down value of the block at the beginning of the year and additions made during the year.

Particulars	**₹**	**₹**
Sale consideration		21,00,000
Less: Opening Balance of the block as on 1.4.20245	8,50,000	
Purchase of second hand plant during the year	8,50,000	(17,00,000)
Short term capital gains		4,00,000

Exemptions

Qn. 13 Mr. Cee purchased a residential house on July 20, 2023 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2023. He sold the house property in April 2025 for ₹ 20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2025. What is the amount of capital gains taxable in the hands of Mr. Cee for the AY 2026-27?

Ans. The house is sold before 24 months from the date of purchase. Hence, the house is a short- term capital asset and no benefit of indexation would be available.

Particulars	**₹**
Sale consideration	20,00,000
Less: Cost of acquisition	(10,00,000)
Cost of improvement	(2,00,000)
Short-term capital gains	8,00,000

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

Qn. 14 Long term capital gain of ₹ 75 lakh arising from transfer of building on 1.5.2025 will be fully exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI u/s 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act, 1961.

Ans. **False:** The exemption u/s 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAI or RECL or any other bond notified by Central Government in this behalf, redeemable after 5 years) to ₹ 50 lakh, whether such investment is made during the relevant PY or the subsequent PY, or both. Therefore, in this case, the exemption u/s 54EC can be availed only to the extent of ₹ 50 lakh, provided the investment is made before 1.11.2025 (i.e., within six months from the date of transfer).

Special Rates of tax for Capital Gains

Qn. 15 Calculate the income-tax liability for the AY 2025-26 in the following cases:

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

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

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

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

<u>Computation of income-tax liability for the AY 2026-27</u>

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non-Resident	Non-resident	Resident	Non-resident
Applicable basic exemption limit	₹ 4,00,000	₹ 4,00,000	₹ 4,00,000	₹ 4,00,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @ 20% u/s 112]	₹ 10,000 [Exempt u/s 112A since it is less than ₹ 1,25,000]	₹ 60,000 (Exempt – not a capital asset)	-
Other income	₹ 2,40,000	₹ 4,10,000	₹ 5,90,000	₹ 4,80,000
Tax liability				
On LTCG	₹ 10,625	-	-	-

On Other income	-	₹ 500	₹ 9,500	₹ 4,000
	₹ 10,625	₹ 500	₹ 9,500	₹ 4,000
Less: Rebate u/s 87A	-	-	₹ (9,500)	-
	₹ 10,625	₹ 500	-	₹ 4,000
Add: Health and education cess @ 4%	₹ 425	₹ 20	-	₹ 160
Total tax liability	₹ 11,050	₹ 520	-	₹ 4,160

Note: Since Mr. C is a resident whose total income does not exceed ₹ 12 lakhs, they are eligible for rebate of ₹ 60,000 or the actual tax payable, whichever is lower, u/s 87A.

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

Computation of income-tax liability for the AY 2026-27

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non-Resident	Non-resident	Resident	Non-resident
Applicable basic exemption limit	₹ 2,50,000	₹ 2,50,000	₹ 5,00,000	₹ 2,50,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @ 20% u/s 112]	₹ 10,000 [Exempt u/s 112A since it is less than ₹ 1,25,000]	₹ 60,000 (Exempt – not a capital asset)	-
Other income	₹ 2,40,000	₹ 4,10,000	₹ 5,90,000	₹ 4,80,000
Tax liability				
On LTCG	₹ 10,625	-	-	-
On Other income	-	₹ 8,000	₹ 18,000	₹ 11,500
	₹ 10,625	₹ 8,000	₹ 18,000	₹ 11,500
Less: Rebate u/s 87A	-	-	-	-
	₹ 10,625	₹ 8,000	₹ 18,000	₹ 11,500
Add: Health and education cess @ 4%	₹ 425	₹ 320	₹ 720	₹ 460
Total tax liability	₹ 11,050	₹ 8,320	₹ 18,720	₹ 11,960

Note: Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of ₹ 3,00,000 and ₹ 5,00,000 for persons over the age of 60 years and 80 years, respectively. Also, they along with Mr. A, being non-residents are not eligible for rebate u/s 87A even though their total income does not exceed ₹ 5 lakh

Qn. 16 Determine the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the AY 2026-27 and tax, if any, payable thereon, in the following cases, assuming that these are the only transactions covered u/s 112A during the PY 2025-26 in respect of these assessees:

(i) Mr. Shagun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of ₹ 400 per share. He sold all the shares of A Ltd. on 31.5.2025 for ₹ 1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows –

Particulars	Amount in ₹
Highest Trading Price	700

Average Trading Price	680
Lowest Trading Price	660

(ii) Mr. Raj purchased 200 units of equity-oriented fund, Fund A on 1.2.2017 at a cost of ₹ 550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.4.2025 for ₹ 900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units are given hereunder:

Particulars	Amount in ₹
Highest Trading Price	750 (on 31.1.2018)
Average Trading Price	700 (on 31.1.2018)
Lowest Trading Price	650 (on 31.1.2018)
Net Asset Value on 31.1.2018	800

Ans. For the purpose of computation of long-term capital gains chargeable to tax under sec 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of

(a) cost of acquisition of such asset, i.e., actual cost; and

(b) lower of

(i) the fair market value of such asset as on 31.1.2018; and

(ii) the full value of consideration received or accruing as a result of the transfer of the capital asset.

(i) The fair market value of listed equity shares as on 31.1.2018 is the highest price quoted on the recognized stock exchange as on that date.

Accordingly, long-term capital gain on transfer of STT paid listed equity shares by Mr. Shagun would be determined as follows:

The FMV of shares of A Ltd. would be ₹ 700, being the highest price quoted on National Stock Exchange on 31.1.2018. The cost of acquisition of each equity share in A Ltd. would be ₹ 700, being higher of actual cost i.e., ₹ 400 and ₹ 700 [being the lower of FMV of ₹ 700 as on 31.1.2018 (i.e., the highest trading price) and actual sale consideration of ₹ 1,200]. Thus, the long-term capital gain would be ₹ 1,50,000 i.e., (₹ 1,200 – ₹ 700) x 300 shares. The long-term capital gain of ₹ 25,000 (i.e., the amount in excess of ₹ 1,25,000) would be subject to tax @ 12.5% u/s 112A (plus cess @ 4%), without benefit of indexation.

The tax on capital gain @ 13% would be ₹ 3,250 (₹ 25,000 x 13%)

(ii) In the case of units listed on recognised stock exchange on the date of transfer, the FMV as on 31.1.2018 would be the highest trading price on recognised stock exchange as on 31.1.2018 (if units are listed on that date), else, it would be the net asset value as on 31.1.2018 (where units are unlisted on that date).

Accordingly, the FMV of units of Fund A as on 31.1.2018 would be ₹ 750 (being the highest trading price on 31.1.2018, since the units of Fund A are listed on that date).

The cost of acquisition of a unit of Fund A would be ₹ 750, being higher of actual cost i.e., ₹ 550 and ₹ 750 (being the lower of FMV of ₹ 750 as on 31.1.2018 and actual sale consideration of ₹ 900). Thus, the long-term capital gains on sale of units of Fund A would be ₹ 30,000 (₹ 900 – ₹ 750) x 200 units.

Since the long-term capital gains on sale of units of Fund A is ₹ 30,000, which is less than ₹ 1,25,000, the said sum is not chargeable to tax u/s 112A.

Comprehensive questions

Qn. 17 Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2025 for ₹ 1,50,00,000.

The sale proceeds were to be paid in the following manner:

(i) 20% through account payee bank draft on the date of agreement.

(ii) 60% on the date of the possession of the property.

(iii) Balance after the completion of the registration of the title of the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2025 and the registration process was completed on 14.01.2026. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

(a) on 16.08.2025 was ₹ 1,70,00,000;

(b) on 15.12.2025 was ₹ 1,71,00,000; and

(c) on 14.01.2026 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2026 and another in Delhi for ₹ 35,00,000 on 28.5.2026.

Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the AY 2026-27.

Cost Inflation Index for Financial Year(s): 2001-02 - 100; 2025-26 - 376

[Nov 17]

Ans. <u>Computation of income chargeable under the head "Capital Gains" of Mr. Sarthak for AY 2026-27</u>

Particulars		₹
Capital Gains on sale of residential house		
Actual sale consideration	₹ 1,50,00,000	
Value adopted by Stamp Valuation Authority on the date of agreement	₹ 1,70,00,000	
[As per sec 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement. In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]		
Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]		1,70,00,000
Less: Cost of acquisition of residential house		(30,00,000)
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]		**1,40,00,000**
Less: Exemption u/s 54		(55,00,000)
Since, long-term capital gains does not exceed ₹ 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of ₹ 55,00,000 being ₹ 20,00,000 and ₹ 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.		
Long term capital gains chargeable to tax		**85,00,000**

Note: It maybe noted that since Sarthak has transferred residential house property on or after 23.07.2024 which was acquired before the said date, he can opt to pay tax @ 20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to him.

Qn. 18 Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the FY 2007-08.

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

Mrs. Yuvika, again entered into an agreement on 01.05.2025 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-7-2025 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received. Subsequent to sale, Mrs. Yuvika made following investments:

(i) Acquired two residential houses at Delhi for ₹ 130 lakhs and ₹ 50 lakhs on 31.1.2026 and 15.5.2026

(ii) Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2026.

(iii) Subscribed to NHAI capital gains bond (approved u/s 54EC) for ₹ 50 lakhs on 30-11-2025 and for ₹ 40 lakhs on 9-1-2026.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for AY 2026-27. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: FY 2005-06 – 117; FY 2007-08 – 129; FY 2025-26 - 376.

[May 17]

Ans. <u>Computation of income chargeable under the head "Capital Gains" of Mrs. Yuvika for AY 2026-27</u>

Particulars	₹ (in lakhs)	
Capital Gains on sale of residential building		
Actual sale consideration ₹ 810 lakhs		
Value adopted by Stamp Valuation Authority ₹ 890 lakhs		
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per sec 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement. In this case, since advance of ₹ 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration)		
Gross Sale consideration (actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration)		810.00
Less: Brokerage @ 1% of sale consideration (1% of ₹ 810 lakhs)		(8.10)
Net Sale consideration		801.90
Less: Indexed cost of acquisition		
- Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land	88	
- Construction cost of residential building (₹ 100 lakhs x 363/129)	100	(188.00)
Long-term capital gains		**613.90**

[Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]	
Less: Exemption u/s 54	(130.00)
Where long-term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset.	
Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., ₹ 130 lakhs as exemption.	
Less: Exemption u/s 54EC	(50.00)
Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.1.2026), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs, whether such investment is made in the current FY or subsequent FY.	
Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 90 lakhs, even if the both the investments are made on or before 13.1.2026 (i.e., within six months after the date of transfer).	
Long term capital gains chargeable to tax	**433.90**

Notes:

1. Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the AY 2016-17, as per sec 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.
2. It may be noted that since Yuvika has transferred residential building which was acquired before 23.7.2024, she can opt to pay tax @20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to her while computing her tax liability.

Qn. 19 Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty value @ 10% on the stamp duty value of ₹ 3,50,000.

In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2025, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2026. Mr. Shiva has paid the brokerage @ 1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2025 was ₹ 39,00,000 and on 20th February, 2026 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for AY 2026-27. Also, compute the tax liability u/s 112, assuming that the basic exemption limit has been fully exhausted against other income.

CII for FY 2001-02: 100; FY 2008-09: 137; FY 2015-16: 254; FY 2025-26: 376

Ans.

Computation of Capital gains in the hands of Mr. Shiva for AY 2026-27

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement	39,00,000	
(Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110%of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per sec 50C.		
However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement.		
In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)		
Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]		39,00,000
Less: Expenses on transfer (Brokerage @ 1% of ₹ 30,50,000)		(30,500)
Net sale consideration		38,69,500
Less: Cost of acquisition (Note 1)	9,59,000	
Less: Cost of improvement (Note 2)	3,90,000	(13,49,000)
Long term capital gain		25,20,500

Computation of tax liability u/s 112

Particulars		Amount (₹)
On LTCG of ₹ 25,20,000 x 12.5%		3,15,063
Add: Health & education cess @ 4%		12,603
		3,27,666
On LTCG with indexation benefit		
Net Sales consideration	38,69,500	
Less: Indexed cost of acquisition (₹ 9,59,000 x 376/100)	36,05,840	
Less: Indexed cost of improvement (₹ 3,90,000 x 376/254)	5,77,323	
Long term capital loss	(3,13,663)	
Since the computation results in long term capital loss, if indexation benefit is given, the tax liability u/s 112 would be NIL. However, this computation is only for determining the tax liability, the said loss can neither be set-off nor carried forward		

Notes:

(1) Computation of Cost of acquisition

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition		10,70,000
Being the higher of		
(i) lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @ 10% of ₹ 3,50,00	3,59,000	

Less: Advance money taken from Mr. Mohan and forfeited	(1,11,000)
Cost of acquisition for indexation	9,59,000

(2) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, sec 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited [i.e. ₹ 10,70,000 – ₹ 1,11,000 (being the advance money forfeited during the PY 2008-09) = ₹ 9,59,000]. However, where the advance money is forfeited during the PY 2014-15 or thereafter, the amount forfeited would be taxable under the head "Income from Other Sources" and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head "Income from other sources" in the hands of Mr. Shiva in AY 2016-17.

Section B – Blast from the Past

Qn. 1 Mrs. Mahalakshmi, an individual aged 68 years, mortgaged her Residential Property, purchased for ₹ 3 lakhs on 01-10-2008, with a bank, under a notified reverse mortgage scheme and was sanctioned a loan of ₹ 20 lakhs. As per the said scheme, she was receiving the loan amount in equal monthly installments of ₹ 30 thousand per month from the bank. Mrs. Mahalakshmi was not able to repay the loan on maturity and in lieu of settlement of the loan, surrenders the residential property to the bank. Bank sold the property for ₹ 25 lakhs on 22-02-2026. She had no other income during the year. Discuss the tax consequences and compute tax for the AY 2026-27 assuming Mrs. Mahalakshmi wishes to opt out of default tax regime.
[CII for FY 2008-09: 113; 2025-26: 376]

[May 18]

Ans. Any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a "transfer" for the purpose of capital gain as per sec 47(xvi). Accordingly, the mortgaging of residential house with bank by Mrs. Mahalakshmi will not be regarded as a transfer for levy of capital gains. Therefore, no capital gain will be attracted on such mortgage.

Any amount received by the senior citizen as a loan, either in lump sum or in installments, in a transaction of reverse mortgage is exempt from income-tax under sec 10(43). Therefore, the monthly installment of ₹ 30,000 received by Mrs. Mahalakshmi is exempt from income-tax u/s 10(43).

However, capital gains tax liability would be attracted in the PY 2025-26 when the bank sells the mortgaged property for the purposes of recovering the loan.

Computation of tax liability of Mrs. Mahalakshmi for AY 2026-27

Particulars		₹
Long-term Capital gains [Since the residential house property was held by Mrs. Mahalakshmi for more than 24 months immediately preceding the date of its transfer]		
Full value of consideration on sale of residential house		25,00,000
Less: Cost of acquisition of residential house		(3,00,000)
Long term capital gain		22,00,000
Other Income		Nil
Total Income		22,00,000
Tax on Total Income:		
- First ₹ 3,00,000, being basic exemption limit, which can be fully adjusted against long-term capital gains in the absence of other income		NIL
- Balance		2,37,500
a) Without indexation @ 12.5% [₹ 19,00,000 x 12.5%]	2,37,500	
b) With indexation @ 20% [(₹ 25,00,000 – (₹ 3,00,000 x 376/137) - ₹ 3,00,000) x 20%]	2,75,329	

Add: Health & Education cess @ 4%	9,500
Tax liability	**2,47,000**

Note - Circular No.1/2009 dated 27.3.2009 explaining the provisions of the Finance Act, 2008 through which these provisions were introduced in the Income-tax Act, 1961 clarifies that a borrower, under a reverse mortgage scheme, will be liable to income-tax (in the nature of tax on capital gains) only at the point of alienation of the mortgaged property by the mortgagee for the purposes of recovering the loan. In this case, accordingly, capital gains arising at the time of alienation of property has been computed in the hands of Mrs. Mahalakshmi, taking into account the said clarification given by the CBDT.

Qn. 3 Mr. Deepak has a residential house property taxable u/s 22. Such property was acquired on 12-08-2011 for ₹ 2,00,000. The property is sold for ₹ 22,00,000. The sub-registrar refused to register the documents for the said value, as according to him, stamp duty value based on State Government guidelines was ₹ 28,00,000. Mr. Deepak preferred an appeal to the revenue divisional officer who fixed the value of the house ₹ 25,00,000. He acquired another residential house on 31-03-2026 for ₹ 17,00,000 for self-occupation. On 01-03-2027, he sold such new residential house for ₹ 30,00,000.

Compute his capital gain for the AY 2026-27 and 2027-28.

[May 19]

Ans. Computation of capital gain in the hands of Mr. Deepak for AY 2026-27

Particulars	₹
Full value of consideration	25,00,000
[As per sec 50C, in case the actual sale consideration (i.e., ₹ 22 lakhs, in this case) is less than the stamp duty value (i.e., ₹ 28 lakhs, in this case) assessed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration if it exceeds 110% of the sale consideration. However, if assessee has preferred an appeal to the Valuation Officer (i.e., revenue divisional officer, in this case) and the Valuation Officer has fixed the value of the house (i.e., ₹ 25 lakh, in this case) less than stamp duty value (i.e., ₹ 28 lakh, in this case), such value determined by the Valuation Officer shall be deemed as the full value of consideration.]	
Less: Cost of acquisition	(2,00,000)
Long-term capital gain [Since the residential house is held for more than 24 months]	23,00,000
Less: Exemption u/s 54	
Purchase of new residential house property on 31.3.2026 (i.e., within two years from the date of transfer of residential house)	(17,00,000)
Taxable long term capital gain	**6,00,000**

Computation of capital gains in the hands of Mr. Deepak for AY 2027-28

Particulars	**₹**
Full value of consideration	30,00,000
Less: Cost of acquisition [As per sec 54, if the new residential house purchased (i.e., on 31.3.2026, in this case) is transferred within 3 years of its purchase (i.e., on 1.3.2027, in this case), and the cost of acquisition of the new house (i.e., ₹ 17 lakhs, in this case) is lower than the long-term capital gain (i.e., 23,00,000, in this case), the cost of acquisition of such new residential house shall be taken as Nil, while computing capital gains on sale of the new residential house]	Nil
Short term capital gain [Since the residential house is held for a period less than 24 months]	**30,00,000**

Note – The date/year of sale of the old residential house property is not given in the question. It is assumed that the said residential house property was sold in the PY 2025-26

Qn. 4	Mr. Suraj sold a house to his friend Mr. Ganesh on 18th September, 2025 for a consideration of ₹ 42,00,000. On the date of registration stamp duty value of the said property is ₹ 45,00,000. However, on the date of agreement stamp duty value of the said property was ₹ 44,00,000. Mr. Ganesh had paid 10% of the value of the property by way of A/c payee cheque at the time of agreement. Assume value of land is 70% of the total value of the property. What are the tax implications in the hands of Mr. Suraj and Mr. Ganesh for the AY 2026-27? Mr. Suraj had purchased the land on 19th February, 2019 for ₹ 9,20,000 and completed the construction of house on 18th January, 2024 for ₹ 15,50,000.
	[RTP – May 19]

Ans.

In the hands of the seller, Mr. Suraj

As per sec 50C, where the consideration received or accruing as a result of transfer of land or building or both, is less than the value adopted or assessed or assessable by the stamp valuation authority, the value adopted or assessed or assessable by the stamp valuation authority shall be deemed to be the full value of consideration received or accruing as a result of transfer.

However, where the date of registration and date of agreement are not the same and part or whole of the consideration is received by way of A/c payee cheque or A/c payee bank draft or by use of ECS or any other prescribed electronic mode on or before the date of agreement, then stamp duty value on the date of agreement may be taken to be the full value of consideration.

Further, where the stamp duty value on the date of agreement or registration, as the case may be, does not exceed 110% of the amount of consideration received or receivable then the consideration so received would be deemed to be the full value of the consideration.

In the present case, since Mr. Suraj has received 10% of the consideration by way of A/c payee cheque on the date of agreement, the stamp duty value of ₹ 44,00,000 on the date of agreement would be taken for the purpose of computing full value of consideration.

Further, since the stamp duty of land and building of ₹ 44,00,000 does not exceed ₹ 46,20,000 i.e., 110% of ₹ 42,00,000, the consideration received i.e., ₹ 42,00,000 in respect of land and building would be deemed to be the full value of consideration.

In the given problem, land has been held for a period exceeding 24 months and building for a period less than 24 months immediately preceding the date of transfer. So, land is a long-term capital asset, while building is a short-term capital asset.

Accordingly, capital gains would be determined in the following manner:

Particulars	₹
Long term capital gain on sale of land	
Consideration received or accruing as a result of transfer of land [70% of ₹ 42,00,000]	29,40,000
Less: Cost of acquisition ₹ 9,20,000	(9,20,000)
Long-term capital gain (A)	20,20,000
Short-term capital loss on sale of building	
Consideration received or accruing from transfer of building [30% of ₹ 42,00,000]	12,60,000
Less: Cost of acquisition	(15,50,000)
Short term capital loss (B)	(2,90,000)

As per sec 70(2), short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be ₹ 17,30,000 (i.e., ₹ 20,20,000 – ₹ 2,90,000). The same would be taxable @ 12.5% u/s 112, after adjusting un-exhausted basic exemption limit, if any, against such long term capital gain.

In the hands of the buyer Mr. Ganesh

As per sec 56(2)(x), where any person receives from a non-relative, any immovable property for a consideration which is less than the stamp duty value on the date of agreement or date of registration as the case may be, and the difference between actual consideration and stamp duty value so considered is more than the higher of ₹ 50,000 or 10% of the consideration so received, then the difference between such value and actual consideration of such property is chargeable to tax as income from other sources. Where the date of registration and date of agreement are not the same and part or whole of the consideration is paid by way of A/c payee cheque or A/c payee bank draft or by use of ECS or any other prescribed electronic modes on or before the date of agreement, then stamp duty value on the date of agreement may be taken for the purpose of determining income taxable under the head "Income from other sources".

Since in the present case, Mr. Ganesh has paid 10% of the consideration by way of A/c payee cheque, the stamp duty value on the date of agreement has to be taken. Further, since the difference of ₹ 2,00,000 is not more than ₹ 4,20,000 being higher of ₹ 50,000 and ₹ 4,20,000 (10% of ₹ 42,00,000), no income would be chargeable to tax as IFOS in the hands of Mr. Ganesh.

Qn. 5 Mr. Raj a resident individual, aged 69 years sold an urban agricultural land for ₹ 75,00,000 to Mr. Vipul on December 15, 2025 when the stamp duty value of agricultural land was ₹ 95 lakhs. However, the "agreement to sell" the agricultural land was entered on July 15, 2025 and Mr. Vipul gave ₹ 4 lakhs as advance through IMPS. The stamp duty value at the time of agreement was ₹ 85 lakhs. Mr. Raj paid 1% of sale consideration as commission to a broker. The land was purchased by him on May 15, 2004 for ₹ 10.85 lakhs and it was being used for agricultural purposes by him since its purchase.

Mr. Raj purchased another agricultural land in rural area on January 1, 2026 for ₹ 40 lakhs and this land was sold by him on March 12, 2026 for ₹ 45 lakhs and he invested the entire sale proceeds in fixed deposits with a nationalized bank on the same day.

Compute capital gain for AY 2026-27 if Mr. Raj exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[Sep 24]

Ans. Computation of Capital Gains of Mr. Raj for AY 2026-27

Particulars		₹
Capital gain on sale of urban agricultural land		
Actual sale consideration	75,00,000	
Stamp duty value as on date of agreement i.e., on 15.7.2025 [Since part consideration is received through IMPS on the date of agreement]	85,00,000	
Full Value of Consideration [Stamp duty value on the date of agreement since it exceeds 110% of the actual sale consideration]		85,00,000
Less: Expenditure in connection with transfer [1% of sale consideration i.e., ₹ 75 lakhs]		(75,000)
Net Sales Consideration		84,25,000
Less: Cost of acquisition		(10,85,000)
		73,40,000
Less: Exemption u/s 54B – In respect of rural agricultural land purchased on 1.1.2026. Mr. Raj is eligible to claim exemption u/s 54B since he has used the urban agricultural land for agricultural purposes for more than 2 years preceding the date of its transfer. [See Note for alternative answer]		(40,00,000)
Long term capital gain		**33,40,000**
Capital gain on sale of rural agricultural land		
As per sec 54B, if the new agricultural land is transferred within 3 years from the date of its purchase, while computing the capital gains on transfer of such new agricultural land, the cost of acquisition of such land would be reduced by the amount of capital gain claimed as exempted. However, since rural agricultural is not a capital asset, no capital gain would arise on sale of such land even though it is transferred within 3 years from the date of its purchase.		

Note [Alternative answer] – Mr. Raj transferred urban agricultural land on 15.12.2025 and purchased rural agricultural land on 1.1.2026 which is sold on 12.3.2026. Since the rural agricultural land is sold within the same PY in which original asset was transferred i.e., PY 2025-26, a view can be taken that the exemption u/s 54B would not be available as at the time of filing return of income such acquired land does not exist. In such case, long term capital gain would be ₹ 73,40,000.

SECTION A – SM QUESTIONS

Qn. 1 M held 2000 shares in a company ABC Ltd. This company amalgamated with another company during the PY ending 31-3-2026. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by ₹ 50,000 than the value of holding in ABC Ltd.

The Assessing Officer proposes to treat the transaction as an exchange and to tax ₹ 50,000 as capital gain. Is he justified?

Ans. In the above question, assuming that the amalgamated company is an Indian company, the transaction is squarely covered by the exemption explained above and the proposal of the Assessing Officer to treat the transaction as an exchange is not justified.

Qn. 2 M/s A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2025 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lakhs. The fair market value of the unit on 1.4.2025 is ₹ 30 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2025 is as under:

Liabilities	Total (₹)	Assets	Unit 1 (₹)	Unit 2 (₹)	Total (₹)
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for building of Unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	1,50,000	Other assets	1,50,000	60,000	2,10,000
Total	**21,50,000**	**Total**	**17,50,000**	**4,00,000**	**21,50,000**

Other information:

(i) Revaluation reserve is created by revising upward the value of the building of Unit 1.

(ii) No individual value of any asset is considered in the transfer deed.

(iii) Other assets of Unit 1 include patents acquired on 1.7.2023 for ₹ 50,000 on which no depreciation has been charged.

Compute the capital gain for the AY 2026-27.

Ans. <u>Computation of capital gains on slump sale of Unit 1</u>

Particulars	₹
Full value of consideration [Fair market value on 1.4.2025]	30,00,000
Less: Expenses on sale	(28,000)
Net sale consideration	29,72,000
Less: Net worth (Note 1)	(12,50,625)
Long-term capital gain	**17,21,375**

Notes:

1. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	₹	₹
Building (excluding ₹ 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (Note 2)		28,125
Other assets (₹ 1,50,000 – ₹ 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors (25% of ₹ 1,50,000)	37,500	
Bank Loan (70% of ₹ 2,00,000)	1,40,000	(1,77,500)
Net worth		**12,50,625**

2. Written down value of patents as on 1.4.2025

Value of patents	₹
Cost as on 1.7.2023	50,000
Less: Depreciation @ 25% for FY 2023-24	(12,500)
WDV as on 1.4.2024	37,500
Less: Depreciation for FY 2024-25	(9,375)
WDV as on 1.4.2025	**28,125**

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

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

Section B – Blast from the Past

Qn. 1 Ms. Vasumathi purchased 10,000 equity shares of ABC Co. Pvt. Ltd. on 28.2.2009 for ₹ 1,20,000. The company was wound up on 31.7.2025. The following is the summarized financial position of the company as on 31.7.2025:

Liabilities	₹	Assets	₹
60,000 Equity shares	6,00,000	Agricultural lands	42,00,000
General reserve	40,00,000	Cash at bank	6,50,000
Provision for taxation	2,50,000		
	48,50,000		48,50,000

The tax liability was ascertained at ₹ 3,00,000. The remaining assets were distributed to the shareholders in the proportion of their shareholding. The market value of 6 acres of agricultural land (in an urban area) as on 31.7.2025 is ₹ 10,00,000 per acre.

The agricultural land received above was sold by Ms. Vasumathi on 28.2.2025 for ₹ 15,00,000.

Discuss the tax consequences in the hands of the company and Ms. Vasumathi.

[ICAI Old PM]

Ans. **In the hands of the company**

As per sec 46(1), distribution of capital assets amongst the shareholders on liquidation of the company is not regarded as "transfer" in the hands of the company. Consequently, there will be no capital gains in the hands of the company.

In the hands of Ms. Vasumathi (shareholder)

Under the head "Capital Gains"

Sec 46(2) provides that such capital gains would be chargeable in the hands of the shareholder.

Particulars	₹
Ms. Vasumathi holds 1/6th of the shareholding of the company	
Market value of agricultural land received (1 acre @ ₹ 10 Lakhs)	10,00,000
Cash at bank [1/6th of (₹ 6,50,000 – ₹ 3,00,000)] (Note)	58,333
	10,58,333
Less: Deemed dividend u/s 2(22)(c) - 1/6th of (₹ 40,00,000- ₹ 50,000) (Note)	(6,58,333)
Consideration for computing Capital Gain	4,00,000
Less: Cost of acquisition of Shares	(1,20,000)
Long term capital gains	**2,80,000**

Where the capital asset became the property of the assessee on the distribution of the capital assets of a company on its liquidation and the assessee has been assessed to capital gains in respect of that asset u/s 46, the cost of acquisition means the fair market value of the asset on the date of distribution. Hence, the short-term capital gains in the hands of Ms. Vasumathi (shareholder) at the time of sale of urban agricultural land should be computed as follows:

Particulars	₹
Sale consideration	15,00,000
Less: Fair market value of the agricultural land on the date of distribution	(10,00,000)
Short term capital gain	**5,00,000**

Under the head "Income from other Sources"

Dividend u/s 2(22)(c) amounting to ₹ 6,58,333 will be taxable in the hands of Ms. Vasumathi as per Sec 56(2)(i)

Note: The tax liability ascertained at ₹ 3,00,000 has to be reduced from bank balance while computing full value of consideration u/s 46(2). ₹ 50,000, being the difference between ₹ 3,00,000 and ₹ 2,50,000, has to be reduced from General Reserve for calculating deemed dividend u/s 2(22)(c).

Qn. 2 Mr. Aryan, a resident individual, is working in Nishchay Ltd. and earns salary of ₹ 90,000 per month during PY 2025-26. He holds 20,000 equity shares of Alpha Ltd., an Indian listed company, purchased on 1st January 2017 at ₹ 200 per share. These were acquired through a recognized stock exchange and STT was paid on both acquisition and sale.

In August, 2025, Mr. Aryan transferred a plot in Chandigarh for ₹ 70 lakhs which was acquired by him in May 2017 for ₹ 22 lakhs. He paid brokerage of 1% on transfer.

In November, 2025, Alpha Ltd. decided to buy back 50% of its shares at ₹ 250 per share. Alpha Ltd. bought back proportionate shares of Mr. Aryan. In May 2026, Mr. Aryan acquired a residential house property in Kanpur for ₹ 40 lakhs. Fair Market value of equity shares of Alpha Ltd. as on 31.1.2018 was ₹ 190 per share. You are required to compute the total income of Mr. Aryan if he is paying tax under default tax regime.

[RTP – Sep 25]

Ans. Computation of total income of Mr. Aryan for AY 2026-27

	Particulars	₹	₹
I	**Salaries**		
	Salary from Nishchay Ltd. [₹ 90,000 x 12]	10,80,000	
	Less: Deduction u/s 16 -		
	Standard deduction upto ₹ 75,000	(75,000)	10,05,000
II	**Capital Gains**		
	On buy back of equity shares of Alpha Ltd.		
	Consideration received on buy back of shares	Nil	
	Less: Cost of acquisition	(20,00,000)	
	Higher of		
	- Actual cost of acquisition of ₹ 20 lakhs [10,000 shares @ ₹ 200 per share]		
	- Lower of FMV as on 31.1.2018 i.e., ₹ 19 lakhs and full value of consideration i.e., Nil	-	
	Long term capital loss on buy back of shares	(20,00,000)	
	On sale of plot		
	Sale consideration	70,00,000	
	Less: Brokerage @1%	(70,000)	
	Net sale consideration	69,30,000	
	Less: Cost of acquisition	(22,00,000)	
		47,30,000	
	Less: Exemption u/s 54F	(27,30,159)	

	Amount invested in residential house within 2 years would qualify for exemption against long term capital gain arising from transfer of plot. Since the amount invested is less than the net consideration, proportionate capital gains is exempt [₹ 47,30,000 x ₹ 40,00,000/ ₹ 69,30,000]		
	Long term capital gain on transfer of plot	19,99,841	
	Less: Set off of long term capital loss on buy back of original shares against long term capital gain on transfer of plot to the extent of	(19,99,841)	Nil
	Balance long term capital loss of ₹ 159 on buy back of original shares is to be carried forward to AY 2027-28		
III	**Income from Other Sources**		
	Dividend on buy back of shares [10,000 x 250]		25,00,000
	Total Income		35,05,000

Qn. 3 Star Enterprises has transferred its unit R to A Ltd. by way of Slump Sale on January 23, 2026. The summarised Balance Sheet of Star Enterprises as on that date is given below:

Liabilities	Amount (₹ In lacs)	Assets	Amount (₹ In lacs)
Own Capital	1,750	Fixed Assets:	
Accumulated P & L balance	670	Unit P	200
Liabilities:		Unit Q	150
Unit P	90	Unit R	600
Unit Q	160	Other Assets:	
Unit R	140	Unit P	570
		Unit Q	850
		Unit R	440
Total	2,810	**Total**	2,810

Using the further information below, compute the Capital Gains arising from slump sale of Unit R for AY 2026-27

(i) Slump sale consideration on transfer of Unit R was ₹ 930 lacs. The FMV of assets transferred is ₹ 900 lakhs

(ii) Fixed Assets of Unit R includes land which was purchased at ₹ 110 lacs in the year 2014 and was revalued at ₹ 140 lacs.

(iii) Other fixed assets are reflected at ₹ 460 lacs, (i.e., ₹ 600 lacs less value of land) which represents written down value of those assets as per books. The written down value of these assets is ₹ 430 lacs.

(iv) Unit R was set up by Star Enterprises in Oct, 2013.

[May 18]

Ans. Computation of capital gain on slump sale of Unit R for AY 2026-27

Particulars	₹
Full value of consideration [Actual consideration of ₹ 930 lakhs taken since the same is higher than FMV of assets transferred i.e., ₹ 900 lakhs]	9,30,00,000
Less: Deemed cost of acquisition (Net worth is deemed to be the cost of acquisition) [Refer Working Note below]	(8,40,00,000)
Long-term capital gain [Since the Unit is held for more than 36 months]	90,00,000

Working Note: Net worth of Unit-R

Particulars	₹
Cost of Land (Revaluation not to be considered)	1,10,00,000
WDV of other depreciable fixed assets as per the Income-tax Act, 1961	4,30,00,000
Other Assets (book value)	4,40,00,000
	9,80,00,000

Less: Liabilities	(1,40,00,000)
Net worth	**8,40,00,000**

Notes:

(1) In case of slump sale, net worth of the undertaking transferred shall be deemed to be the cost of acquisition and cost of improvement as per sec 50B.

(2) "Net worth" of the undertaking shall be the aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in the books of accounts.
However, any change in the value of assets on account of revaluation shall not be considered for this purpose

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

(4) Since Unit R is held by the assessee for more than 36 months, the capital gain arising from slump sale is a long-term capital gain.

Qn. 4 Mr. Paras has a proprietary business since PY 2017-18. He has transferred this business on 01.04.2025 by way of a slump sale for a total consideration of ₹ 40 Lakh. The fair market value of his capital assets as on 01.04.2025 is ₹ 35 Lakh. He has incurred expenses for this deal of ₹ 1,50,000. His Balance Sheet as on 31.03.2025 is given below:

Liabilities	₹	Assets	₹
Own Capital	20,00,000	Building	18,00,000
Bank Loan	5,00,000	Debtors	5,00,000
Unsecured Loans	2,50,000	Machinery	5,00,000
Creditors	4,10,000	Other assets	3,60,000
	31,60,000		31,60,000

Other information :

(1) Bank loan balance includes ₹ 2 lakh for personal purpose.

(2) Machinery costing ₹ 50,000 has been allowed 100% as deduction u/s 35AD

(3) Other assets include self-generated goodwill of ₹ 60,000.

(4) Unsecured loans include ₹ 1 lakh for amount payable for the purchase of the ornaments of his wife.

Compute the capital gain/loss for the AY 2026-27.

[Jan 25]

Ans. <u>Computation of capital gains on slump sale for AY 2026-27</u>

Particulars	₹
Full value of consideration [Higher of (i) FMV of capital assets on 1.4.2025 of ₹ 35 lakhs or (ii) FMV of Monetary consideration received of ₹ 40 lakhs]	40,00,000
Less: Expenses for transfer	(1,50,000)
	38,50,000
Less: Net worth (See Note below)	(21,90,000)
Long-term capital gain [Since the business is held for more than 36 months]	**16,60,000**
Note - Computation of net worth	
Building	18,00,000
Machinery [₹ 5,00,000 – ₹ 50,000, being the amount allowed as 100% as deduction u/s 35AD]	4,50,000
Debtors	5,00,000
Other assets (₹ 3,60,000 – ₹ 60,000, being the amount of self-generated goodwill)	3,00,000

Total assets	30,50,000
Less: Bank Loan (₹ 5,00,000 – ₹ 2,00,000, being loan for personal purpose)	(3,00,000)
Unsecured Loan (₹ 2,50,000 – ₹ 1,00,000, being the amount payable for purchase of ornaments of his wife)	(1,50,000)
Creditors	(4,10,000)
Net worth	**21,90,000**

Income from other Sources

[Incl. Dividends & Income from Units]

08

SECTION A – SM QUESTIONS

Qn. 1 Examine under which heads the following incomes are taxable:

(i) Rental income in case property held as stock-in-trade for 3 years

(ii) Salary received by a partner from his partnership firm

(iii) Rental income of machinery

(iv) Winnings from lotteries by a person having the same as business activity

(v) Salaries received by a Member of Parliament

(vi) Receipts without consideration

(vii) In case of retirement, interest on employee's contribution if provident fund is unrecognized.

(viii) Rental income in case of a person engaged in the business of letting out of properties.

Ans.

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iii)	Rental income of machinery (See Note below)	Profits and gains of business or profession/ Income from other sources
(iv)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(v)	Salaries payable to a Member of Parliament	Income from other sources
(vi)	Receipts without consideration	Income from other sources
(vii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(viii)	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains from business or profession

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

Qn. 2 On 10.10.2025, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the FY 2017-18.

Out of this interest, ₹ 1,50,000 relates to the FY 2018-19; ₹ 1,65,000 to the FY 2019-20; and ₹ 1,85,000 to the FY 2020-21. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the AY 2026-27?

[Nov 20]

Ans. Sec 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Sec 56(2)(viii) states that such income shall be taxable as 'Income from other sources'.

50% of such income shall be allowed as deduction by virtue of sec 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on such enhanced compensation would not be allowed as deduction from such income.

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction u/s 57(iv) @50%	(2,50,000)
Taxable interest on enhanced compensation	**2,50,000**

Qn. 3	Examine the following transactions in the context of Income-tax Act, 1961:

(i) Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2025 for ₹ 3,00,000 when the market price was ₹ 5,00,000. The cost of acquisition of shares for Mr. B was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.

(ii) Mr. Chezian is employed in a company with taxable salary income of ₹ 5,00,000. He received a cash gift of ₹ 1,00,000 from Atma Charitable Trust (registered u/s 12AB) in December 2025 for meeting his medical expenses.

Is the sum of money so received from the trust chargeable to tax in the hands of Mr. Chezian?

Ans.

(i) Any movable property received for inadequate consideration by any person is chargeable to tax u/s 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.

Thus, share received by M/s B. Co. (P) Ltd. from Mr B for inadequate consideration is chargeable to tax u/s 56(2)(x) to the extent of ₹ 2,00,000.

As per sec 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares. The full value of consideration (₹ 5,00,000) less the cost of acquisition (₹ 4,55,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. B.

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

Qn. 4 Discuss the taxability or otherwise of the following in the hands of the recipient u/s 56(2)(x) of the Income-tax Act, 1961 -

(i) Akhil HUF received ₹ 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.

(ii) Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.

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

(iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000.

(v) A sum of ₹ 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.

Ans.

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

(iii)	Taxable	55,000	As per provisions of sec 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹ 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹ 10,000) and jewellery (₹ 45,000) exceeds ₹ 50,000. Hence, the entire amount of ₹ 55,000 shall be taxable.
(iv)	Non-taxable	-	Car is not included in the definition of property for the purpose of sec 56(2)(x), therefore, the same shall not be taxable.
(v)	Taxable	1,20,000	The exemption from applicability of sec 56(2)(x) would be available if, *inter alia*, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands u/s 56(2)(x).

Qn. 5 The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2026:

(i) Cash gift of ₹ 51,000 received from her friend on the occasion of her "Shastiaptha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.

(ii) On the above occasion, a diamond necklace worth ₹ 2 lacs was presented by her sister living in Dubai.

(iii) When she celebrated her daughter's wedding on 21.2.2026, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 52,000.

Compute the income, if any, assessable as income from other sources for AY 2026-27.

Ans. (i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

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

(ii) The provisions of sec 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister is not taxable u/s 56(2)(x), even though jewellery falls within the definition of "property".

(iii) To be exempt from applicability of sec 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds ₹ 50,000 in a year. "Sum of money" has, however, not been defined u/s 56(2)(x).

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Hemali –

(1) The first view is that fixed deposit does not fall within the meaning of "sum of money" and therefore, the provisions of sec 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of "property".

(2) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of "sum of money" received.

Income assessable as "Income from other sources"

If the first view is taken, the total amount chargeable to tax as "Income from other sources" would be ₹ 51,000, being cash gift received from a friend on her Shastiaptha Poorthi.

As per the second view, the provisions of sec 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the "Income from other sources" of Mrs. Hemali would be ₹ 1,03,000 (₹ 51,000 + ₹ 52,000).

Qn. 6 Mr. A, a dealer in shares, received the following without consideration during the PY 2025-26 from his friend Mr. B, -

(1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2025.
(2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2025.
(3) A plot of land at Faridabad on 1st July, 2025, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2025, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2025.

Further, on 1st November, 2025, Mr. A took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2025 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2026, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for AY 2026-27.

Ans. Computation of "Income from other sources" of Mr. A for the AY 2026-27

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

Computation of "Capital Gains" of Mr. A for the AY 2026-27

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

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

Qn. 7 Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2026, when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2025 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Mr. Rajesh on the date of agreement. Discuss the tax implications in the hands of Mr. Hari and Mr. Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12th July, 2024.

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

Ans. Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of Mr. Hari	In the hands of Mr. Rajesh
In the hands of Hari, the provisions of sec 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value and the stamp duty value exceeds 110% of consideration. U/s 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through such other prescribed electronic mode on or before the date of agreement. In this case, since the down payment of ₹ 15 lakhs is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised. Therefore, ₹ 75 lakh, being the difference between the stamp duty value on the date of transfer (i.e., ₹ 150 lakh) and the purchase price (i.e., ₹ 75 lakh), would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration.	Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of sec 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable u/s 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through such other prescribed electronic mode.

Case 2: Tax implications if Mr. Hari is a stock broker

In the hands of Mr. Hari	In the hands of Mr. Rajesh
In case Mr. Hari is a stock broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of sec 50C would be attracted in the hands of Mr. Hari since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Thus, ₹ 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., ₹ 150 lakh) and the purchase price (i.e., ₹ 75 lakh) would be chargeable as short-term capital gains. It may be noted that u/s 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through	There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker. Therefore, the provisions of sec 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable u/s 56(2)(x) in the hands of Mr. Rajesh, since the payment on

a bank account or through such other prescribed electronic mode on or before the date of agreement. In this case, since the down payment of ₹ 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.	the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through such other prescribed electronic mode.

Taxation of Dividends & Income from Units

Qn. 8 Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of ₹ 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹ 4,00,000. The company is engaged in some manufacturing activity.

(i) Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?

(ii) What would be your answer, if the lending company is a private limited company (i.e., a company in which the public are not substantially interested)?

[Nov 20]

Ans. Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend u/s 2(22)(e), to the extent the company possesses accumulated profits.

(i) The provisions of sec 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.

(ii) However, if the loan is taken from a private company (i.e. a company in which the public are not substantially interested), which is a manufacturing company and not a company where lending of money is a substantial part of the business of the company, then, the provisions of sec 2(22)(e) would be attracted, since Rahul holds more than 10% of the equity shares in the company.

The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., ₹ 4,00,000 and not the amount of loan which is ₹ 5,00,000.

Section B – Blast from the Past

Qn. 1 Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:

(i) Mr. Arun received an advance of ₹ 56,000 on 11-09-2025 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of ₹ 56,000 was forfeited.

(ii) Mr. Nitin, transferred a house property to his son Mr. Raj without consideration. The value of the house is ₹ 12 lacs as per the Registrar of stamp duty.

(iii) Mr. Tanmay gifted a refrigerator to his sister's daughter Tannu on her marriage. The fair market value of the refrigerator is ₹ 75,000.

Ans. **[RTP – Nov 18]**

S.No.	Taxable / Not Taxable	Reason
(i)	Taxable	Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset would be chargeable to tax under the head "Income from other sources", if such amount is forfeited and the negotiations do not result in transfer of such capital asset [Sec 56(2)(ix)]. Therefore, the amount of ₹ 56,000 received as advance would be chargeable to tax in the hands of Mr. Arun under the head "Income from other sources", since it is forfeited on account of cancellation of contract for transfer of house, being a capital asset, due to non-payment of installment in time.

(ii)	Not Taxable	As per sec 56(2)(x), immovable property received without consideration by any person from his relative is not taxable. In the present case, since Mr. Nitin is the father of Mr. Raj, ₹ 12 lakhs, being the stamp duty value of house property received, without consideration, would not be chargeable to tax in the hands of Mr. Raj.
(iii)	Not Taxable	Refrigerator is not included in the definition of "property", for the purpose of taxability u/s 56(2)(x) in the hands of the recipient under the head "Income from other sources". Further, the same has been received by Tannu on occasion of her marriage from her maternal uncle, being a relative. Hence, ₹ 75,000, being the fair market value of refrigerator received without consideration from a relative on the occasion of a her marriage is not taxable in the hands of Tannu, even though its value exceeds ₹ 50,000.

Qn. 2 Mr. Rakesh has 15% share holding in RSL(P) Ltd. and has also 50% share in Rakesh & Sons, a partnership firm. The accumulated profit of RSL(P) Ltd. is ₹ 20 Lakh. Rakesh & Sons had taken a loan of ₹ 25 Lakh, from RSL(P) Ltd. Explain whether the above loan is treated as dividend as per the provisions of the Income-tax Act, 1961.

[Nov 16]

Ans. Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan

- to a shareholder, being a person who is the beneficial owner of shares holding not less than 10% of voting power, or
- to any concern in which such shareholder is a partner and in which he has a substantial interest (i.e., he is beneficially entitled to not less than 20% of the income of such concern)

is deemed as dividend u/s 2(22)(e), to the extent the company possesses accumulated profits.

In the present case, the loan given by RSL(P) Ltd. to Rakesh & Sons, a partnership firm would be deemed as dividend, since Mr. Rakesh is the beneficial owner of 15% shareholding in RSL(P) Ltd. and also has substantial interest in Rakesh & Sons (as he is beneficially entitled to 50% of the income of the firm).

However, the amount of loan would be deemed as dividend only to the extent RSL(P) Ltd. possesses accumulated profits. Therefore, out of the loan of ₹ 25 lakhs given to Rakesh & Sons, only ₹ 20 lakhs, being the amount of accumulated profit of RSL (P) Ltd., would be deemed as dividend.

Clubbing of Income

Section A – SM Questions

Transfer of Income without transfer of asset – Sec 60

Qn. 1 Mr. Vatsan has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

Ans. Sec 60 expressly states that where there is transfer of income from an asset without transfer of the asset itself, such income shall be included in the total income of the transferor. Hence, the rental income derived from the godown shall be clubbed in the hands of Mr. Vatsan.

Remuneration to spouse - Sec 64(1)(ii):

Qn. 2 Mr. A holds shares carrying 25% voting power in X (P) Ltd. Mrs. A is working as a computer software programmer in X (P) Ltd. at a salary of ₹ 30,000 p.m. She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are ₹ 7,00,000 & ₹ 4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the AY 2026-27 if they are paying tax under default tax regime.
Will your answer be different if Mrs. A was qualified for the job?

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

Computation of Gross total income of Mr. A

Particulars	₹	₹
Salary received by Mrs. A (₹ 30,000 × 12)	3,60,000	
Less: Standard deduction u/s 16(ia)	(75,000)	2,85,000
Other Income		7,00,000
Gross total income		**9,85,000**

The gross total income of Mrs. A is ₹ 4,00,000.

If Mrs. A possesses professional qualifications for the job, then the clubbing provisions shall not be applicable.
Gross total income of Mr. A = ₹ 7,00,000 (other income)
Gross total income of Mrs. A = Salary received by Mrs. A [₹ 30,000 × 12] less ₹ 75,000, being the standard deduction u/s 16(ia) plus other income [₹ 4,00,000] = ₹ 6,85,000

Qn. 3 Mr. B holds shares carrying 30% voting power in Y (P) Ltd. Mrs. B is working as accountant in Y (P) Ltd. getting income under the head salary (computed) of ₹ 3,44,000 without any qualification in accountancy. Mr. B also receives ₹ 30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is ₹ 6000 p.m. Compute the gross total income of Mr. B and Mrs. B for the AY 2026-27.

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

Computation of Gross total income of Mr. B

Particulars	₹
Income from Salary of Mrs. B (Computed)	3,44,000
Income from other sources - Interest on securities	30,000
	3,74,000

Computation of gross total income of Mrs. B

Particulars	₹	₹
Income from Salary [clubbed in the hands of Mr. B]		-
Income from house property		
Gross Annual Value [₹ 6,000 × 12]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	72,000	
Less: Deduction u/s 24		
- 30% of NAV i.e., 30% of ₹ 72,000	(21,600)	
- Interest on loan	-	(50,400)
Gross total income		**50,400**

Transfer of assets to Spouse / Son's wife - Sec 64(1)(iv)/(vi):

Qn. 4 Mr. Vaibhav started a proprietary business on 01.04.2024 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2024-25. To overcome the financial position, his wife Mrs. Vaishaly, a software engineer, gave a gift of ₹ 5,00,000 on 01.04.2025, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2025-26. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the AY 2026-27. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

Ans. Sec 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.

In this case, Mr. Vaibhav received a gift of ₹ 5,00,000 on 1.4.2025 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Viashaly for the AY 2026-27 is computed as under:

Particulars	Mr. Vaibhav's capital contribution (₹)	Capital contribution out of gift from Mrs. Vaishaly (₹)	Total (₹)
Capital as on 1.4.2025	3,00,000 (5,00,000 – 2,00,000)	5,00,000	8,00,000
Profit for PY 2025-26 to be apportioned on the basis of capital employed on the 1st day of the PY i.e. as on 1.4.2025 (3:5)	1,50 ,000 [4,00,000 × (3/8)]	2,50,000 [4,00,000 × (5/8)]	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the AY 2026-27 is ₹ 2,50,000.

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

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

Qn. 5 A proprietary business was started by Smt. Rani in the year 2023. As on 1.4.2024 her capital in business was ₹ 3,00,000.

Her husband gifted ₹ 2,00,000 on 10.4.2024 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the FY 2024-25, ₹ 1,50,000 and FY 2025-26 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the AY 2026-27 with reasons.

Ans. Sec 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of ₹ 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for AY 2026-27 is computed as under:

Particulars	Smt. Rani's Capital Contribution	Capital Contribution out of gift from husband	Total
Capital as at 1.4.2024	3,00,000	-	3,00,000
Investment on 10.04.2024 out of gift received from her husband	-	2,00,000	2,00,000
	3,00,000	2,00,000	5,00,000
Profit for FY 2024-25 to be apportioned on the basis of capital employed on the first day of the PY i.e., on 1.4.2024	1,50,000	-	1,50,000
Capital employed as at 1.4.2025	**4,50,000**	**2,00,000**	**6,50,000**
Profit for FY 2025-26 to be apportioned on the basis of capital employed as at 1.4.2025 (i.e., 45:20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for AY 2026-27 is ₹ 1,20,000.

Qn. 6 Mr. A has gifted a house property valued at ₹ 50 lakhs to his wife, Mrs. B, who in turn has gifted the same to Mrs. C, their daughter-in-law. The house was let out at ₹ 25,000 per month throughout the year. Compute the total income of Mr. A and Mrs. C.

Will your answer be different if the said property was gifted to his son, husband of Mrs. C?

Ans. As per sec 27(i), an individual who transfers otherwise than for adequate consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred.

Therefore, in this case, Mr. A would be the deemed owner of the house property transferred to his wife Mrs. B without consideration.

As per sec 64(1)(vi), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.

Income from let-out property is ₹ 2,10,000 [i.e., ₹ 3,00,000, being the actual rent calculated at ₹ 25,000 per month less ₹ 90,000, being deduction u/s 24 @ 30% of ₹ 3,00,000]

In this case, income of ₹ 2,10,000 from let-out property arising to Mrs. C, being Mr. A's son's wife, would be included in the income of Mr. A, applying the provisions of sec 27(i) and sec 64(1)(vi). Such income would, therefore, not be taxable in the hands of Mrs. C.

In case the property was gifted to Mr. A's son, the clubbing provisions u/s 64 would not apply, since the son is not a minor child. Therefore, the income of ₹ 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.

It may be noted that the provisions of sec 56(2)(x) would not be attracted in the hands of the recipient of house property, since the receipt of property in each case was from a "relative" of such individual. Therefore, the stamp duty value of house property would not be chargeable to tax in the hands of the recipient of immovable property, even though the house property was received by her or him without consideration.

Note - The first part of the question can also be answered by applying the provisions of sec 64(1)(vi) directly to include the income of ₹ 2,10,000 arising to Mrs. C in the hands of Mr. A. [without first applying the provisions of sec 27(i) to deem Mr. A as the owner of the house property transferred to his wife Mrs. B without *consideration], since sec 64(1)(vi) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her husband's parent, without consideration. Gift of house property by Mr. A to Mrs. C, via Mrs. B, can be viewed as an indirect transfer by Mr. A to Mrs. C.*

Transfer of assets to any person for the benefit of Spouse / Son's wife - Sec 64(1)(vii)/(viii):

Qn. 7 Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of ₹ 36,000 per annum shall be utilized for the benefit of her son's wife.
Mrs. Kasturi claims that the amount of ₹ 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property.
Examine with reasons whether the contention of Mrs. Kasturi is valid in law.

Ans. The clubbing provisions u/s 64(1)(viii) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual.
Therefore, income of ₹ 36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi in this case.
The contention of Mrs. Kasturi is, hence, not valid in law.

Note - In order to attract the clubbing provisions u/s 64(1)(viii), the transfer should be otherwise than for adequate consideration. In this case, it is presumed that the transfer is otherwise than for adequate consideration and therefore, the clubbing provisions are attracted. Moreover, the provisions of sec 56(2)(x) will also get attracted in the hands of ABC Co Ltd., if the conditions specified thereunder are satisfied.
If it is presumed that the transfer was for adequate consideration, the provisions of sec 64(1)(viii) would not be attracted.

Income of minor child - Sec 64(1A):

Qn. 8 Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is ₹ 2,000 p.a. each and that of the son is ₹ 1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2025 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is ₹ 10,000 p.m. Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s 64(1A) (assuming that Mr. A's total income is higher than Mrs. A's total income, before including the income of minor children) and both Mr. A and Mrs. A exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Ans. Taxable income, in respect of minor children, in the hands of Mr. A is:

Particulars	₹	₹
Twin minor daughters [₹ 2,000 × 2]	4,000	
Less: Exempt u/s 10(32) [₹ 1,500 × 2]	(3,000)	1,000
Minor son	1,200	
Less: Exempt u/s 10(32)	(1,200)	Nil
Income to be clubbed in the hands of Mr. A		**1,000**

Note – As per sec 27(i), Mrs. A is the deemed owner of house property transferred to her minor son. Natural love and affection do not constitute adequate consideration for this purpose. Accordingly, the income from house property of ₹ 84,000 [i.e., ₹ 1,20,000 (-) ₹ 36,000, being 30% of ₹ 1,20,000) would be taxable directly in her hands as the deemed owner of the said property.
Consequently, clubbing provisions u/s 64(1A) would not be attracted in respect of income from house property, owing to which exemption u/s 10(32) cannot be availed by her.

Qn. 9 Mr. Sharma has four children consisting 2 daughters and 2 sons. The annual income of 2 daughters were ₹ 9,000 and ₹ 4,500 and of sons were ₹ 6,200 and ₹ 4,300, respectively. The daughter who has income of ₹ 4,500 was suffering from a disability specified u/s 80U.

Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans. As per sec 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified u/s 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified u/s 80U should not be clubbed with the income of Mr. Sharma.

U/s 10(32), income of each minor child includible in the hands of the parent u/s 64(1A) would be exempt to the extent of the actual income or ₹ 1,500, whichever is lower. Mr. Sharma would be eligible for exemption u/s 10(32) since he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma:

Income of one daughter	9,000
Less: Income exempt u/s 10(32)	(1,500)
Total (A)	7,500
Income of two sons (₹ 6,200 + ₹ 4,300)	10,500
Less: Income exempt u/s 10(32) (₹ 1,500 + ₹ 1,500)	(3,000)
Total (B)	7,500
Total Income to be clubbed as per sec 64(1A) (A+B)	**15,000**

Note: It has been assumed that:

(1) The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience;

(2) The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and

(3) This is the first year in which clubbing provisions are attracted.

Qn. 10 Mrs. and Mr. Naresh Yadav have two minor children Mahi and Nonu. The following are the receipts in the hands of Mahi and Nonu during the year ended 31-3-2026:

(i) Mahi received a gift of ₹ 85,000 from her friend's father on the occasion of her birthday.

(ii) Nonu won a prize money of ₹ 3,00,000 in National Sports competition.
This was invested in debentures of a company, from which interest of ₹ 25,000 (gross) accrued during the year.

Mr. Naresh's income before considering clubbing provisions is higher than that of his wife and he has opted out of the default tax regime.

Explain how these items will be considered for taxation under the provisions of the Income Tax Act, 1961. Detailed computation of income is not required.

Ans. (i) Gift received from non-relative by minor daughter Mahi

Gift of ₹ 85,000 received by minor daughter Mahi, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Naresh Yadav, since his income before considering clubbing provisions is higher than that of his wife.

Exemption of ₹ 1,500 would be allowed in respect of the aggregate income of minor daughter Mahi so included in the hands of Mr. Naresh Yadav u/s 10(32)

(ii) Prize money of ₹ 3,00,000 in National Sports Competition/Interest on debentures received by minor son Nonu

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be included in the hands of parent. Hence, the prize money of ₹ 3,00,000 won in National Sports Competition by minor son Nonu from exercise of special talent would not be included in the income of either parent.

However, interest of ₹ 25,000 on debentures has to be included in the hands of her father, Mr. Naresh Yadav, even if the investment is made out of income arising from application of special talent.

Exemption of ₹ 1,500 would be allowed in respect of the aggregate income of minor son Nonu so included in the hands of Mr. Naresh Yadav u/s 10(32).

Qn. 11 Compute the gross total income of Mr. & Mrs. A from the following information:

	Particulars	₹
(a)	Salary income (computed) of Mrs. A	2,30,000
(b)	Income from profession of Mr. A	3,90,000
(c)	Income of minor son B from company deposit	15,000
(d)	Income of minor daughter C from special talent	32,000
(e)	Interest from bank received by C on deposit made out of her special talent	3,000
(f)	Gift received by C on 30.09.2025 from friend of Mrs. A	2,500

Brief working is sufficient. Detailed computation under various heads of income is not required.

Ans. As per the provisions of sec 64(1A) of the Income-tax Act, 1961, all the income of a minor child has to be clubbed in the hands of that parent whose total income (excluding the income of the minor) is greater. The income of Mr. A is ₹ 3,90,000 and income of Mrs. A is ₹ 2,30,000. Since the income of Mr. A is greater than that of Mrs. A, the income of the minor children have to be clubbed in the hands of Mr. A. It is assumed that this is the first year when clubbing provisions are attracted.

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be clubbed. Hence, the income of minor child C from exercise of special talent will not be clubbed.

However, interest from bank deposit has to be clubbed even when deposit is made out of income arising from application of special talent.

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

<u>Computation of gross total income of Mr. A for the AY 2026-27</u>

Particulars	₹	₹
Income from profession		3,90,000
Income of minor son B from company deposit	15,000	
Less: Exemption u/s 10(32)	(1,500)	13,500
Income of minor daughter C		
From special talent – not to be clubbed	-	
Interest from bank	3,000	
Gift of ₹ 2,500 received from a non-relative is not taxable u/s 56(2)(x) being less than the aggregate limit of ₹ 50,000	Nil	
	3,000	
Less: Exemption u/s 10(32)	(1,500)	1,500
Gross Total Income		**4,05,000**

<u>Cross Transfers</u>

Qn. 12 Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14-6-2025. On 12-7-2025, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-8-2025 at 9% interest. Discuss the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother.

Ans. In the given case, Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14.06.2025 and simultaneously, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife on 12.07.2025. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

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

Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per sec 64(1), to the extent of amount of cross transfers i.e., ₹ 5 lakhs.

This is because both Mr. Vasudevan and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation.

However, the interest income earned by his spouse on fixed deposit of ₹ 5 lakhs alone would be included in the hands of Mr. Vasudevan's brother and not the interest income on the entire fixed deposit of ₹ 6 lakhs, since the cross transfer is only to the extent of ₹ 5 lakhs.

Comprehensive Questions

Qn. 13 Mr. B is the Karta of a HUF, whose members derive income as given below:

	Particulars	₹
(i)	Income from B' s profession	45,000
(ii)	Mrs. B' s salary as fashion designer	76,000
(iii)	Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle)	10,000
(iv)	Minor daughter P's earnings from sports	95,000
(v)	Minor son E's winnings from lottery (gross)	1,95,000

Examine the tax implications in the hands of Mr. and Mrs. B.

Ans. Clubbing of income and other tax implications

As per the provisions of sec 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. B and Mrs. B subsists.

Further, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

Tax implications

(i) Income of ₹ 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".

(ii) Salary of ₹ 1,000 (₹ 76,000 less standard deduction u/s 16(ia) of ₹ 75,000) shall be taxable as "Salaries" in the hands of Mrs. B.

However, if Mrs. B exercises the option of shifting out of default tax regime, salary of ₹ 26,000 (₹ 76,000 less standard deduction u/s 16(ia) of ₹ 50,000) shall be taxable as "Salaries"

(iii) Income from fixed deposit of ₹ 10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as "Income from other sources", since his income is greater than income of Mrs. B before including the income of the minor child.

As per sec 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child if such parent exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). The balance income would be clubbed in the hands of the parent as "Income from other sources".

(iv) Income of ₹ 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.

(v) Income of ₹ 1,95,000 arising to minor son E from lottery shall be included in the hands of Mr. B as "Income from other sources", since his income is greater than the income of Mrs. B before including the income of minor child.

Note – Mr. B can reduce the tax deducted at source from such lottery income while computing his net tax liability.

Note – As regards availability of exemption u/s 10(32) in respect of lottery income of minor child E includible in the hands of Mr. B, there are two possible views. Since exemption of upto ₹ 1,500 u/s 10(32) is available in respect of any income of minor child includible in the total income of parent, one view is that such exemption would also be available in respect of lottery income of a minor child includible in the hands of parent.

The alternate view is that since as per sec 58(4), no deduction is allowable in respect of any expenditure or allowance in connection with lottery income under any provision of the Income-tax Act, 1961, exemption u/s 10(32) would also not be available in respect of such income of minor child includible in the hands of the parent. Further, lottery income is subject to tax at a flat rate of 30%, and hence, if any exemption is allowed in respect of such income, it would reduce the tax liability and the effective rate of tax.

Qn. 14 Nishant gifted ₹ 10 lakhs to his wife, Nisha on her birthday on, 1st January, 2025. Nisha lent ₹ 5,00,000 out of the gifted amount to Krish on 1st April, 2025 for six months on which she received interest of ₹ 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2025, which were sold for ₹ 75,000 on 30th December, 2025. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital by Nisha in a new business started on 1.4.2025. She suffered loss of ₹ 15,000 in the business in FY 2025-26.

In whose hands the above income and loss shall be included in AY 2026-27? Support your answer with brief reasons.

[Nov 17]

Ans. As per sec 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Accordingly, ₹ 50,000, being the amount of interest on loan received by Ms. Nisha, wife of Mr. Nishant, would be includible in the total income of Mr. Nishant, since such loan was given by her out of the sum of money received by her as gift from her husband.

Since the capital was invested in business by Ms. Nisha on 1st April, 2025, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹ 15,000 from the business carried on by Ms. Nisha would also be includible in the total income of Mr. Nishant.

Since income includes loss as per Explanation 2 to sec 64, clubbing provisions would be attracted even if there is loss and not income.

The short-term capital gain of ₹ 25,000 (₹ 75,000, being the sale consideration less ₹ 50,000, being the cost of acquisition) arising in the hands of Ms. Nisha from sale of shares acquired by investing the interest income of ₹ 50,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Nishant.

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the hands of Ms. Nisha. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable @ 20% in the hands of Ms. Nisha.

Qn. 15 During the PY 2025-26, the following transactions occurred in respect of Mr. A.

(a) Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 1-4-2025 to 31-3-2026 to the savings bank account of Mr. B, son of his brother, to help him in his education.

(b) Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.

(c) Mr. A gifted a flat to Mrs. A on April 1, 2025. During the PY 2025-26, Mrs. A's "Income from house property" (computed) was ₹ 52,000 from such flat.

(d) Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he derived income of ₹ 20,000 from the investment.

(e) Mr. A's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.

During the year, Mr. A got a monthly pension of ₹ 10,000. He had no other income. Mrs. A received salary of ₹ 20,000 per month from a part time job.

Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child assuming that they exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[May 23]

Ans. Computation of total income of Mr. A, Mrs. A and their minor son for the AY 2026-27

Particulars		Mr. A (₹)	Mrs. A (₹)	Minor Son (₹)
Income under the head "Salaries"				
Salary income (of Mrs. A)		-	2,40,000	-
Pension income (of Mr. A) (₹ 10,000 × 12)		1,20,000	-	
Less: Standard deduction u/s 16(ia)		(50,000)	(50,000)	
		70,000	1,90,000	
Income from House Property [Note (3)]		52,000	-	-
Income from other sources				
Interest on Mr. A's fixed deposit with Bank of India (₹ 5,00,000 × 9%) [Note (1)]	45,000		-	-
Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [Note (2)]	25,000	70,000	-	-
Income before including income of minor son u/s 64(1A)		**1,92,000**	**1,90,000**	**-**
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [Note (4)]		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent [Note (5)]		-	-	20,000
Total Income		**2,10,500**	**1,90,000**	**20,000**

Notes:

(1) As per sec 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.

(2) As per sec 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any

technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In this case, the commission income of ₹ 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% profit share in the firm.

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

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

(4) As per sec 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per sec 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.

Therefore, the income of ₹ 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of ₹ 1,500 u/s 10(32), be included in the income of Mr. A, since Mr. A's income of ₹ 1,92,000 (before including the income of the minor child) is greater than Mrs. A's income of ₹ 1,90,000. Therefore, ₹ 18,500 (i.e., ₹ 20,000 – ₹ 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Note: The provisions of sec 56(2)(x) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his father.

(5) In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

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

Qn. 16 Mr. Mahadev, a noted bhajan singer of Rajasthan and his wife Mrs. Dariya furnish the following information relating to the AY 2026-27.

		₹
1	Income of Mr. Mahadev - professional bhajan singer (computed)	5,65,000
2	Salary income of Mrs. Dariya (computed)	3,80,000
3	Loan received by Mrs. Dariya from Ramu & Jay (Pvt) Ltd. (Mrs. Dariya holds 35% shares of the Co. The Co. has incurred losses since its inception 2 years back)	2,50,000
4	Income of their minor son Golu from winning singing reality show on T.V.	2,50,000
5	Cash gift received by Golu from friend of Mr. Mahadev on winning the show	21,000
6	Interest income received by minor married daughter Gudia from deposit with Ramu & Jay Pvt Ltd.	40,000

Compute total taxable income of Mr. Mahadev & Mrs. Dariya for the AY 2026-27 if both of them are paying tax under default tax regime

[Nov 19]

Ans. <u>Computation of Taxable income of Mr. Mahadev for AY 2026-27</u>

Particulars	₹
Professional income (bhajan singer)	5,65,000
Income of minor son – Golu	

Income from winning singing reality show on T.V.	Nil
Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of parent. Hence, ₹ 2,50,000 earned by minor son Golu from reality show on TV would not be included in the income of either parent.	
Cash gift received by Golu from friend of Mr. Mahadev on winning the show	Nil
The cash gift received by his minor son Golu (not on account of her skill) from his friends would not be taxable, since its value does not exceed ₹ 50,000.	
Income of minor married daughter – Gudia	
Interest income on deposit with Ramu & Jay Pvt. Ltd. 40,000	
Less: Exempt u/s 10(32) – Not allowable NIL	40,000
(Income of minor daughter would be included in the hands of Mr. Mahadev, since his income, before including minor daughter's income, is higher than his wife's income).	
Taxable Income	**6,05,000**

<u>Computation of Taxable income of Mrs. Dariya for AY 2026-27</u>

Particulars	**₹**
Salary income (computed)	3,80,000
Loan received from Ramu & Jay (Pvt.) Ltd.	Nil
[Such loan amount would not be considered as deemed dividend u/s 2(22)(e), even though Mrs. Dariya has substantial interest (holding 10% shares or more) in the Ramu & Jay (Pvt.) Ltd., a closely held company, since the company does not have any accumulated profits on account of losses incurred in last 2 years from inception]	
Taxable Income	**3,80,000**

Section B – Blast from the Past

Qn. 1 Akash, aged 17 years, received ₹ 3,50,000 as educational scholarship from M/s ABC Ltd. As a part of public welfare program, ABC Ltd. gave the above scholarship for his exceptional performance in Higher Secondary Examinations and to meet the cost of his further studies. The scholarship so received by Akash is taxable in his hands under the head "Income from other sources". Examine with reasons whether the statement is correct/incorrect

[RTP - Nov 23]

Ans. The statement is incorrect.

Income of Akash, being a minor child, from his skill or talent would be taxable in his hands. However, as per sec 10(16), the value of scholarship granted to meet the cost of education would be exempt from tax in the hands of the recipient irrespective of the amount or source of scholarship.

Qn. 2 Briefly explain with example, the meaning of Cross Transfer, the objective to make such transactions and implications thereof under the Income-tax Laws

[May 19]

Ans. Cross transfer means transfer of income-yielding assets whether directly or indirectly so as to reduce the burden of taxation on the transferors.

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

In such a case, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected as to form part of a single transaction, and each transfer constitutes consideration for the other by being mutual or otherwise.

Example: If Mr. A makes a gift of ₹ 5,00,000 to the wife of his brother B for the purchase of a house by her and simultaneously, Mr. B makes a gift of shares in a foreign company worth ₹ 5,00,000 owned by him to

Mr. A's minor son, the income from the assets transferred would be assessed in the hands of the deemed transferor. This is because both Mr. A and Mr. B are the indirect transferors of the income to their minor son and spouse, respectively, with an intention to reduce their burden of taxation. Accordingly, dividend from shares accruing to Mr. A's minor son is taxable in the hands of Mr. A and rental income from house property accruing to Mrs. B is taxable in the hands of Mr. B.

Qn. 3 Mr. Madhav made a gift of ₹ 2,50,000 to his handicapped son, Master Tapan who was aged 12 years as on 31st March 2024, which he deposited in a fixed deposit account in a Nationalised bank at 10% interest p.a. 'compounded 'annually. The balance in this account as on 1st April, 2025 was ₹ 2,75,000 and the bank credited a sum of ₹ 27,500 as interest on 31st March, 2026.

Madhav's father gifted equity shares worth ₹ 50,000 of an Indian company to Master Manan, another son of Mr. Madhav (Date of birth 10th April, 2018) in July 2018 which were purchased by him on 8th December, 2012 for ₹ 80,000. Manan received a dividend of ₹ 5,000 on these shares in October 2025. He sold these shares on 1st November, 2025 for ₹ 5,00,000 and deposited ₹ 3,00,000 in a company at 15% interest per annum.

Mr. Madhav has a taxable income of ₹ 3,50,000 from his profession during the FY 2025-26.

Compute his Gross Total Income for the AY 2026-27 assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

[May 18]

Ans. <u>Computation of Gross Total Income of Mr. Madhav for the AY 2026-27</u>

Particulars	₹	₹	₹
Income from profession			3,50,000
<u>Income of minor son Manan</u>			
Capital gains			
Full value of consideration	5,00,000		
Less: Indexed Cost of Acquisition	<u>(80,000)</u>	4,20,000	
Income from Other Sources			
Dividend of ₹ 5,000 on equity shares	5,000		
Interest on company deposit [₹ 3,00,000 x 15% x 5/12]	<u>18,750</u>	<u>23,750</u>	
		4,43,750	
Less: Exemption u/s 10(32) in respect of income of minor child		<u>(1,500)</u>	<u>4,42,250</u>
Gross Total Income			**<u>7,92,250</u>**

Notes:

- As per sec 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified u/s 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, interest income of ₹ 27,500 arising to handicapped son, Master Tapan, would not be clubbed with the income of Mr. Madhav
- Income of the other minor child, Master Manan, is includible in the hands of Mr. Madhav, assuming that Mr. Madhav's income is higher than that of his wife.

Qn. 4 Determine the Gross total income of Shri Ram Kumar and Smt. Ram Kumar for the AY 2026-27 from the following:

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

(ii) Shri Ram Kumar transferred a flat to his wife Smt. Ram Kumar on 1st September, 2025 for adequate consideration. The rent received from this let-out flat is ₹ 9,000 per month.

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

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

(v) Mother of Shri Ram Kumar transferred a property to Master Rohit (son of Shri Ram Kumar) in the year 2022. Master Rohit (aged 13 years) received ₹ 15,000 as income from this property on 20th February, 2026.

Assuming both Shri Ram Kumar and Smt. Ram Kumar have exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

[Nov 20]

Ans. <u>Computation of Gross Total Income of Shri Ram Kumar and Smt. Ram Kumar for AY 2026-27</u>

Particulars	Shri Ram Kumar		Smt. Ram Kumar	
Salary	1,80,000		2,40,000	
Less: Standard deduction	(50,000)	1,30,000	(50,000)	1,90,000
Income from house property				
Rent received (taken as annual value in the absence of other information)	45,000		63,000	
Less: Deduction u/s 24(a) @30% of Annual Value	(13,500)	31,500	(18,900)	44,100
Note – Clubbing provisions are not attracted since the transfer to spouse is for adequate consideration. Therefore, the rent for the 5 months upto the date of transfer is taxable in the hands of Ram Kumar and thereafter, in the hands of his wife.				
Profits and gains of business or profession				
Share of profit from firm [Exempt u/s 10(2A)]	-		-	
Interest from firm (assumed that the same is fully deductible in the hands of the firm)		36,000		64,000
Income from other sources				
Interest on debentures	-		30,000	
(Interest @ 10% on debentures transferred to Shri Ram Kumar without consideration to be included in the hands of the transferor-spouse, Smt. Ram Kumar) = 10% of ₹ 3 lakh (Note 1)				
Income from investments [₹ 39,000 x 3,00,000/ 3,30,000] (The clubbing provisions will apply even if the form of the asset is changed. If the debentures are redeemed and invested in similar investments, income from ₹ 3 lakh invested (being the value of debentures transferred) alone will be included in the hands of the transferor-spouse, Smt. Ram Kumar. Income from accretion to such debentures (i.e., income earned by investing debenture interest of ₹ 30,000 will not be included in the hands of Smt. Ram Kumar. The same i.e., ₹ 3,545, will be taxable in the hands of the Shri Ram Kumar himself) (Note 1)		3,545	35,455	65,455
Total income (before including minor's income)		**2,01,045**		**3,63,555**
Income of minor son Rohit to be included in Smt. Ram Kumar's income, since her total income before including minor's income is higher than that of her husband. She is eligible for exemption of ₹ 1,500 u/s 10(32) in respect of the				

income so included. Therefore, income to be included in her income is ₹ 13,500 (₹ 15,000 – ₹ 1,500) (Note 2)	-		13,500
Total Income	**2,01,045**		**3,77,055**

Note –

1. In respect of transfer of debentures by Smt. Ram Kumar to Shri Ram Kumar, it is not mentioned whether the transfer is for adequate consideration or not. Moreover, the date of transfer is also not given. The above solution is given on the assumption that transfer is for inadequate consideration. However, if it is assumed that transfer is for adequate consideration, the clubbing provisions would not be attracted. In such case, the interest on Debentures of ₹ 30,000 as well as income from investment of ₹ 39,000 will be taxable in the hands of Shri Ram Kumar.
2. In respect of property transferred to Rohit, the question simply states ₹ 15,000 as the income from property, without mentioning the nature of income (whether rental income or otherwise) or nature of property (whether house property or otherwise). Therefore, the said amount has not been treated as income from house property and deduction u/s 24(a) has not been provided in the above solution. However, if such sum is treated as income from house property, the income to be included in Smt. Ram Kumar's income would be ₹ 9,000 [₹ 15,000 – ₹ 4,500 (30% of ₹ 15,000 allowable as deduction u/s 24(a)) – ₹ 1,500 (exemption u/s 10(32)], and the same would be included under the head "Income from house property". Consequently, her total income would be ₹ 3,72,555.

Qn. 5 Mr. Suraj, (39 years), his wife Megha (35 years) and minor son Dev (12 years), provide the following details of their income/losses for the PY 2025-26:

Mr. Suraj

(i) Salary received as a partner from a partnership firm - ₹ 6,15,000
He is a working partner in the firm and the salary is as per the limits prescribed u/s 40(b).

(ii) Income (loss) from house property:
Brought forward loss from House A (let out) - ₹ 96,000
Current year loss from House B (let out) - ₹ 2,30,000

(iii) Interest received on enhanced compensation - ₹ 2,00,000
It relates to transfer of a piece of land in the FY 2020-21.
Out of the above ₹ 35,000 relates to PY 2025-26 and the balance relate to preceding PY.

(iv) Gift from grandfather's younger sister by cheque - ₹ 1,25,000

(v) Dividend on listed equity shares of domestic companies (Gross) - ₹ 50,000

(vi) On 1st December 2025, Mr. Suraj received ₹ 75 lakhs as maturity proceeds from his life insurance policy which was taken on 1st May 2014. He paid ₹ 6,00,000 as annual premium and the sum assured was ₹ 65 lakhs.

Mrs. Megha

(i) Current year loss from business. (She carried on this business with funds which Mr. Suraj gifted to her) - ₹ 8,10,000.

(ii) Mrs. Megha purchased a house property from her "Stridhan" and gifted the same to her minor son, Dev on 1st April, 2025 out of love and affection. The FMV of the house on the date of transfer was ₹ 51 lakhs.

Master Dev

Rent received from house property received from Mrs. Megha - ₹ 35,000 p.m.

Compute total income of Mr. Suraj, Mrs. Megha and Dev for the AY 2026-27 assuming Mr. Suraj has decided to pay tax under default tax regime provided u/s 115BAC, whereas Mrs. Megha and Dev have opted out of the default tax regime. Briefly explain the reasons for the treatment of each item.

[Sep 24]

Ans. Computation of total income of Mr. Suraj, Mrs. Megha and minor son Dev for AY 2026-27

Particulars	Mr. Suraj [DTR]	Mrs. Megha [ATR]	Dev [ATR]
	₹	₹	₹
Income from house property			
Annual Value [As per sec 27, Mrs. Megha is the deemed owner of the house property transferred to minor son, Dev without consideration though such property is acquired from her "Stridhan"] [₹ 35,000 x12]		4,20,000	
Less: Deduction @30% of NAV		(1,26,000)	
		2,94,000	
Brought forward loss from House A [Not allowed to be set-off against income from other heads]	-		
Current year loss of Mr. Suraj from House – B [Not allowed to be set-off against income from other heads since Mr. Suraj is paying tax under default tax regime]	-		
Profits and gains from business or profession			
Salary from partnership firm	6,15,000		
Less: As per sec 70, set off of current year loss from business of ₹ 8,10,000 to the extent of [Current year loss from business of his wife is allowed to be set off in the hands of Mr. Suraj since funds for business is gifted by him]	(6,15,000)		
Income from Other Sources			
Interest on enhanced compensation [Taxable in the year it is received]	2,00,000		
Less: Deduction @ 50%	(1,00,000)		
	1,00,000		
Gift from grandfather's sister [Taxable u/s 56(2)(x), since grandfather's sister is not a relative and the amount of gift exceeds ₹ 50,000]	1,25,000		
Dividend on shares (gross)	50,000		
Maturity proceeds from LIC [Exempt u/s 10(10D) since the annual premium payable does not exceed 10% of sum assured]	-		
	2,75,000		
Less: Set off of remaining business loss of ₹ 1,95,000	(1,95,000)		
	80,000		
Gift of house property from Mrs. Megha to Dev [Exempt since the gift is from a relative i.e., from his mother]	-	-	Nil
Taxable Income	**80,000**	**2,94,000**	-

Qn. 6 During the PY 2025-26, following transactions took place in respect of Mr. Raghav who is 56 years.

(i) Mr. Raghav owns two house properties in Mumbai. The details in respect of these properties are as under –

	House 1 Self-occupied	House 2 Let-out
Rent received per month	Not applicable	₹ 60,000
Municipal taxes paid	₹ 7,500	Nil
Interest on loan (taken for purchase of property)	₹ 3,50,000	₹ 5,00,000
Principal repayment of loan (taken from HDFC bank)	₹ 2,00,000	₹ 3,00,000

(ii) Mr. Raghav had a house in Delhi. During FY 2016-17, he had transferred the house to Ms. Vamika, daughter of his sister without any consideration. House would go back to Mr. Raghav after the life time of Ms. Vamika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Raghav. Rent received by Ms. Vamika during the PY 2025-26 from such house property is ₹ 5,50,000.

(iii) Mr. Raghav receives following income from M/s M Pvt. Ltd. during PY 2025-26:

- Interest on Debentures of ₹ 7,50,000; and
- Salary of ₹ 3,75,000. He does not possess the adequate professional qualification commensurate with the salary received by him.

Shareholding of M/s M Pvt. Ltd. as on 31.3.2026 is as under –

	Equity shares	Preference shares
Mr. Raghav	Nil	Nil
Mrs. Raghav	2%	25%
Mr. Jai Kishan (brother of Mrs. Raghav)	98%	75%

(iv) Mr. and Mrs. Raghav forms a partnership firm with equal share in profits. Mr. Raghav transferred a fixed deposit of ₹ 1 crore to such firm. Firm had no income or expense other than the interest of ₹ 9,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Raghav at the end of the year.

(v) Mr. Raghav holds preference shares in M/s K Pvt. Ltd. He instructed the company to pay dividends to Ms. Geetanshi, daughter of his servant. The transfer is irrevocable for the life time of Geetanshi. Dividend received by Ms. Geetanshi during the PY 2025-26 is ₹ 13,00,000.

(vi) Other income of Mr. Raghav includes

(vii) Interest from saving bank account of ₹ 2,00,000

(viii) Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.

Compute the total income of Mr. Raghav for the AY 2026-27 assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

[Jan 21]

Ans. Computation of Total Income of Mr. Raghav for AY 2026-27

Particulars	Amount	Amount
Salary		Nil
[Since Mrs. Raghav along with her brother holds shares carrying 100% voting power in M/s M Pvt. Ltd., they have a substantial interest in the company. Since Mr. Raghav is working in the same company without any professional qualifications commensurate with his salary, the salary of ₹ 3,75,000 received by him would be included in the hands of Mrs. Raghav.		
Income from house property		
- House 1 [Self-occupied]		
Net annual value	-	
Less: Interest on loan [upto ₹ 2,00,000]	2,00,000	(2,00,000)
- House 2 [Let out]		
Gross annual value [₹ 60,000 x 12]	7,20,000	
Less: Municipal taxes	-	
Net annual value	7,20,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	(2,16,000)	
(b) Interest on loan	(5,00,000)	4,000
- House in Delhi [Since Mr. Raghav receives direct or indirect benefit from income arising to his sister's daughter, Ms. Vamika, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Raghav as per proviso to sec 62(1), even though the transfer may not be revocable during lifetime of Ms. Vamika's]		
Gross Annual Value	5,50,000	
Less: Municipal taxes	-	

Net Annual Value	5,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,65,000	
(b) Interest on loan	-	3,85,000
		1,89,000
Profits and gains from business or profession		
Share of profit from firm [Exempt u/s 10(2A)]	-	
Exempt income cannot be clubbed		
Income from other sources		
- Dividend on preference shares [Taxable in the hands of Mr. Raghav as per sec 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	13,00,000	
- Interest on debentures	7,50,000	
- Interest from saving bank account	2,00,000	
- Cash gift [Taxable, since sum of money exceeding ₹ 50,000 is received from his niece, who is not a relative as per sec 56(2)]	75,000	23,25,000
Gross Total Income		**25,14,000**
Less: Deduction under Chapter VI-A		
- Deduction u/s 80C [Principal repayment of loan ₹ 5 lakh, restricted to ₹ 1,50,000]	1,50,000	
- Deduction u/s 80TTA [Interest from savings bank account]	10,000	(1,60,000)
Total Income		**23,54,000**

Set-off & Carry forward of losses

10

SECTION A – SM QUESTIONS

Inter source & Inter head adjustments – Secs 70 & 71

Qn. 1 Mr. A (aged 35 years) submits the following particulars pertaining to the AY 2026-27:

Particulars	₹
Income from salary (computed)	4,00,000
Loss from let-out property	(2,20,000)
Business loss	(1,00,000)
Bank interest (FD) received	80,000

Compute the total income of Mr. A for the AY 2026-27, assuming that:

(i) He has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

(ii) He pays tax under the default tax regime.

Ans. Computation of total income of Mr. A for the AY 2026-27 under normal provisions of the Act

Particulars	₹	₹
Income from salary	4,00,000	
Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of sec 71(3A)	(2,00,000)	2,00,000
[Balance loss of ₹ 20,000 from house property to be carried forward to next AY]		
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss set-off ₹ 1,00,000 set-off to the extent of ₹ 80,000	(80,000)	-
[Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next AY]		
Gross total income / Total Income [Note]		**2,00,000**

Note: Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to next AY for set-off against income from house property of that year.

Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

Computation of total income of Mr. A for the AY 2026-27 under default tax regime

Particulars	₹	₹
Income from salary		4,00,000
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss set-off ₹ 1,00,000 set-off to the extent of ₹ 80,000	(80,000)	-
[Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next AY]		
Gross total income / Total Income [Note]		**4,00,000**

Note: Under the default tax regime, loss from house property of ₹ 2,20,000 cannot be set off against income under any other head and cannot be carried forward to next AY.

Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

Qn. 2 During the PY 2025-26, Mr. C has the following income and the brought forward losses:

Particulars	₹
Short term capital gains on sale of shares	1,50,000
Long term capital loss of AY 2024-25	(96,000)
Short term capital loss of AY 2025-26	(37,000)

Long term capital gain u/s 112	75,000

What is the capital gain taxable in the hands of Mr. Chetan for the AY 2026-27?

Ans.

Taxable capital gains of Mr. C for the AY 2026-27

Particulars	₹	₹
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short term capital loss of the AY 2025-26	(37,000)	1,13,000
Long term capital gain	75,0000	
Less: Brought forward long term capital loss of AY 2024-25 ₹ 96,000 set off to the extent of ₹ 75,000 [Note]	(75,000)	-
Taxable short-term capital gains		**1,13,000**

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long term capital loss of AY 2024-25 of ₹ 21,000 (i.e. ₹ 96,000 – ₹ 75,000) has to be carried forward to the next year to be set-off against long-term capital gains of that year.

Qn. 3 Mr. D has the following income for the PY 2025-26

Particulars	₹
Income from the activity of owning and maintaining the race horses	75,000
Income from business	85,000
Brought forward textile business loss (relating to AY 2025-26)	(50,000)
Brought forward loss from the activity of owning and maintaining the race horses (relating to AY 2023-24)	(96,000)

What is the total income in the hands of Mr. Dinesh for the AY 2026-27?

Ans.

Total income of Mr. D for the AY 2026-27

Particulars	₹	₹
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss of ₹ 96,000 from the activity of owning and maintaining race horses set-off to the extent of ₹ 75,000	(75,000)	-
Balance loss of ₹ 21,000 (₹ 96,000 – ₹ 75,000) from the activity of owning and maintaining race horses to be carried forward to AY 2027-28		
Income from textile business	85,000	
Less: Brought forward business loss from textile business	(50,000)	35,000
Total income		**35,000**

Note: Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.

Qn. 4 Mr. E has furnished his details for the AY 2026-27 as under:

Particulars	₹
Income from salaries (computed)	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	80,000
Long term capital loss of AY 2024-25	(30,000)
Winning from lotteries	20,000

What is the taxable income of Mr. E for the AY 2026-27?

Ans. Computation of taxable income of Mr. E for the AY 2026-27

Particulars	₹	₹
Income from salaries		1,50,000
Income from speculation business	60,000	
Less: Loss from non-speculation business	(40,000)	20,000
Short-term capital gain		80,000
Winnings from lotteries		20,000
Taxable income		**2,70,000**

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the next AY.

Comprehensive Questions

Qn. 5 Compute the gross total income of Mr. F for the AY 2026-27 from the information given below

Particulars	₹
Income from house property (computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of shares	56,000
Long term capital loss from sale of property (b/f from AY 2025-26)	(90,000)
Income from tea business	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

Ans. Gross Total Income of Mr. F for the AY 2026-27

Particulars	₹	₹
Income from house property		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	(26,000)	
Less: Brought forward business loss	(45,000)	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Income from the capital gains		
Short term capital gains		56,000
Income from Other sources		
Dividend from Indian companies chargeable to tax in the hands of shareholders		80,000
Gross Total Income		**3,73,000**

Notes:
1. Dividend from Indian companies of ₹ 1,20,000 is taxable in the hands of shareholders at normal rate of tax.
2. 60% of the income from tea business is treated as agricultural income and therefore, exempt.
3. Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 90,000 brought forward from AY 2025-26 cannot be set-off in the AY 2026-27. It has to be carried forward for set-off against long-term capital gains, if any, during AY 2027-28.

Qn. 6 Mr. Soohan submits the following details of his income for the AY 2026-27:

Particulars	₹
Income from salary	3,00,000
Loss from let out house property	(40,000)

Income from sugar business	50,000
Loss from iron ore business for PY 2020-21 (discontinued in PY 2021-22)	(1,20,000)
Short term capital loss	(60,000)
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss u/s 111A	(10,000)
Bank interest on Fixed deposit	5,000

Calculate gross total income and losses to be carried forward, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans. <u>Computation of Gross Total Income of Mr. Soohan for the AY 2026-27</u>

Particulars	₹	₹
Salaries		
Income from salary	3,00,000	
Less: Loss from house property set-off against salary income as per sec 71	(40,000)	2,60,000
Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss from iron-ore business set-off as per sec 72(1)	(50,000)	Nil
Balance business loss of ₹ 70,000 of PY 2020-21 to be carried forward to AY 2027-28		
Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss set-off of ₹ 60,000 set-off to the extent of ₹ 40,000	(40,000)	Nil
Balance short-term capital loss of ₹ 20,000 to be carried forward		
Short-term capital loss of ₹ 10,000 u/s 111A also to be carried forward		
Income from other sources		
Dividend (fully taxable in the hands of shareholders)	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank interest	5,000	66,000
Gross Total Income		**3,26,000**
<u>Losses to be carried forward to AY 2027-28</u>		
Loss of iron-ore business (₹ 1,20,000 – ₹ 50,000)	70,000	
Short term capital loss (₹ 20,000 + ₹ 10,000)	30,000	

Note: Agricultural income is exempt u/s 10(1)

Qn. 7 Mr. Batra furnishes the following details for year ended 31.03.2026:

Particulars	₹
Short term capital gain	1,40,000
Loss from speculative business	60,000
Long term capital gain on sale of land	30,000
Long term capital loss on sale of unlisted shares	1,00,000
Income from business of textile (after allowing current year depreciation)	50,000
Income from activity of owning and maintaining race horses	15,000
Income from salary (computed)	1,00,000
Loss from house property	40,000

Following are the brought forward losses:

(i) Losses from activity of owning and maintaining race horses-pertaining to AY 2023-24 - ₹ 25,000.

(ii) Brought forward loss from business of textile ₹ 60,000 - Loss pertains to AY 2018-19.

Compute gross total income of Mr. Batra for the AY 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Also determine the losses eligible for carry forward to the AY 2027-28.

Ans. Computation of Gross Total Income of Mr. Batra for the AY 2026-27

Particulars	₹	₹
Salaries	1,00,000	
Less: Current year loss from house property	(40,000)	60,000
Profit and gains of business or profession		
Income from textile business	50,000	
Less: Loss of ₹ 60,000 from textile business b/f from AY 2018-19 set-off to the extent of ₹ 50,000	(50,000)	NIL
Income from the activity of owning and maintaining race horses	15,000	
Less: Loss of ₹ 25,000 from activity of owning and maintaining race horses b/f from AY 2023-24 set-off to the extent of ₹ 15,000	(15,000)	NIL
Balance Loss of ₹ 10,000 to be carried forward to AY 2027-28 [Note 2]		
Capital Gain		
Short term capital gain		1,40,000
Long term capital gain on sale of land	30,000	
Less: Long term capital loss of ₹ 1,00,000 on sale of unlisted shares set-off to the extent of ₹ 30,000	(30,000)	NIL
Balance Loss of ₹ 70,000 to be carried forward to AY 2026-27 [Note 3]		
Gross Total Income		2,00,000

Losses to be carried forward to AY 2027-28

Particulars	₹
Current year loss from speculative business [Note 4]	60,000
Current year long term capital loss on sale of unlisted shares	70,000
Loss from activity of owning and maintaining of race horse pertaining to AY 2023-24	10,000

Notes:-

(1) As per sec 72(3), business loss can be carried forward for a maximum of eight AYs immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of AY 2018-19 expired in the AY 2026-27, the balance unabsorbed business loss of ₹ 10,000 cannot be carried forward to AY 2027-28.

(2) As per sec 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 AYs.

(3) Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of ₹ 70,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent AY. Such long-term capital loss can be carried forward for a maximum of eight AYs.

(4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per sec 73(4) to be set-off against income from speculation business.

Qn. 8 Mr. A furnishes you the following information for the year ended 31.03.2026:

		(₹)
(i)	Income from plying of vehicles (computed as per books)	3,20,000
	(He owned 5 light goods vehicle throughout the year)	
(ii)	Income from retail trade of garments	7,50,000
	(Computed as per books) (Sales turnover ₹ 1,35,70,000)	
	Mr. A had declared income on presumptive basis u/s 44AD for the first time in AY 2025-26. Assume 10% of the turnover during the PY 2025-26 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.	
(iii)	He has brought forward depreciation relating to AY 2024-25	1,00,000

Compute taxable income of Mr. A and his tax liability for the AY 2026-27 with reasons for your computation, assuming that he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans. <u>Computation of total income and tax liability of Mr. A for the AY 2026-27</u>

Particulars	₹
Income from retail trade – as per books (Note 1)	7,50,000
Income from plying of vehicles – as per books (Note 2)	3,20,000
	10,70,000
Less: Set off of brought forward depreciation relating to AY 2024-25	(1,00,000)
Total income	**9,70,000**
Tax liability	1,06,500
Add: Health and Education cess @ 4%	4,260
Total tax liability	**1,10,760**

Note:

1. Income from retail trade: Presumptive business income u/s 44AD is ₹ 8,41,340 i.e., 8% of ₹ 13,57,000, being 10% of the turnover received in cash and 6% of ₹ 1,22,13,000, being the amount of sales turnover received through A/c payee cheque. However, the income computed as per books is ₹ 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per books is lower than the income deemed u/s 44AD, the assessee can adopt the income as per books.

   However, if he does not opt for presumptive taxation u/s 44AD, he has to get his books of accounts audited u/s 44AB, since his turnover exceeds ₹ 1 crore (the enhanced limit of ₹ 5 crore would not available, since more than 5% of the turnover is received in cash). Also, his case would be falling u/s 44AD(4) and hence tax audit is mandatory. It may further be noted that he cannot opt for sec 44AD for next five AYs, if he does not opt for sec 44AD this year.
2. Income from plying of light goods vehicles: Income calculated u/s 44AE(1) would be ₹ 7,500 x 12 x 5 which is equal to ₹ 4,50,000. However, the income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per sec 44AE(1). Hence, the assessee can adopt the income as per books i.e. ₹ 3,20,000, provided he maintains books of account as per sec 44AA and gets his accounts audited and furnishes an audit report as required u/s 44AB.

It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions u/s 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

Particulars	₹
Income from retail trade u/s 44AD [₹ 13,57,000 @ 8% plus ₹ 1,22,13,000 @ 6%]	8,41,340
Income from plying of light goods vehicles u/s 44AE [₹ 7,500 x 12 x 5]	4,50,000

	12,91,340
Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off	Nil
Total income	**12,91,340**
Tax thereon	1,99,902
Add: Health and Education cess @ 4%	7,996
Total tax liability	2,07,898
Total tax liability (rounded off)	**2,07,900**

Qn. 9 Mr. Aditya furnishes the following details for the year ended 31-03-2026:

Particulars	Amount (₹)
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered u/s 35AD	20,000
Income from salary (computed)	3,00,000
Loss from house property	2,50,000
Income from trading business	45,000
Long-term capital gain from sale of urban land	2,00,000
Long-term capital loss on sale of shares (STT not paid)	75,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,02,000

Following are the brought forward losses:

(1) Losses from owning and maintaining of race horses pertaining to AY 2024-25 ₹ 2,000.

(2) Brought forward loss from trading business ₹ 5,000 relating to AY 2021-22.

Compute the total income of Mr. Aditya and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans. Computation of total income of Mr. Aditya for the AY 2026-27

Particulars	₹	₹
Salaries		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salary income as per sec 71(3A) [Loss from house property to the extent of ₹ 23,000 can be set off first against remaining capital gain of and then balance ₹ 1,77,000 against Salaries]	(1,77,000)	1,23,000
Loss from house property to the extent not set off i.e., ₹ 50,000 (₹ 2,50,000 – ₹ 2,00,000) to be carried forward to AY 2027-28		
Profits and gains of business or profession		
Income from trading business	45,000	
Less: Brought forward loss from trading business of AY 2021-22 can be set off against current year income from trading business as per sec 72(1), since the eight year time limit as specified u/s 72(3), within which set-off is permitted, has not expired.	(5,000)	40,000
Income from speculative business B	5,000	
Less: Loss of ₹ 25,000 from speculative business A set-off as per sec 73(1) to the extent of ₹ 5,000	(5,000)	Nil
Balance loss of ₹ 20,000 from speculative business A to be carried forward to AY 2027-28 as per sec 73(2)		
Loss of ₹ 20,000 from specified business covered u/s 35AD to be carried forward for set-off against income from specified business as per sec 73A.		

Capital Gains		
Long term capital gain on sale of urban land	2,00,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per sec 74(1)]	(75,000)	
Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per sec 74(1), since long-term capital arising on sale of such shares is taxable u/s 112A	(1,02,000)	
Less: Set-off of loss from house property to the extent of	(23,000)	Nil
Total Income		1,63,000

Items eligible for carried forward to AY 2027-28

Particulars	**₹**
Loss from House property	50,000
As per sec 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only.	
As per sec 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight AYs i.e., upto AY 2034-35, in this case.	
Loss from speculative business A	20,000
Loss from speculative business can be set-off only against profits from any other speculation business. As per sec 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four AYs i.e., upto AY 2030-31, in this case, as specified u/s 73(4)	
Loss from specified business	20,000
Loss from specified business u/s 35AD can be set-off only against profits of any other specified business. If loss cannot be so setoff, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per sec 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business	
Loss from the activity of owning and maintaining race horses	2,000
Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so setoff, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four AYs, i.e., upto AY 2028-29, in this case, as specified u/s 74A(3).	

Qn. 10 Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the PY 2025-26.

	Particulars	**₹**
(1)	Income from Salary (computed)	15,000
(2)	Income from business	66,000
(3)	Long term capital gain on sale of land	10,800
(4)	Loss on maintenance of race horses	15,000
(5)	Loss from gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to AY 2025-26 are as follows:

	Particulars	**₹**
(1)	Unabsorbed depreciation	11,000

(2)	Loss from Speculative business	22,000
(3)	Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the AY 2026-27 and the amount of loss, if any that can be carried forward or not.

Ans. Computation of Gross Total Income of Mr. Garg for the AY 2026-27

Particulars	₹	₹
Income from salary		15,000
Profits and gains of business or profession	66,000	
Less: Unabsorbed depreciation brought forward from AY 2025-26	(11,000)	
(Unabsorbed depreciation can be set-off against any head of income other than "salary")		55,000
Capital gains		
Long-term capital gain on sale of land	10,800	
Less: Brought forward short-term capital loss	(9,800)	
[Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains as per sec 74(1)]		1,000
Gross Total Income		**71,000**

Amount of loss to be carried forward to AY 2027-28

	Particulars	₹
(1)	Loss from speculative business [to be carried forward as per sec 73] [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from AY 2025-26 has to be carried forward to AY 2027-28 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per sec 73(4), i.e., upto AY 2029-30]	22,000
(2)	Loss on maintenance of race horses [to be carried forward as per sec 74A] [As per sec 74A(3), the loss incurred in the activity of owning and maintaining race horses in any AY cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four AYs i.e., upto AY 2030-31]	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	

Qn. 11 The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2026:

Particulars	₹
Income from salaries (computed)	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by sec 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	45,000

Compute the total income and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans. Computation of total income of Mr. Srivatsan for the AY 2026-27

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Set off of balance loss of ₹ 1,50,000 from house property	(1,50,000)	70,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business of ₹ 2,40,000 set off to the extent of ₹ 30,000	(30,000)	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Set-off of balance loss of ₹ 2,10,000 from cloth business	(2,10,000)	
Less: Set-off of loss from house property to the extent of	(40,000)	Nil
Income from other sources		
Income from betting		45,000
Gross Total Income		**1,15,000**
Less: Deduction u/s 80C (life insurance premium paid) [Note (iv)]		(45,000)
Total income		**70,000**

Losses to be carried forward:

Particulars	₹
(1) Loss from cloth business (₹ 2,40,000 – ₹ 30,000 – ₹ 2,10,000)	Nil
(2) Loss from specified business covered by sec 35AD	20,000

Notes:

(i) Loss from specified business covered by sec 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year.

(ii) Business loss cannot be set off against salary income. However, the balance business loss of ₹ 2,10,000 (₹ 2,40,000 – ₹ 30,000 set-off against income from speculation business) can be set-off against long-term capital gains of ₹ 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 40,000.

(iii) Loss from card games can neither be set off against any other income, nor can be carried forward.

(iv) Income from betting is chargeable at a flat rate of 30% u/s 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

Qn. 12 Ms. Geeta, a resident individual, provides the following details of her income / losses for the year ended 31.3.2026:

(i) Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.

(ii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.

(iii) Long-term capital gain on sale of land ₹ 5,00,000.

(iv) ₹ 51,000 received in cash from friends in party.

(v) ₹ 55,000, received towards dividend on listed equity shares of domestic companies.

(vi) Brought forward business loss of AY 2024-25 ₹ 12,50,000.

Compute gross total income of Ms. Geeta for the AY 2026-27 and ascertain the amount of loss that can be carried forward.

Ans.

Computation of Gross Total Income of Ms. Geeta for the AY 2026-27

Particulars		₹
Profits and gains of business and profession		
Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession"		7,50,000
Less: Brought forward business loss of AY 2024-25 ₹ 12,50,000 to be set-off to the extent of ₹ 7,50,000		(7,50,000)
		Nil
(Balance b/f business loss of ₹ 5,00,000 can be carried forward to the next year)		
Capital Gains		
Long term capital gain on sale of land	5,00,000	
Less: Long-term capital loss on shares on STT paid (Note 2)	(3,00,000)	2,00,000
Income from other sources		
Cash gift received from friends - since the value of cash gift exceeds ₹ 50,000, the entire sum is taxable	51,000	
Dividend received from a domestic company is fully taxable in the hands of shareholders	55,000	1,06,000
Gross Total Income		3,06,000

Notes:

1. Balance brought forward business loss of AY 2024-25 of ₹ 5,00,000 has to be carried forward to the next year.
2. Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable u/s 112A.Therefore, it can be set-off against long-term capital gain on sale of land as per sec 70(3).

Qn. 13 Mr. P, a resident individual, furnishes following particulars for the PY 2025-26:

Sl. No.	Particulars	₹
(i)	Income from salary (computed)	18,000
(ii)	Net annual value of house property	70,000
(iii)	Income from business	80,000
(iv)	Income from speculative business	12,000
(v)	Long term capital gain on sale of land	15,800
(vi)	Loss on maintenance of race horse	9,000
(vii)	Loss on gambling	8,000

Depreciation allowable under the Act comes to ₹ 8,000, for which no treatment is given above.

The other details of unabsorbed depreciation and brought forward losses (pertaining to AY 2024-25) are:

Sl. No.	Particulars	₹
(i)	Unabsorbed depreciation	9,000
(ii)	Loss from speculative business	16,000
(iii)	Short term capital loss	7,800

Compute the gross total income of Mr. P for the AY 2026-27, and amount of loss that can be carried forward.

[May 17]

Ans.

Computation of Gross Total Income of Mr. P for the AY 2026-27

Particulars	₹	₹
Income from salary		18,000
Income from House Property		
Net Annual Value	70,000	
Less: Deduction under section 24 (30% of ₹ 70,000)	(21,000)	49,000

Income from business and profession		
Income from business	80,000	
Less: Current year depreciation	(8,000)	
	72,000	
Less: Unabsorbed depreciation	(9,000)	63,000
Income from speculative business	12,000	
Less: Brought forward loss of ₹ 16,000 from speculative business set-off to the extent of ₹ 12,000	(12,000)	Nil
(Balance loss of ₹ 4,000 (i.e., ₹ 16,000 – ₹ 12,000) can be carried forward to the next year)		
Income from capital gain		
Long-term capital gain on sale of land	15,800	
Less: Brought forward short-term capital loss	(7,800)	8,000
Gross total income		**1,38,000**

Amount of loss to be carried forward to the next year

Particulars	₹
Loss from speculative business (to be carried forward as per sec 73)	4,000
Loss on maintenance of race horses (to be carried forward as per sec 74A)	9,000

Notes:
(i) Loss on gambling can neither be set-off nor be carried forward.
(ii) As per sec 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 AYs.
(iii) Speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to AY 2027-28. It may be noted that speculative business loss can be carried forward for a maximum of four years as per sec 73(4).

Qn. 14 Mr. Prakash furnishes the following information for the FY 2025-26:

Particulars	₹
Loss from speculation business-X	85,000
Profit from speculation business-Y	45,000
Interest on borrowings in respect of self-occupied house property	3,18,000
Income from let out house property	1,20,000
Presumptive Income from trading and manufacturing business u/s 44AD	1,00,000
Salary from XYZ (P) Ltd.	5,25,000
Interest on PPF deposit	75,000
Long term capital gain on sale of Vacant site	1,25,000
Short term capital loss on sale of Jewellery	65,000
Investment in tax saver deposit on 31-03-26	60,000
Brought forward loss of business of AY 2020-21	1,00,000

Compute the total income of Mr. Prakash for the AY 2026-27 also show the loss eligible to be carried forward. Assume that he has opted out of the default tax regime.

Ans. Computation of total income of Mr. Prakash for AY 2026-27

Particulars	₹	₹
Salary from XYZ (P) Ltd.	5,25,000	
Less: Standard Deduction u/s 16(ia)	(50,000)	
	4,75,000	

Less: Loss from house property of ₹ 20,000 [₹ 80,000 - ₹ 60,000, being the loss set-off against long-term capital gains]	(20,000)	4,55,000
Income from house property		
Income from let out house property	1,20,000	
Less: Loss from self-occupied house property to the extent of ₹ 2 lakhs, allowable as deduction u/s 24(b) in respect of interest on borrowings	(2,00,000)	
	(80,000)	
Profits and gains from business or profession		
Profit from speculation business Y	45,000	
Less: Loss of ₹ 85,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(45,000)	Nil
Presumptive Income from trading and manufacturing business	1,00,000	
Less: Brought forward business loss of AY 2020-21 set-off since the period of eight AYs has not expired	(1,00,000)	Nil
Capital Gains		
Long term capital gain on sale of vacant site	1,25,000	
Less: Short term capital loss on sale of jewellery	(65,000)	
	60,000	
Less: Loss from house property to be set-off to the extent of LTCG	(60,000)	Nil
Income from Other Sources		
Interest on PPF deposit	75,000	
Less: Exempt	(75,000)	Nil
Gross Total Income		**4,55,000**
Less: Deduction under Chapter VI-A		
Deduction u/s 80C		
Investment in tax saver deposit on 31.3.2026		(60,000)
Total Income		**3,95,000**

Losses to be carried forward to AY 2027-28

Particulars	₹
Loss from speculation business X (₹ 85,000 - ₹ 45,000)	40,000
Loss from speculation business can be set-off only against profits of any other speculation business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from speculation business, if any, in that year.	

Qn. 15 Mr. Jaji is a chartered accountant and his income from profession for the year 2025-26 is ₹ 10,00,000. He provides you with the following information for the year 2025-26.

Particulars	**₹**
Income of minor son Biju from company deposit	1,50,000
Income of minor daughter Chitra (professional dancer)	20,00,000
Interest from SBI received by Chitra on deposit made in 2024 out of her special talent	20,000
Gift received by Chitra on 30-09-2025 from friends of Mr. Jaji on winning National award	45,000
Short term capital loss of Mr. Jaji	6,00,000
Long term capital gain of Mr. Jaji	4,00,000
Long term capital gains from shares (STT paid) of Mr. Jaji	10,00,000
Short term capital loss under section 111A of Mr. Jaji	10,00,000

Compute the total income of Mr. Jaji for AY 2026-27 and the losses to be carried forward. Mr. Jaji has opted out of the default tax regime.

Ans.

Computation of Total Income of Mr. Jaji for AY 2026-27

Particulars	₹	₹	₹
Profits and gains from business and profession			
Income from chartered accountancy profession			10,00,000
Capital gains			
Long term capital gains from STT paid shares		10,00,000	
Long term capital gain (other than above)		4,00,000	
		14,00,000	
Less: Short term capital loss set off against long-term capital gain as per sec 74		(6,00,000)	
Less: Short term capital loss u/s 111A set off against long-term capital gain as per sec 74 to the extent of		(8,00,000)	Nil
Income from other sources			
Income of minor son Biju			
Income from company deposit includible in the hands of Mr. Jaji as per sec 64(1A)	1,50,000		
Less: Exemption in respect of income of minor child u/s 10(32)	(1,500)	1,48,500	
Income of minor daughter Chitra			
- Income of ₹ 20,00,000 of minor daughter Chitra (professional dancer) not includible in the hands of parent, since such income is earned on account of her special skills	Nil		
- Interest received on deposit with SBI made out of amount earned on account of her special talent is includible as per sec 64(1A), since interest income arises out of deposit made and not on account of her special skills	20,000		
Less: Exemption in respect of income of minor child u/s 10(32)	(1,500)	18,500	
Other incomes:			
- Gift of ₹ 45,000 received by her from friends of Mr. Jaji is not taxable u/s 56(2)(x), since the aggregate amount from non-relatives does not exceed ₹ 50,000		Nil	1,67,000
Total Income			**11,67,000**

Losses to be carried forward to AY 2027-28

Particulars	₹
Short term capital loss u/s 111A	2,00,000

Note – Short-term capital loss u/s 111A can be set-off against long-term capital gains first. In such a case, the losses to be carried forward to AY 2027-28 would be as under –

Particulars	₹
Short term capital loss (other than u/s 111A)	2,00,000

Section B – Blast from the past

Qn. 1 The following information is furnished by Mr. Shankar for the FY 2025-26:

Particulars	₹
Income from let out house property (computed)	3,50,000
Interest paid on housing loan for self-occupied property	2,00,000
Income from Textile business	5,75,000
Brought forward business loss of AY 2022-23	1,05,000
Short-term capital loss	70,000
Brought forward long-term loss from AY 2024-25	90,000
Long-term capital gain on sale of house	75,000

Interest on enhanced compensation from Government for acquisition of land in 2021	5,00,000
Dividend received from ABC Ltd., Andhra Pradesh	15,000
Deposit made on 20.01.2026 in his Public Provident fund account	75,000
Loss from owning and maintaining race horse of AY 2024-25	20,000
Loss from Gambling	8,000

Mr. Shankar filed the return of income for AY 2022-23 after the expiry of due date for filing the return. Compute the total income of Mr. Shankar for the AY 2026-27 under proper heads and also state the loss that can be carried forward, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[Nov 20]

Ans. Computation of total income of Mr. Shankar for AY 2026-27

Particulars	₹	₹
Income from house property		
Income from let out house property	3,50,000	
Less: Set-off of loss from self-occupied house property by virtue of sec 70(1) [Whole of interest i.e., ₹ 2,00,000 allowable as deduction, since it is within the permissible limit applicable to self-occupied property; The said amount represents loss from self-occupied property]	(2,00,000)	1,50,000
Profits and gains of business or profession		
Income from textile business	5,75,000	
[As per sec 80, brought forward business loss of ₹ 1,05,000 of AY 2022-23 cannot be set-off, since return of income for that year was filed after the expiry of due date specified u/s 139(1)]	Nil	5,75,000
Capital Gains		
Long-term capital gains on sale of house	75,000	
Less: Short-term capital loss can be set-off against long-term capital gains [sec 70(2)]	(70,000)	
	5,000	
Less: Brought forward long- term capital loss of ₹ 90,000 from AY 2024-25, set-off to the extent of ₹ 5,000	(5,000)	Nil
Income from Other Sources		
Interest on enhanced compensation from Government	5,00,000	
Less: Deduction @ 50%	(2,50,000)	
	2,50,000	
Dividend received from ABC Ltd.	15,000	2,65,000
Gross Total Income		**9,90,000**
Less: Deduction u/s 80C – Deposit in PPF		(75,000)
Total Income		**9,15,000**

Losses to be carried forward to AY 2027-28

1. Long-term capital loss of AY 2024-25 (₹ 90,000 – ₹ 5,000) to be set-off against long-term capital gains, if any, in that year - ₹ 85,000
2. Loss from owning and maintaining racehorse of the AY 2024-25 to be set-off against income, if any, from owning and maintaining racehorses in that year. - ₹ 20,000
3. Loss from gambling (it can neither be set-off against any income during the PY nor can it be carried forward for set-off against any income in the subsequent AYs).

Qn. 2 Mr. Sanju, an individual assessee, aged 32 years, furnishes the following details for the year ended on 31st March, 2026:

(i) Loss from Future & Option: ₹ 75,000
(ii) Profit from restaurant business (computed): ₹ 2,21,000
(iii) Share of profit in partnership firm M/s XL & Co. (19% share): ₹ 38,000
(iv) Income from salary (computed): ₹ 3,15,000
(v) Interest on loan paid for self-occupied house property: ₹ 1,75,000 (Principal amount paid: ₹ 1,20,000)
(vi) Short-term capital gain: ₹ 82,000
(vii) Long-term capital gain u/s 112A: ₹ 1,10,000
(viii) Long-term capital loss u/s 112: ₹ 68,000
(ix) His wife received salary of ₹ 2,40,000 from a partnership firm XL & Co., where she is an accountant. She does not have any professional qualification related to accounting.
(x) He paid ₹ 21,000 for medical insurance premium and ₹ 9,000 for preventive health check-up.

Brought forward speculative business loss: ₹ 26,000 (this being 3rd year from the year of loss) and brought forward short-term capital loss: ₹ 52,000 (this being the 4th year from the year of loss).

Compute total income of Mr. Sanju for the AY 2026-27 if he exercises the option to shift out of default tax regime u/s 115BAC(1A). Also state the losses eligible to carry-forward.

[May 25]

Ans. Computation of Total Income of Mr. Sanju for the AY 2026-27 as per the optional tax regime

Particulars	₹	₹
Income from Salary		
Salary (computed)	3,15,000	
Add: Salary received by his wife from M/s XL & Co., partnership firm of ₹ 2,40,000 shall not to be clubbed in the income of Mr. Sanju even if his wife does not have any professional qualification since he does not have substantial interest in the firm as his share of profit in such firm is less than 20%	Nil	
Less: Loss from self-occupied house property	(1,75,000)	1,40,000
Profit and gains of business or profession		
Profit from restaurant business	2,21,000	
Less: Loss from Future & Option	(75,000)	
	1,46,000	
Share of profit from M/s XL & Co., partnership firm [Exempt u/s 10(2A)]	Nil	1,46,000
Capital Gain		
Short term capital gain	82,000	
Less: Brought forward short-term capital loss	(52,000)	30,000
Long-term capital gain u/s 112A	1,10,000	
Less: Long term capital loss u/s 112	(68,000)	42,000
Gross Total Income		3,58,000
Less: Deduction under Chapter VI-A		
- U/s 80C – Repayment of housing loan	1,20,000	
- U/s 80D – Medical premium for self of ₹ 21,000 and preventive health checkup fees of ₹ 9,000 restricted to ₹ 5,000 subject to overall limit of ₹ 25,000	25,000	(1,45,000)
Total Income		2,13,000

Losses to be carried forward to AY 2027-28

Loss from speculative business

As per sec 73(4), brought forward loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward to AY 2027-28 for set-off against income from speculation business of that year.

SECTION A – SM QUESTIONS

Secs 80C, 80CCC, 80CCD

Qn. 1 Compute the eligible deduction u/s 80C for AY 2026-27 in respect of life insurance premium paid by Mr. Ganesh during the PY 2025-26, the details of which are given hereunder, if Mr. Ganesh has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) –

	Date of issue of policy	Person insured	Actual capital sum assured	Insurance premium paid during 2025-26
(i)	30/3/2012	Self	8,00,000	48,000
(ii)	1/5/2019	Spouse	1,50,000	20,000
(iii)	1/6/2022	Handicapped Son (sec 80U disability)	4,00,000	80,000

What would your answer if Mr. Ganesh pays tax under default tax regime u/s 115BAC?

Ans. Computation of deduction eligible u/s 80C for Mr. Ganesh for AY 2025-26

	Date of issue of policy	Person insured	Actual capital sum assured	Insurance premium paid during 2025-26	Deduction u/s 80C for AY 2026-27	Remark (restricted to % of sum assured)
(i)	30/3/2012	Self	8,00,000	48,000	48,000	20%
(ii)	1/5/2019	Spouse	1,50,000	20,000	15,000	10%
(iii)	1/6/2022	Handicapped Son (sec 80U disability)	4,00,000	80,000	60,000	15%
		Total			**1,23,000**	

If Mr. Ganesh pays tax under default tax regime u/s 115BAC, he would not be eligible for deduction u/s 80C.

Qn. 2 An individual assessee, resident in India, has made the following deposit/payment during the PY 2025-26:

Particulars	₹
Contribution to the public provident fund	1,50,000
Insurance premium paid on the life of the spouse (policy taken on 1.4.2019) (Assured value ₹ 2,20,000)	25,000

What is the deduction allowable u/s 80C for AY 2026-27 if the assessee has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)?

Ans. Computation of deduction u/s 80C for AY 2026-27

Particulars	₹
Deposit in public provident fund	1,50,000
Insurance premium paid on the life of the spouse (Maximum 10% of the assured value ₹ 2,00,000 as the policy is taken after 31.3.2012)	20,000
Total	**1,70,000**
However, the maximum permissible deduction u/s 80C is restricted to	**1,50,000**

Qn. 3 The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in sec 80CCD. Examine the tax treatment in respect of such contribution in the hands of Mr. A if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).
What would be your answer if Mr. A pays tax under the default tax regime u/s 115BAC?

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

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

(b) Mr. A's contribution to pension scheme is allowable as deduction u/s 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, "salary" for the purpose of deduction u/s 80CCD for Mr. A would be –

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

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

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

(c) Employer's contribution to pension scheme would be allowable as deduction u/s 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction u/s 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary u/s 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 u/s 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

<u>Where Mr. A pays tax under the default tax regime u/s 115BAC</u>

Mr. A would not be eligible for deduction u/s 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime u/s 115BAC. However, he would be allowed deduction upto ₹ 2,01,600, being 14% of salary [₹ 14,40,000 computed in (b) above] u/s 80CCD(2) in respect of employer's contribution to pension scheme. Accordingly, the entire contribution of ₹ 1,80,000 would be allowed as deduction u/s 80CCD(2).

Qn. 4 The gross total income of Mr. X for the AY 2026-27 is ₹ 8,00,000. He has made the following investments/ payments during the FY 2025-26 –

Particulars	₹
Contribution to PPF	1,10,000
Payment of tuition fees to Appejay School, New Delhi, for education of his son studying in Class XI	45,000
Repayment of housing loan taken from Standard Chartered Bank	25,000
Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deduction under Chapter VI-A for the AY 2026-27 if M r. X exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans.

Computation of deduction under Chapter VI-A for the AY 2026-27

Particulars	₹
Deduction u/s 80C	
Contribution to PPF	1,10,000
Payment of tuition fees to Sunrise School, Mumbai, for education of his son studying in Class X	45,000
Repayment of housing loan	25,000
	1,80,000
Restricted to ₹ 1,50,000, being the maximum permissible deduction u/s 80C	1,50,000
Deduction u/s 80CCC	
Contribution to approved pension fund of LIC	1,05,000
	2,55,000
As per sec 80CCE, the aggregate deduction u/s 80C, 80CCC and 80CCD(1) has to be restricted to ₹ 1,50,000	
Deduction allowable under Chapter VIA for the AY 2026-27	**1,50,000**

Medical Insurance Premium – Sec 80D

Qn. 5 Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the PY 2025-26 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is not dependant on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable u/s 80D for the AY 2026-27 if Mr. A has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans.

Deduction allowable u/s 80D for the AY 2026-27

	Particulars	Actual Payment	Maximum deduction allowable
A.	Premium paid and medical expenditure incurred for self and spouse		
(i)	Medical insurance premium paid for self and spouse	20,000	20,000
(ii)	Contribution to CGHS	3,600	3,600
(iii)	Exp. on preventive health check-up of self & spouse	3,000	1,400
		26,600	25,000
B.	Premium paid and medical expenditure incurred for father, who is a senior citizen		
(i)	Mediclaim premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction u/s 80D		75,000

Notes:

1. The total deduction under A.(i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,400, being (₹ 25,000 – ₹ 20,000 - ₹ 3,600)
2. The total deduction under B. (i) and (ii) above should not exceed ₹ 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 – ₹ 47,000).
3. In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 4,400, which is less than the maximum permissible limit of ₹ 5,000.

Qn. 6 Mr. Y, aged 40 years, paid medical insurance premium of ₹ 22,000 during the PY 2025-26 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependant on him. He incurred medical expenditure of ₹ 20,000 on his father, aged 71 years, who is not covered under mediclaim policy. His father is also not dependent upon him. He contributed ₹ 6,000 to Central Government Health Scheme during the year. Compute the deduction allowable u/s 80D for the AY 2026-27 if Mr. Y has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans. <u>Deduction allowable u/s 80D for the AY 2026-27</u>

	Particulars	₹	₹
(i)	Medical insurance premium paid for self and spouse and dependent children.	22,000	
(ii)	Contribution to CGHS	6,000	
		28,000	
	Restricted to		25,000
(iii)	Mediclaim premium paid for mother, who is over 60 years of age	33,000	
(iv)	Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	20,000	
		53,000	
	Restricted to		50,000
	Total deduction u/s 80D		75,000

<u>Medical Treatment – Secs 80DD, 80DDB & 80U</u>

Qn. 7 Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available u/s 8DDD for the AY 2026-27, if Mr. X has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Would your answer be different if Mr. X had made this deposit for his dependant father?

Ans. Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction u/s 80DD. The deduction is available if the individual assessee incurs any expense for a dependant disabled relative. Grandfather does not come within the definition of dependant.

If Mr. X incurred the expense for a dependant disabled relative, Mr. X will be entitled to claim a deduction of ₹ 75,000 u/s 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹ 1,25,000.

<u>Interest on loan – Secs 80E, 80EE 80EEA & 80EEB</u>

Qn. 8 Mr. B has taken three education loans on April 1, 2025, the details of which are given below:

	Loan 1	**Loan 2**	**Loan 3**
For whose education loan was taken	B	Son of B	Daughter of B
Purpose of loan	MBA	B. Sc.	B.A.
Amount of loan (₹)	5,00,000	2,00,000	4,00,000
Annual repayment of loan (₹)	1,00,000	40,000	80,000
Annual repayment of interest (₹)	20,000	10,000	18,000

Compute the amount deductible u/s 80E for the AY 2026-27 if Mr. B has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans. Deduction u/s 80E is available to an individual assessee in respect of any interest paid by him in the PY in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction u/s 80E = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = 48,000.

Qn. 9 Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India @ 11%p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for AY 2026-27 if Mr. A has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A), assuming that the entire loan was outstanding as on 31.3.2026 and he does not own any other house property

Ans. <u>Computation of Interest deduction for AY 2026-27</u>

Particulars	₹
<u>Deduction allowable while computing income under the head "Income from house property"</u>	
Deduction u/s 24(b) ₹ 3,85,000 [₹ 35,00,000 × 11%]	
Restricted to	2,00,000
<u>Deduction under Chapter VI-A from Gross Total Income</u>	
Deduction u/s 80EE ₹ 1,85,000 (₹ 3,85,000 - ₹ 2,00,000)	
Restricted to	50,000

Qn. 10 Ms. Jyoti purchased a house property costing ₹ 42 lakhs on 1st May, 2021. The property is used exclusively for her residential purpose. For this purpose, she obtained loan from DHFL of ₹ 35 lakhs bearing interest @ 14% p.a. on 1st April, 2021. She does not own any other house.

State with brief reasons the deductions that can be claimed by Ms. Jyoti in respect of interest on loan for AY 2026-27 if she has opted out of the default tax regime. No repayment of loan has been made so far

Ans. Ms. Jyoti can claim the following deductions for the AY 2026-27 in respect of the interest of ₹ 4,90,000 (₹ 35,00,000 x 14%) payable on loan taken for acquisition of residential house property for self-occupation:

a) Deduction u/s 24 while computing income under the head "Income from house property":
Interest on housing loan taken for acquisition of residential house property for self-occupation, would be eligible for deduction u/s 24 while computing income from house property, subject to a maximum of ₹ 2,00,000

b) Deduction u/s 80EEA (while computing deduction under Chapter VI-A from gross total income):
Interest payable on housing loan taken by Ms. Jyoti qualifies for deduction u/s 80EEA, subject to a maximum of ₹ 1,50,000, since –
(i) The loan is sanctioned by the Financial Institution between 1.4.2019 to 31.3.2022
(ii) Stamp duty value of the house (₹ 42 lakhs) does not exceed ₹ 45 lakhs
(iii) She is not eligible to claim deduction u/s 80EE
(iv) She does not own any residential house on the date of sanction of loan

Therefore, out of the interest of ₹ 4,90,000, ₹ 2 lakhs is allowable as deduction u/s 24; and out of the balance of ₹ 2,90,000, ₹ 1,50,000 is allowable as deduction u/s 80EEA from gross total income.

Qn. 11 The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for AY 2026-27:

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 12 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank

Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019
Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	₹ 45 lakhs	₹ 48 lakhs	-	-
Cost of electric vehicle	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for AY 2026-27 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if they have exercised the option of shifting out of the default tax regime u/s section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2026.

Ans.

Particulars	₹
Mr. A	
Interest deduction for AY 2026-27	
Deduction allowable while computing income under the head "Income from house property"	
Deduction u/s 24(b) ₹ 3,87,000 [₹ 43,00,000 × 9%]	
Restricted to	2,00,000
Deduction under Chapter VI-A from Gross Total Income	
Deduction u/s 80EEA ₹ 1,87,000 (₹ 3,87,000 – ₹ 2,00,000)	
Restricted to	1,50,000
Mr. B	
Interest deduction for AY 2026-27	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction u/s 24(b) ₹ 4,05,000 [₹ 45,00,000 × 9%]	
Restricted to	2,00,000
(ii) Deduction under Chapter VI-A	
Deduction u/s 80EEA is not permissible since:	-
(i) loan is taken from NBFC	
(ii) stamp duty value exceeds ₹ 45 lakh.	
Deduction u/s 80EEA would not be permissible due to either violation listed above.	
Mr. C	
Deduction under Chapter VI-A	
Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs x 10% = ₹ 2,00,000, restricted to ₹ 1,50,000, being the maximum permissible deduction]	1,50,000
Mr. D	
Deduction under Chapter VI-A	
Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019	-

Donations – Secs 80G, 80GGA, 80GGB & 80GGC

Qn. 12 Mr. Shiva aged 58 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

(i) Premium paid to insure the life of her major daughter (policy taken on 1.4.2018) (Assured value ₹ 1,80,000) – ₹ 28,000

(ii) Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000

(iii) Donation to a public charitable institution registered under 80G ₹ 50,000 by way of cheque

(iv) LIC Pension Fund – ₹ 60,000

(v) Donation to National Children's Fund - ₹ 25,000 by way of cheque

(vi) Donation to Prime Minister's Drought Relief Fund - ₹ 25,000 by way of cheque

(vii) Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque

(viii) Deposit in PPF - ₹ 1,00,000

Compute the total income of Mr. Shiva for AY 2026-27 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)

Ans. Computation of Total Income of Mr. Shiva for AY 2026-27

Particulars	₹	₹
Gross Total Income		7,75,000
Less: Chapter VI-A deduction		
Deduction u/s 80C		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,18,000	
Deduction u/s 80CCC in respect of LIC pension fund	60,000	
	1,78,000	
As per sec 80CCE, deduction u/s 80C & 80CCC is restricted to		(1,50,000)
Deduction u/s 80D		
Medical Insurance premium in respect of self and spouse	26,000	
Restricted to		(25,000)
Deduction u/s 80G (Working Note)		(87,500)
Total income		**5,12,500**

Working Note: Computation of deduction u/s 80G

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

Note - Adjusted total income = Gross Total Income – Amount of deductions u/s 80C to 80U except sec 80G i.e., ₹ 6,00,000, in this case.

₹ 60,000, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of

₹ 50,000 to public charitable trust is restricted to ₹ 20,000 (being, ₹ 60,000 - ₹ 40,000), 50% of which would be the deduction u/s 80G. Therefore, the deduction u/s 80G in respect of donation to public charitable trust would be ₹ 10,000, which is 50% of ₹ 20,000.

Qn. 13 During the PY 2024-25, ABC Ltd., an Indian company contributed a sum of ₹ 2 lakh to an electoral trust; and incurred expenditure of ₹ 25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? ABC Ltd. does not opt for sec 115BAA/115BAB

Ans. An Indian Company is eligible for deduction u/s 80GGB in respect of any sum contributed by it in the PY to any political party or an electoral trust. Further, the word "contribute" in sec 80GGB has the meaning assigned to it in sec 293A of the Companies Act, 1956 and accordingly it includes the amount of expenditure incurred on advertisement in a brochure of a political party.

Therefore, ABC Ltd. is eligible for a deduction of ₹ 2,25,000 u/s 80GGB in respect of sum of ₹ 2 lakh contributed to an electoral trust and ₹ 25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance u/s 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of ₹ 25,000 would be disallowed while computing business income/ gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income u/s 80GGB.

<u>Rent paid on House Property – Sec 80GG</u>

Qn. 14 Mr. Ganesh, a businessman, whose total income (before allowing deduction u/s 80GG) for AY 2026-27 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him u/s 80GG for AY 2026-27 if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Ans. The deduction u/s 80GG will be computed as follows:

(i)	Actual rent paid less 10% of total income	
	₹ 1,44,000 - (10% × ₹ 4,60,000) =	₹ 98,000 (A)
(ii)	25% of total income = 25% × ₹ 4,60,000 =	₹ 1,15,000 (B)
(iii)	Amount calculated at 5,000 p.m. =	₹ 60,000 (C)

Deduction allowable (least of A, B and C) = ₹ 60,000

<u>Sec 80AC</u>

Qn. 15 Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

(a) For grant of deduction u/s 80JJAA, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in sec 139(1) is not required.

(b) Filing of belated return u/s 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction u/s 80QQB if the assessee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A) (i.e., he pays tax under the optional tax regime)

Ans. (a) <u>The statement is **not correct**</u>. Sec 80AC stipulates compulsory filing of return of income on or before the due date specified u/s 139(1), as a pre-condition for availing the benefit of deduction, *inter alia*, u/s 80JJAA.

(b) <u>The statement is **correct**</u>. As per sec 80AC, the assessee has to furnish his return of income on or before the due date specified u/s 139(1), to be eligible to claim deduction under, *inter alia*, sec 80QQB.

Deduction in respect of new employees – Sec 80JJAA

Qn. 16 Mr. A has commenced the business of manufacture of computers on 1.4.2025. He employed 350 new employees during the PY 2025-26, the details of whom are as follows –

	No. of employees	Date of employment	Regular/Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2025	Regular	24,000
(ii)	125	1.5.2025	Regular	26,000
(iii)	50	1.8.2025	Casual	24,500
(iv)	100	1.9.2025	Regular	24,000

The regular employees participate in recognized provident fund while casual employees do not. Compute the deduction, if any, available to Mr. A for AY 2026-27, if profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2025?

[Nov 19]

Ans. Mr. A is eligible for deduction u/s 80JJAA since he is subject to tax audit u/s 44AB for AY 2025-26, and he has employed "additional employees" during the PY 2025-26.

I. <u>If Mr. A is engaged in the business of manufacture of computers</u>

Additional employee cost = ₹ 24,000 × 12 × 75 [Working Note] = ₹ 2,16,00,000

Deduction u/s 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

Working Note: Number of additional employees

Particulars	No. of workmen	
Total number of employees employed during the year		350
Less: Casual employees employed on 1.8.2025 who do not participate in recognized provident fund	120	
Regular employees employed on 1.5.2025, since their total monthly emoluments exceed ₹ 25,000	125	
Regular employees employed on 1.9.2025 since they have been employed for less than 240 days in the PY 2025-26.	100	(275)
Number of "additional employees"		75

Notes

1. Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2025 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 100 regular employees employed on 1.9.2025 do not qualify as additional employees for the PY 2025-26, since they are employed for less than 240 days in that year.

   Therefore, only 75 employees employed on 1.4.2025 qualify as additional employees, and the total emoluments paid or payable to them during the PY 2025-26 is deemed to be the additional employee cost.

2. As regards 100 regular employees employed on 1.9.2025, they would be treated as additional employees for PY 2026-27, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction u/s 80JJAA in the hands of Mr. A for the AY 2027-28.

II. <u>If Mr. A is engaged in the business of manufacture of leather products</u>

If Mr. A is engaged in the business of manufacture of leather products, then, he would be entitled to deduction u/s 80JJAA in respect of employee cost of regular employees employed on 1.9.2025, since they have been employed for more than 150 days in the PY 2025-26.

Additional employee cost = ₹ 2,16,00,000 + ₹ 24,000 × 7 × 100 = ₹ 3,84,00,000

Deduction u/s 80JJAA = 30% of ₹ 3,84,00,000 = ₹ 1,15,20,000

Note: Despite this being the first year of business, ICAI has worked out the solution allowing deduction only in respect of additional employees. However, a strict reading of sec provides that in the first year of operations, the assessee shall be eligible for deduction on emoluments paid to all employees even if not satisfying conditions of 240 days or emoluments exceeds ₹ 25,000. Until clarifications are obtained, students are advised to follow solution given above.

Deduction of Royalty Income – Sec 80QQB & 80RRB

Qn. 17 Mr. Aakash received royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2026 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2027. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for u/s 80QQB if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)?

Ans. The net royalty of ₹ 2,48,000 (i.e., royalty of ₹ 2,88,000 less ₹ 40,000, being expenditure to earn such income) is includible in gross total income.

Deduction u/s 80QQB:	₹
Royalty ₹ 2,88,000 x 15/18 = ₹ 2,40,000	
Restricted to	
Amount brought into India in convertible foreign exchange within the prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	(40,000)
Deduction u/s 80QQB	**1,90,000**

Deduction of Interest Income – Sec 80TTA & 80TTB

Qn. 18 Mr. A, a resident individual aged about 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the PY 2025-26. He also has interest on Fixed Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the AY 2026-27 if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)?

Ans. Computation of total income of Mr. A for AY 2026-27

Particulars	₹	₹
Profits and gains of business or profession		1,35,000
Income from other sources		
- Interest on Fixed Deposit with banks	30,000	
- lottery income	1,20,000	1,50,000
Gross Total Income		**2,85,000**
Less: Deductions under Chapter VIA [Note]		
U/s 80C		
- Deposit in Public Provident Fund	1,50,000	
U/s 80TTB		
- Interest on fixed deposits with banks	30,000	
	1,80,000	
Restricted to		(1,65,000)
Total Income		**1,20,000**

Note: In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto ₹ 50,000 u/s 80TTB.

Though the aggregate of deductions under Chapter VI-A is ₹ 1,80,000, however, the maximum permissible deduction cannot exceed the gross total income exclusive of long-term capital gains taxable u/s 112 and sec 112A, short-term capital gains covered u/s 111A and winnings of lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = ₹ 2,85,000 – ₹ 1,20,000 = ₹ 1,65,000

Comprehensive questions

Qn. 19 Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

(i) During the FY 2025-26, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction u/s 80E.

(ii) Subscription to notified bonds of NABARD would qualify for deduction u/s 80C.

(iii) In order to be eligible to claim deduction u/s 80C, investment/contribution/subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.

(iv) Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable u/s 80E is ₹ 44,000 irrespective of the tax regime.

(v) Mrs. Sheela, widow of Mr. Satish (an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs on 1.5.2025, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed u/s 80CCD to Mr. Satish in the earlier PYs. Such amount received by her as a nominee on closure of the account is deemed to be her income for AY 2026-27.

(vi) Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction u/s 80CCD. He has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans. (i) The statement is **correct**. The deduction u/s 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative only if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). For this purpose, relative means, *inter alia*, spouse and children of the individual. Therefore, Mr. Amit will get the deduction u/s 80E in respect of interest on loan availed by him for his son's higher education, if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction u/s 80E.

(ii) The statement is **correct**. U/s 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction u/s 80C, if the assessee has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

(iii) The statement is **not correct**. There is no stipulation u/s 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.

(iv) The statement is **not correct**. An individual would not be eligible for deduction u/s 80E if he pays tax under default tax regime u/s 115BAC. If he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A), deduction u/s 80E would be available in respect of interest paid on education loan. Hence, the deduction will be limited to interest of ₹ 14,000, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

(v) The statement is **not correct**. The proviso to sec 80CCD(3) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for AY 2026-27.

(vi) The statement is **not correct**. Contribution to Tier II account of NPS would qualify for deduction u/s 80C and not sec 80CCD.

Qn. 20 Examine the allowability of the following if the assessees have exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A):

(v) Rajan has to pay to a hospital for treatment ₹ 62,000 and spent nothing for life insurance or for maintenance of handicapped dependent.

(vi) Varun, a resident Indian, has spent nothing for treatment in the PY and deposited ₹ 25,000 with LIC for maintenance of handicapped dependant.

(vii) Hari has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of handicapped dependant.

Ans. (i) The deduction of ₹ 75,000 u/s 80DD is allowed, irrespective of the amount of expenditure incurred or paid by the assessee. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is ₹ 1,25,000.

(ii) The assessee Rajan has deposited ₹ 25,000 for maintenance of handicapped dependent. The assessee is, however, eligible to claim ₹ 75,000 since the deduction of ₹ 75,000 is allowed in full, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is ₹ 1,25,000.

(iii) Sec 80DD allows a deduction of ₹ 75,000 irrespective of the actual amount spent on maintenance of handicapped dependent and/or actual amount deposited with LIC. Therefore, the deduction will be ₹ 75,000 even though the total amount incurred/deposited is only ₹ 45,000. If the dependant is a person with severe disability the quantum of deduction is ₹ 1,25,000.

Qn. 21 Compute the eligible deduction under Chapter VI-A for the AY 2026-27 of Ms. Roma, aged 40 years, who has a gross total income of ₹ 15,00,000 for the AY 2026-27 and has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). She provides the following information about her investments/payments during the PY 2025-26:

Sl. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 31-03-2012 and sum assured is ₹ 4,70,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaim Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

Ans. Computation of eligible deduction under Chapter VI-A of Ms. Roma for AY 2026-27

Particulars	₹	₹
Deduction u/s 80C		
Life insurance premium paid ₹ 35,000 (allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2012)	35,000	
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
	2,05,000	
Restricted to a maximum of ₹ 1,50,000	**1,50,000**	
Deduction u/s 80CCC for payment towards LIC pension fund	1,40,000	
	2,90,000	
As per sec 80CCE, aggregate deduction under, *inter alia*, sec 80C and 80CCC, is restricted to		1,50,000
Deduction u/s 80D		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	

Medical insurance premium paid ₹ 52,000 for parents, being senior citizens, restricted to	50,000	75,000
Eligible deduction under Chapter VI-A		2,25,000

Qn. 22 Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the FY 2025-26, furnishes you the following information:

(i) Repayment of loan taken from SBI for acquisition of residential house (self-occupied) - ₹ 50,000.

(ii) Five year post office time deposit - ₹ 20,000.

(iii) Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction u/s 80G at the applicable rate.

(iv) Interest on loan taken for higher education of spouse paid during the year - ₹ 10,000.

Compute the total income of Mr. Rajmohan for the AY 2026-27, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans. Computation of total income of Mr. Rajmohan for the AY 2026-27

Particulars	₹	₹
Gross Total Income		6,40,000
Less: Deduction under Chapter VI-A		
U/s 80C		
Stamp duty paid on acquisition of residential house	50,000	
Five year time deposit with Post Office	20,000	
	70,000	
U/s 80E		
Interest on loan taken for higher education of spouse, being a relative.	10,000	
U/s 80G (Note)		
Donation to recognized charitable trust (50% of ₹ 25,000)	12,500	(92,500)
Total Income		5,47,500

Note: In case of deduction u/s 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore, ₹ 5,60,000 (i.e. 6,40,000 – ₹ 80,000), 10% of which is ₹ 56,000, which is higher than the actual donation of ₹ 25,000. Therefore, the deduction u/s 80G would be ₹ 12,500, being 50% of the actual donation of ₹ 25,000.

Qn. 23 Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the PY ended 31.03.2026. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the AY 2026-27 from the following particulars, assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A):

(i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2021 and the sum assured on life of his dependent parents is ₹ 2,00,000.

(ii) Life insurance premium of ₹ 19,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 3,50,000 and the life insurance policy was taken on 30.3.2012.

(iii) Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2020 and the sum assured is ₹ 2,00,000.

(iv) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.

(v) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.

(vi) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.

(vii) A sum of ₹ 5,000 donated in cash to an institution approved for purpose of sec 80G for promoting family planning.

Ans. Computation of total income of Mr. Gurnam for the AY 2026-27

Particulars	₹	₹	₹
Income from salary			5,50,000
Interest on saving bank deposit			14,500
Gross Total Income			**5,64,500**
Less: Deduction under Chapter VIA			
U/s 80C (Note 1)			
Life insurance premium paid for life insurance of:			
- major son	19,500		
- self ₹ 22,500 restricted to 10% of ₹ 2,00,000	20,000	39,500	
U/s 80D (Note 2)			
Premium paid for ₹ 26,000 health insurance of self and wife by cheque, restricted to	25,000		
Payment made for health check-up for parents	4,500	29,500	
U/s 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
U/s 80TTA (Note 4)			
Interest on savings bank account ₹ 14,500 restricted to		10,000	(85,500)
Total Income			**4,79,000**

Notes:

1. As per sec 80C, no deduction is allowed in respect of premium paid for life insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable in respect of ₹ 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam.

   In respect of insurance policy issued on or after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

   Therefore, in the present case, deduction of ₹ 19,500 is allowable in full in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of ₹ 3,50,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of ₹ 2,00,000 since, the policy was issued on or after 01.04.2012 and the premium amount exceeds 10% of sum assured.

2. As per sec 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to ₹ 25,000. Further, deduction up to ₹ 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction u/s 80D, the payment for health-check-up can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

   Therefore, in the present case, in respect of premium of ₹ 26,000 paid for health insurance of self and wife, deduction would be restricted to ₹ 25,000. Since the limit of ₹ 25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check-up for self and wife. However, deduction of ₹ 4,500 is allowable in respect of health check-up of his parents, since it falls within the limit of ₹ 5,000.

3. No deduction shall be allowed u/s 80G in case the donation is made in cash of a sum exceeding ₹ 2,000. Therefore, deduction u/s 80G is not allowable in respect of cash donation of ₹ 5,000 made to an institution approved for the purpose of sec 80G for promotion of family planning.
4. As per sec 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of ₹ 10,000. Therefore, deduction of ₹ 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is ₹ 14,500.

Qn. 24 Prakash is retired Government Officer aged 65 years, resides in Cochin, derived following income:

a) Pension 6,60,000
b) Interest from bank on fixed deposits (Gross) 55,000

Compute the total income of Mr. Prakash for the AY 2026-27 under normal provisions of the Act from the following particulars:

(i) Life insurance premium paid by cheque ₹ 22,500 for insurance of his life. The insurance policy was taken on 08-09-2019 and the sum assured is ₹ 2,00,000.
(ii) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
(iii) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid through cheque for preventive health check-up of his parents, who are senior citizens.
(iv) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
(v) A sum of ₹ 15,000 donated in cash to an institution approved for the purpose of sec 80G for promoting family planning.

Ans.

Computation of total income of Mr. Prakash for AY 2026-27

Particulars	₹	₹	₹
Income under the head "Salaries"			
Pension	6,60,000		
Less: Standard deduction u/s 16(ia)	50,000		6,10,000
Income from Other Sources			
Interest from bank on fixed deposit (Gross)			55,000
Gross Total Income			**6,65,000**
Less: Deduction under Chapter VI-A			
Deduction u/s 80C			
LIC premium of ₹ 22,500 (restricted to 10% of ₹ 2,00,000, being the sum assured, as the policy is taken after 31.3.2012)		20,000	
Deduction us 80D			
Premium for health insurance for self and his wife paid by cheque, allowed upto ₹ 50,000 since Mr. Prakash is a senior citizen	26,000		
Preventive health check-up for self, ₹ 1,500, and for his parents, ₹ 4,500, restricted to ₹ 5,000 (deduction allowed even if the same is paid in cash)	5,000	31,000	
Deduction u/s 80E			
Interest on loan taken from bank for MBA course pursued by his daughter		6,500	
Deduction u/s 80G			
Donation to an approved institution for promoting family planning not allowed since the amount exceeding ₹ 2,000 is paid in cash		Nil	
Deduction u/s 80TTB			
Interest on fixed deposit with bank allowable as deduction upto ₹ 50,000, since Mr. Prakash is a senior citizen		50,000	1,07,500
Total Income			**5,57,500**

Qn. 25 For the AY 2026-27, the Gross Total Income of Mr. Chaturvedi, a resident in India, was ₹ 15,18,240 which includes long-term capital gain of ₹ 2,45,000 taxable u/s 112 and Short-term capital gain of ₹ 58,000. The Gross Total Income also includes interest income of ₹ 12,000 from savings bank deposits with banks and ₹ 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹ 1,20,000 and also paid a medical insurance premium ₹ 51,000. Mr. Chaturvedi also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction u/s 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2026, in a tax efficient manner.

Ans.

Computation of total income and tax payable by Mr. Chaturvedi
for the AY 2026-27 under default tax regime

Particulars	₹	₹
Gross total income including long term capital gain		15,18,240
Less: Deductions under Chapter VI-A:		
No deduction would be available under default tax regime u/s 115BAC		-
Total income		**15,18,240**
Tax on total income		
LTCG ₹ 2,45,000 x 12.5%		30,625
Balance total income ₹ 12,73,240		70,986
		1,01,611
Add: Health and Education cess @ 4%		4,064
Total tax liability		**1,05,675**
Total tax liability (rounded off)		**1,05,680**

Computation of total income and tax payable by Mr. Chaturvedi
for the AY 2026-27 under optional tax regime

Particulars	₹	₹
Gross total income including long term capital gain		15,18,240
Less: Long term capital gain		(2,45,000)
		12,73,240
Less: Deductions under Chapter VI-A:		
U/s 80C in respect of PPF deposit	1,20,000	
U/s 80D (it is assumed that premium of ₹ 51,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 50,000, since Mr. Chaturvedi is a senior citizen)	50,000	
U/s 80G (Notes 1 & 2)	25,000	
U/s 80TTB (Note 3)	50,000	(2,45,000)
Total income (excluding long term capital gains)		**10,28,240**
Total income (including long term capital gains)		**12,73,240**
Total income (rounded off)		**5,80,580**
Tax on total income (including long-term capital gains of ₹ 2,45,000)		
LTCG ₹ 2,45,000 x 12.5%		30,625
Balance total income ₹ 10,28,240 (Note 4)		1,18,742
		1,49,097
Add: Health and Education cess @ 4%		5,964
Total tax liability		**1,55,061**
Total tax liability (rounded off)		**1,55,060**

Since the tax liability is lower under the default tax regime as compared to the optional tax regime, Mr. Chaturvedi should not exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Notes:

1. Computation of deduction u/s 80G:

Particulars	₹
Gross total income (excluding long term capital gains)	12,73,240
Less: Deduction u/s 80C, 80D & 80TTB	(2,20,000)
	10,53,240
10% of the above	1,05,324
Contribution made	50,000
Lower of the two eligible for deduction u/s 80G	50,000
Deduction u/s 80G – 50% of ₹ 35,324	**25,000**

2. Deduction u/s 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
3. Deduction of upto ₹ 50,000 u/s 80TTB is allowed to a senior citizen if gross total income includes interest income on bank deposits, both fixed deposits and savings account.
4. Mr. Chaturvedi, being a senior citizen is eligible for basic exemption of ₹ 3,00,000.

Sec 10AA Deduction

Qn. 26 Y Ltd. furnishes you the following information for the year ended 31.3.2026:

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A received in India in convertible foreign exchange on or before 30.9.2026	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction u/s 10AA for the AY 2026-27, assuming that Y Ltd. commenced operations in SEZ and DTA in the year 2019-20 and Mr. Y has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Ans. 50% of the profit derived from export of articles or things or services is eligible for deduction u/s 10AA, since FY 2025-26 is the sixth year commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ.

As per sec 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

$$\text{Deduction u/s 10AA} = \text{Profit of business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 50\%$$

i.e., ₹ 30 Lacs × 50/100 × 50% = ₹ 7.5 Lacs

Note – No deduction u/s 10AA is allowable in respect of profits of business of Unit B located in DTA.

Qn. 27 Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The company provides the following details for the PY 2025-26.

Particulars	Rudra Ltd. (₹)	DTA unit (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	5,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2026 is ₹ 3,00,00,000. He has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Calculate the eligible deduction u/s 10AA of the Income-tax Act, 1961, for the AY 2026-27 if both the units were set up and start manufacturing from 22-05-2016.

[Nov 18]

Ans. <u>Computation of deduction u/s 10AA of the Income-tax Act, 1961</u>

As per sec 10AA, in computing the total income of Rudra Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the PY relevant to the AY commencing on or after 01.04.2006 but before 1.4.2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of 5 consecutive AYs beginning with the AY relevant to the PY in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five AYs

Since Mr. Rudra has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A), he would be eligible for deduction u/s 10AA.

The deduction u/s 10AA would be available only if Mr. Rudra furnishes report of chartered accountant before the date specified in sec 44AB and files return of income on or before due date u/s 139(1).

Since AY 2026-27 is the 10th AY from AY 2017-18, relevant to the PY 2016-27, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in sec 10AA are fulfilled.

$$\text{Profit of SEZ Unit} \times \frac{\text{Export Turnover of SEZ Unit}}{\text{Total Turnover of SEZ Unit}} \times 50\%$$

i.e., ₹ 60 lacs × (₹ 300 lacs/ ₹ 400 lacs) x 50% = ₹ 22.5 lacs

Export turnover of Unit in SEZ is the export sales in SEZ received in convertible foreign exchange by 30.9.2025 which is ₹ 3,00,00,000.

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

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

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

Section B – Blast from the Past

Qn. 1 Mr. Srivastava, aged 40 years, a salaried employee of Nirja Ltd. was contributing to National Pension Scheme ₹ 50,000 every year since 2022 and was claiming deduction u/s 80CCD. In December 2025, he opted out of the pension scheme and withdrew a lump sum amount of ₹ 2,00,000. Is the amount so withdrawn taxable? If yes, how much is the taxable amount?

[Nov 17]

Ans. As per sec 80CCD(3), any payment from NPS to an employee [out of amount standing to the credit in his account in respect of which deduction u/s 80CCD has been allowed together with amount accrued thereon] on account of closure or his opting out of the pension scheme shall be deemed to be his income of the PY in which the amount is received and would, accordingly, be chargeable to tax in his hands in that year.

However, as per sec 10(12A), any payment from NPS Trust to an employee on account of closure or his opting out of the pension scheme referred to in sec 80CCD, to the extent it does not exceed 60% of the total amount payable to him at the time of closure or his opting out of the scheme, shall be exempt from tax.

Accordingly, ₹ 1,20,000 (being 60% of lump sum withdrawal of ₹ 2 lakh) is exempt. The balance amount of ₹ 80,000 (₹ 2,00,000 – ₹ 1,20,000) would be deemed as Mr. Srivastava's income of PY 2024-25 and would be chargeable to tax in his hands in that year, under the head "Income from other sources"

Qn. 2 Mr. Arihant, a resident individual, aged 40 years has Gross Total Income of ₹ 7,50,000 comprising of Income from Salary and income from house property for the AY 2026-27. He provides the following information:

Paid ₹ 70,000 towards premium on life insurance policy of his handicapped son (sec 80U disability). Sum assured ₹ 4,00,000; and date of issue of policy 1-8-2022.

Deposited ₹ 90,000 in tax saver deposit in the name of his major son in Punjab National Bank.

Paid ₹ 78,000 towards medical insurance for the term of 3 years as a lumpsum payment for himself and his spouse. Also, incurred ₹ 54,000 on medical expenditure of his father, a resident aged 68 years. No medical insurance policy is taken in the name of his father. His father earned ₹ 4,50,000 interest from fixed deposit.

Contributed ₹ 25,000 to The Clean Ganga Fund, set up by the Central Government.

Compute the Total Income and deduction under Chapter VI -A for the AY 2026-27, assuming he exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[May 17, RTP – Nov 19]

Ans. Computation of Total Income of Mr. Arihant for AY 2026-27

Particulars	₹	₹
Gross Total Income		7,50,000
Less: Deduction under Chapter VI-A		
U/s 80C		
Life insurance premium of ₹ 70,000	60,000	
(restricted to ₹ 60,000 i.e., 15% of ₹ 4,00,000,being the sum assured, since the policy has been taken on or after 01.04.2013, in respect of his handicapped son suffering from disability u/s 80U)		
Tax saver deposit of ₹ 90,000 in the name of his major son does not qualify for deduction u/s 80C, since such deposit has to be made in the name of the assessee himself to qualify for deduction u/s 80C	Nil	(60,000)
U/s 80D		
Medical insurance premium for self and his wife, pertaining to the PY 2025-26 is ₹ 26,000, being 1/3rd of ₹ 78,000, the lumpsum premium, since the policy would be in force for three PYs. The said deduction would be restricted to	25,000	
Deduction in respect of medical expenditure of ₹ 54,000 for his father, being a senior citizen would be allowable, since no insurance policy is taken in his name, to the extent of	50,000	(75,000)
U/s 80G		
Contribution by a resident towards the Clean Ganga Fund, set up by the Central Government would be eligible for 100% deduction without any qualifying limit.		(25,000)
Total Income		**5,90,000**

Qn. 3 Mr. Darshan aged 61 years, working with G Ltd., submits the following particulars of investments and payments made by him during the PY 2025-26:

- Deposit of ₹ 1,50,000 in public provident fund
- Payment of life insurance premium of ₹ 62,000 on the policy taken on 01.4.2021 to insure his life (Sum assured – ₹ 3,00,000).
- Deposit of ₹ 55,000 in a five year term deposit with bank.
- Contributed ₹ 1,95,000, being 15% of his salary (basic salary plus dearness allowance, which forms part of retirement benefits) to the NPS of the Central Government. A matching contribution was made by G Ltd.
- On 1.4.2024, mediclaim premium of ₹ 1,08,000 and ₹ 80,000 paid as lumpsum to insure his and his wife (aged 58 years) health, respectively for four years medical insurance and incurred ₹ 46,000 towards medical expenditure of his father, aged 90 years, not dependent on him. No insurance policy taken for his father.

- He spent ₹ 6,000 for the preventive health-check up of his wife.
- He has incurred an expenditure of ₹ 90,000 for the medical treatment of his mother, being a person with severe disability.

His income comprises of income from salary of ₹ 18,50,000 and interest on fixed deposits of ₹ 75,000.

Compute the deduction available to Mr. Darshan under Chapter VI-A for AY 2026-27 assuming he exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Would your answer be different, if Mr. Darshan contributed ₹ 1,30,000 (being, 10% of his salary) towards NPS of the Central Government?

[RTP – May 19]

Ans. Deduction available to Mr. Darshan under Chapter VI-A for AY 2026-27

Section	Particulars	₹	₹
80C	Deposit in public provident fund	1,50,000	
	Life insurance premium paid ₹ 62,000 (deduction restricted to ₹ 30,000, being 10% of ₹ 3,00,000, which is the sum assured, since the policy was taken on or after 01.04.2012)	30,000	
	Five year term deposit with bank	55,000	
		2,35,000	
	Restricted to		1,50,000
80CCD(1)	Contribution to NPS of the Central Government, ₹ 1,45,000 [₹ 1,95,000 – ₹ 50,000, being deduction u/s 80CCD(1B)], restricted to 10% of salary [₹ 1,95,000 x 10/15] [Note 1]		1,30,000
			2,80,000
80CCE	Aggregate deduction u/s 80C and 80CCD(1), ₹ 2,80,000, but restricted to		1,50,000
80CCD(1B)	₹ 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
80CCD(2)	Employer's contribution to NPS, restricted to 10% of salary [Note 2]		1,30,000
80D	(i) (a) Medical insurance premium for self and his wife, deduction would be equal to ₹ 47,000 (₹ 27,000 + ₹ 20,000), being 1/4th of lumpsum premium, since policies would be in force for four PY.	47,000	
	(b) Preventive health check-up ₹ 6,000 for wife restricted to ₹ 3,000 (₹ 50,000 - ₹ 47,000, since maximum allowable deduction is ₹ 50,000 in case assessee or one of the family members is senior citizen)	3,000	
		50,000	
	(ii) Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name	46,000	
	Total of (i) and (ii)		96,000
80DD	Deduction of ₹ 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is ₹ 90,000		1,25,000
80TTB	Interest on fixed deposits with bank of ₹ 75,000, deduction restricted to		50,000
Deduction under Chapter VI-A			**6,01,000**

Notes:

(1) The deduction u/s 80CCD(1B) would not be subject to overall limit of ₹ 1.50 lakh u/s 80CCE. Therefore, it is more beneficial for Mr. Darshan to claim deduction u/s 80CCD(1B) first in respect of contribution

to NPS. Thereafter, the remaining amount of ₹ 1,45,000 can be claimed as deduction u/s 80CCD(1), subject to a maximum limit of 10% of salary i.e. ₹ 1,30,000.

(2) The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction u/s 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction u/s 80CCD(2) is also not subject to the overall limit of ₹ 1,50,000 u/s 80CCE

If the contribution towards NPS is ₹ 1,30,000, here again, it is beneficial for Mr. Darshan to first claim deduction of ₹ 50,000 u/s 80CCD(1B) and the balance of ₹ 80,000 can be claimed u/s 80CCD(1), since the deduction available u/s 80CCD(1B) is over and above the aggregate limit of ₹ 1,50,000 u/s 80CCE. In any case, the aggregate deduction of ₹ 2,30,000 [i.e., ₹ 1,50,000 u/s 80C and ₹ 80,000 u/s 80CCD(1)] cannot exceed the overall limit of ₹ 1,50,000 u/s 80CCE. The total deduction under Chapter VIA would remain the same i.e., ₹ 6,01,000.

Tax deducted at source (TDS) & Tax collected at source (TCS)

SECTION A – SM QUESTIONS

Salaries – Sec 192

Qn. 1 Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹ 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

Ans.

	₹
Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	1,20,000
	8,50,000
Less: Standard deduction u/s 16(ia)	(50,000)
	8,00,000
Tax Liability	75,400
Average rate of tax (₹ 75,400 / ₹ 8,00,000 × 100)	9.425%

Mr. A can deduct ₹ 75,400 at source from the salary of the General Manager at the time of payment.

Alternatively, Mr. A can pay tax on non-monetary perquisites as under:

Tax on non-monetary perquisites = 9.425% of ₹ 1,20,000 = ₹ 11,310

Balance to be deducted from salary = ₹ 64,090

If Mr. A pays tax of ₹ 11,310 on non-monetary perquisites, the same is not a deductible expenditure as per sec 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per sec 10(10CC).

Interests – Sec 194A

Qn. 2 Examine the TDS implications u/s 194A in the cases mentioned hereunder –

(i) On 1.10.2025, Mr. Harish, aged 45 years, made a six-month fixed deposit of ₹ 15 lakh @ 9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2026.

(ii) On 1.6.2025, Mr. Ganesh, aged 35 years, made three nine month fixed deposits of ₹ 3 lakh each carrying interest @ 9% with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2026.

(iii) On 1.10.2025, Mr. Rajesh, started a six months recurring deposit of ₹ 2,00,000 per month @ 8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2026.

Ans.

(i) ABC Co-operative Bank has to deduct tax at source @ 10% on the interest of ₹ 67,500 (9% × ₹ 15 lakh × ½) u/s 194A. The tax deductible at source u/s 194A from such interest is, therefore, ₹ 6,750.

(ii) XYZ Bank has to deduct tax at source @ 10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [₹ 3,00,000 × 3 × 9% × 9/12], which exceeds the threshold limit of ₹ 50,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 60,750 exceeds the threshold limit of ₹ 50,000, tax has to be deducted @ 10% u/s 194A.

(iii) No tax has to be deducted u/s 194A by PQR Bank on the interest of ₹ 28,000 falling due on recurring deposit on 31.3.2026 to Mr. Rajesh, since such interest does not exceed the threshold limit of ₹ 50,000.

Contract Payments – 194C

Qn. 3 ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the PY 2025-26

₹ 20,000 on 1.5.2025

₹ 25,000 on 1.8.2025

₹ 28,000 on 1.12.2025

On 1.3.2026, a payment of ₹ 30,000 is due to Mr. X on account of a contract work.

Discuss whether ABC Ltd. is liable to deduct tax at source u/s 194C from payments made to Mr. X.

Ans.	In this case, the individual contract payments made to Mr. X does not exceed ₹ 30,000. However, since the aggregate amount paid to Mr. X during the PY 2025-26 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 30,000, due on 1.3.2026, taking the total from ₹ 73,000 to ₹ 1,03,000), the TDS provisions u/s 194C would get attracted. Tax has to be deducted @ 1% on the entire amount of ₹ 1,03,000 from the last payment of ₹ 30,000 and the balance of ₹ 28,970 (i.e., ₹ 30,000 – ₹ 1,030) has to be paid to Mr. X.
Qn. 4	Certain concessions are granted to transport operators in the context of cash payments u/s 40A(3) and deduction of tax at source u/s 194C. Elucidate.
Ans.	Sec 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds ₹ 10,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft or use of electronic clearing system through bank account or through other prescribed electronic modes. However, in case of payment made to transport operators for plying, hiring or leasing goods carriages, the disallowance will be attracted only if the payment made to a person in a day exceeds ₹ 35,000. Therefore, payment or aggregate of payments up to ₹ 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic system through bank account or through other prescribed electronic modes, without attracting disallowance u/s 40A(3). U/s 194C, tax had to be deducted in respect of payments made to contractors at the rate of 1%, in case the payment is made to individual or Hindu Undivided Family or at the rate of 2%, in any other case. However, no deduction is required to be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled:- (1) He owns ten or less goods carriages at any time during the previous year. (2) He is engaged in the business of plying, hiring or leasing goods carriages; (3) He has furnished a declaration to this effect along with his PAN.
Qn. 5	Moon TV, a television channel, made payment of ₹ 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source u/s 194C? Discuss. Also, examine whether the provisions of tax deduction at source u/s 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.
Ans.	In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' u/s 194C. Therefore, the payment of ₹ 50 lakhs made by Moon TV to the production house would be subject to tax deduction at source u/s 194C. If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in sec 194C(1). Therefore, such payment would not be liable for tax deduction at source u/s 194C.
	<u>Life Insurance proceeds – Sec 194DA</u>
Qn. 6	Examine the applicability of the provisions for TDS u/s 194DA in the following cases: (i) Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 30.6.2025, towards maturity proceeds of LIC policy taken on 1.7.2022, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000. (ii) Mr. Y, a resident, is due to receive ₹ 3.95 lakhs on 31.12.2025 on LIC policy taken on 1.1.2012, for which the sum assured is ₹ 3.5 lakhs and the annual premium is ₹ 26,100.

	(iii)	Mr. Z, a resident, is due to receive ₹ 95,000 on 1.8.2025 towards maturity proceeds of LIC policy taken on 31.7.2017 for which the sum assured is ₹ 90,000 and the annual premium is ₹ 10,000.
Ans.	(i)	Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 4.50 lakhs due on 30.6.2025 are not exempt u/s 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @ 2% u/s 194DA on the amount of income comprised therein i.e., on ₹ 75,000 (₹ 4,50,000, being maturity proceeds - ₹ 3,75,000, being the entire amount of insurance premium paid).
	(ii)	Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of ₹ 3.95 lakhs due to Mr. Y would be exempt u/s 10(10D) in his hands. Hence, no tax is required to be deducted at source u/s 194DA on such sum payable to Mr. Y.
	(iii)	Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 95,000 due on 1.8.2025 would not be exempt u/s 10(10D) in the hands of Mr. Z, the tax deduction provisions u/s 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.

<u>Rent payments - Sec 194-I & 194-IB</u>

Qn. 7 XYZ Ltd. entered into a lease agreement to take a building on rent from Mr. Kishore on 1st May 2024, for a monthly rent of ₹ 46,000 with a 10% escalation in rent applicable from the second year. Discuss applicability of TDS provisions u/s 194-I for the PY 2025-26.

Ans. Sec 194-I, which governs the deduction of tax at source on payment of rent, exceeding ₹ 50,000 per month or part of the month, is applicable to all taxable entities except individuals and HUFs, whose total sales, gross receipts or turnover from the business or profession carried on by him does not exceed ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the FY immediately preceding FY in which such rent was credited or paid, is liable to deduct tax at source.

For April 2025, the rent is ₹ 46,000. However, as per the agreement, the rent from May 2025 onwards is ₹ 50,600 per month (₹ 46,000 x 110%).

Since the rent paid by XYZ Ltd. to Mr. Kishore exceeds ₹ 50,000 per month from 1 May 2025 to 31 March 2025, the provisions of sec 194-I for deduction of tax at source attracted. However, tax is not required to be deducted for the rent paid for April 2025.

The rate applicable for deduction at source u/s 194-I on rent paid is 10%, assuming that Mr. Kishore had furnished his PAN to XYZ Ltd. Therefore, the amount of tax to be deducted at source = ₹ 50,600 x 10% x 11 months = ₹ 55,660

Qn. 8 Mr. X, a salaried individual, pays rent of ₹ 55,000 per month to Mr. Y from June, 2025. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.

Would your answer change if Mr. X vacated the premises on 31st December, 2025?

Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

[May 18, Nov 18]

Ans. Since Mr. X pays rent exceeding ₹ 50,000 per month in the FY 2025-26, he is liable to deduct tax at source @ 2%. Thus, tax has to be deducted from rent payable for March, 2026 or in the last month of tenancy, if the property is vacated during the year. Since property is not vacated during the year, ₹ 11,000 [(₹ 55,000 x 2% x 10%)] has to be deducted from the rent payable for the month of the March 2026.

If Mr. X vacated the premises in December, 2025, then tax of ₹ 17,700 [₹ 55,000 x 2% x 7] has to be deducted from rent payable for December, 2025,

In case Mr. Y does not provide his PAN, tax would be deductible @ 20%, instead of 2%.

In case 1 above, this would amount to ₹ 1,10,000 [₹ 55,000 x 20% x 10] but the same has to be restricted to ₹ 55,000, being rent for March, 2026.

In case 2 above, this would amount to ₹ 77,000 [₹ 55,000 x 20% x 7] but the same has to be restricted to ₹ 55,000, being rent for December, 2025.

Transfer of Immovable Property – Sec 194-IA

Qn. 9 Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 1.8.2025. He has purchased the house property and the land in the year 2024 for ₹ 40 lakh and ₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2025, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming both Mr. X and Mr. Y are residents.

Ans. (i) Tax implications in the hands of Mr. X

As per sec 50C, the stamp duty value of house property (i.e. ₹ 85 lakh) would be deemed to be the full value of consideration arising on transfer of property since stamp duty value exceeds 110% of the actual consideration. Therefore, ₹ 45 lakh (i.e., ₹ 85 lakh – ₹ 40 lakh, being the purchase price) would be short-term capital gains in AY 2026-27.

Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.

(ii) Tax implications in the hands of Mr. Y

In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable u/s 56(2)(x), if such difference exceeds higher of ₹ 50,000 or 10% of the consideration.

Therefore, in this case ₹ 25 lakh (₹ 85 lakh – ₹ 60 lakh) would be taxable in the hands of Mr. Y u/s 56(2)(x).

Since agricultural land is not a capital asset, the provisions of sec 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of "property" u/s 56(2)(x) includes only capital assets specified thereunder.

(iii) TDS implications in the hands of Mr. Y

Since the sale consideration or stamp duty value of house property exceeds ₹ 50 lakh, Mr. Y is required to deduct tax at source u/s 194-IA. The tax to be deducted u/s 194- IA would be ₹ 85,000, being 1% of ₹ 85 lakhs (higher of ₹ 60 lakhs and ₹ 85 lakhs).

TDS provisions u/s 194-IA are not attracted on transfer of rural agricultural land.

Professional & Technical Services – Sec 194J

Qn. 10 XYZ Ltd. makes a payment of ₹ 28,000 to Mr. Ganesh on 2.8.2025 towards fees for professional services and another payment of ₹ 25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions u/s 194J are attracted.

Ans. TDS provisions u/s 194J would not get attracted, since the limit of ₹ 50,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the PY 2025-26.

Payments by Individual & HUF – Sec 194M

Qn. 11 Examine whether TDS provisions would be attracted in the following cases, and if so, under which sec. Also, specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

Particulars of the payer	Nature of payment	Aggregate of payments made in the FY 2025-26
1. Mr. Ganesh, an individual carrying on retail business	Contract Payment for repair of residential house	₹ 5 lakhs

with turnover of ₹ 2.5 crores in the PY 2024-25	Payment of commission to Mr. Vallish for business purposes	₹ 80,000 in November 2025
2. Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in PY 2024-25	Contract Payment for reconstruction of residential house (made during the period January-March, 2026)	₹ 20 lakhs in January, 2026, ₹ 15 lakhs in Feb 2026 and ₹ 20 lakhs in March 2026.
3. Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2026	₹ 51 lakhs
4. Mr. Dheeraj, a pensioner	Contract payment made during October - November 2025 for reconstruction of residential house	₹ 48 lakhs

Ans.

Particulars of the payer	Nature of payment	Payments in FY 2025-26	Whether TDS provisions are attracted?
1. Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the PY 2024-25	Contract Payment for repair of residential house	₹ 5 lakhs	No, TDS u/s 194C is not attracted since the payment is for personal purpose and TDS u/s 194M is not attracted as aggregate of contract payment to the payee in the PY 2025-26 does not exceed ₹ 50 lakhs.
	Payment of commission to Mr. Vallish for business purposes	₹ 80,000	Yes, u/s 194H, since the payment exceeds ₹ 20,000, and Mr. Ganesh's turnover exceeds ₹ 1 crore in the PY 2024-25.
2. Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in PY 2024-25.	Contract Payment for reconstruction of residential house	₹ 55 lakhs	Yes, u/s 194M, since the aggregate of payments (i.e., ₹ 55 lakhs) exceed ₹ 50 lakhs. Since his turnover from business does not exceed ₹ 1 crore in the PY 2024-25, TDS provisions u/s 194C are not attracted on payments made in the PY 2025-26.
3. Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house	₹ 51 lakhs	Yes, u/s 194M, since the payment of ₹ 51 lakhs made in March 2026 exceeds the threshold of ₹ 50 lakhs. Since Mr. Satish is a salaried individual, the provisions of sec 194H are not applicable in this case.
4. Mr. Dheeraj, a pensioner	Contract payment for reconstruction of residential house	₹ 48 lakhs	TDS provisions u/s 194C are not attracted since Mr. Dheeraj is a pensioner. TDS provisions u/s 194M are also not applicable in this case, since the payment of ₹ 48 lakhs does not exceed the threshold of ₹ 50 lakhs.

Senior Citizens – Sec 194P

Qn. 12 Mr. Sharma, a resident Indian aged 77 years, gets pension of ₹ 82,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest @ 8% on fixed deposit of ₹ 40 lakh with the said bank. Out of the deposit of ₹ 40 lakh, ₹ 2 lakh represents five year term deposit made by him on 1.4.2025. Interest on savings bank credited to his SBI savings account for the PY 2025-26 is ₹ 9,500.

(1) From the above facts, compute the total income and tax liability of Mr. Sharma for the AY 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

(2) What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for AY 2026-27, if tax deductible at source has been fully deducted? Examine.

(3) Is Mr. Sharma required to file his return of income for AY 2026-27, if the fixed deposit of ₹ 20 lakh was with Canara Bank instead of SBI, other facts remaining the same?

Ans. (1) Computation of total income of Mr. Sharma for AY 2026-27

Particulars	₹	₹
Salaries		
Pension (₹ 52,000 x 12)	9,84,000	
Less: Standard deduction u/s 16(ia)	(50,000)	9,34,000
Income from Other Sources		
Interest on fixed deposit (₹ 40 lakh x 8%)	3,20,000	
Interest on savings account	9,500	3,29,500
Gross total income		**12,63,500**
Less: Deductions under Chapter VI-A		
U/s 80C		
Five year term deposit (₹ 2 lakh, restricted to ₹ 1.5 lakh)	1,50,000	
U/s 80TTB		
Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years.	50,000	(2,00,000)
Total Income		10,63,500
Computation of tax liability for AY 2026-27		
Tax payable [₹ 63,500 x 20% + ₹ 10,000]		1,29,050
Add: Health and Education Cess @ 4%		5,162
Tax liability		**1,34,212**
Tax liability (rounded off)		**1,34,210**

(2) SBI, being a specified bank, is required to deduct tax at source u/s 194P (after considering the tax, if any, deducted on pension u/s 192) and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.

(3) If the fixed deposit of ₹ 20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a "specified senior citizen", consequent to which SBI would not be liable to deduct tax u/s 194P. In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VIA) exceeds the basic exemption limit.

Purchase of Goods – Sec 194Q

Qn. 13 Mr. Gupta, a resident Indian, is in retail business and his turnover for FY 2024-25 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the FY 2025-26 was ₹ 95 lakh (₹ 20 lakh on 1.6.2025, ₹ 25 lakh on 12.8.2025, ₹ 22 lakh on 23.11.2025 and ₹ 28 lakh on 25.3.2026). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date.

- Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
- Would your answer be different if Mr. Gupta's turnover for FY 2024-25 was ₹ 8 crores, all other facts remaining the same?
- Would your answer to above change, if PAN has not been furnished by the seller, as required?

Ans. (1) Since Mr. Gupta's turnover for FY 2024-25 exceeds ₹ 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the PY 2025-26, he is liable to deduct tax @ 0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner –

No tax is to be deducted u/s 194Q on the payments made on 1.6.2025 and 12.8.2026, since the aggregate payments till that date i.e., ₹ 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 22 lakh on 23.11.2025 [₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit].

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 28 lakhs on 25.3.2026.

(2) If Mr. Gupta's turnover for the FY 2023-24 was only ₹ 8 crores, TDS provisions u/s 194Q would not be attracted.

(3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax @ 5%, instead of 0.1%. Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 (5% of ₹ 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2025 and 25.3.2026, respectively.

Comprehensive Questions

Qn. 14 Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year

Particulars	₹
2024-25	1,05,00,000
2025-26	95,00,000

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the FY 2025-26:

Particulars	₹
Interest paid to UCO Bank on 15.8.2025	41,000
Contract payment to Raj (2 contracts of ₹ 12,000 each) on 12.12.2025	24,000
Shop rent paid (one payee) on 21.1.2026	40,000 per month
Commission paid to Balu on 15.3.2026	7,000

Ans. As the turnover of business carried on by Ashwin for FY 2024-25, has exceeded ₹ 1 crore, he has to comply with the tax deduction provisions during the FY 2025-26, subject to, the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

TDS u/s 194A is not attracted in respect of interest paid to a banking company.

Contract payment of ₹ 24,000 to Raj for 2 contracts of ₹ 12,000 each

TDS provisions u/s 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the FY. Therefore, TDS provisions u/s 194C are not attracted in this case.

Shop Rent paid ₹ 40,000 per month

Tax u/s 194-I would not be attracted since the rental payment does not exceed ₹ 50,000 per month or part of the month.

Commission paid to Balu

No, tax has to be deducted u/s 194-H in this case as the commission does not exceed ₹ 20,000.

Qn. 15 Compute the amount of tax deduction at source on the following payments made by M/s. S Ltd. during the FY 2025-26 as per the provisions of the Income-tax Act, 1961.

Sr. No.	Date	Nature of Payment

(i)	1-10-2025	Payment of ₹ 2,00,000 to Mr. "R" a transporter who owns 8 goods carriages throughout the PY and furnishes a declaration to this effect alongwith his PAN.
(ii)	1-11-2025	Payment of fee for technical services of ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2025	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2026	Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates.
(v)	01-01-2026	Payment made ₹ 2,30,000 to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(vi)	01-02-2026	Payment of commission of ₹ 14,000 to Mr. Y.

Ans. (i) No tax is required to be deducted at source u/s 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:
(1) He owns ten or less goods carriages at any time during the PY.
(2) He is engaged in the business of plying, hiring or leasing goods carriages;
(3) He has furnished a declaration to this effect along with his PAN.

(ii) As per sec 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds ₹ 50,000 during the FY. In the given case, since, the individual payments for fee of technical services i.e., ₹ 25,000 and royalty ₹ 20,000 is less than ₹ 50,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.

(iii) Provisions of sec 194C are not attracted in this case, since the payment for repair of building on 30.06.2025 to M/s. X Ltd. is less than the threshold limit of ₹ 30,000.

(iv) According to sec 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or associate of such customer.
Therefore, there is no liability to deduct tax at source in respect of payment of ₹ 2,00,000 to Mr. A, since the contract is a contract for 'sale'.

(v) As per sec 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the FY exceeds ₹ 5,00,000.
In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed ₹ 5,00,000.

(vi) As per sec 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the FY exceeds ₹ 20,000.
Since the commission payment made to Mr. Y does not exceed ₹ 20,000, the provisions of sec 194H are not attracted.

Qn. 16 Examine the applicability of TDS provisions and TDS amount in the following cases:
(i) Rent of ₹ 55,000 per month was paid for hire of machinery by B Ltd. to Mr. Raman in FY 2025-26
(ii) Fee paid on 1.12.2025 to Dr. Srivatsan by Sundar (HUF) ₹ 35,000 for surgery performed on a member of the family.
(iii) ABC and Co. Ltd. paid ₹ 19,000 to one of its Directors as sitting fees on 01-01-2026.

Ans. (a) Since the rent paid for hire of machinery by B Ltd. to Mr. Raman exceeds ₹ 50,000 per month or part of the month, the provisions of section 194-I for deduction of tax at source are attracted.

The rate applicable for deduction of tax at source u/s 194-I on rent paid for hire of plant and machinery is 2%, assuming that Mr. Raman had furnished his permanent account number to B Ltd. Therefore, the amount of tax to be deducted at source:

= ₹ 2,60,000 x 2% = ₹ 5,200.

Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @ 20% on ₹ 2,60,000, by virtue of provisions of sec 206AA.

(b) As per the provisions of sec 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover form the business or profession exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession, as the case may be, in the FY preceding the current FY and such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.

Sec 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source u/s 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds ₹ 50 lakhs during the FY.

In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2025 for a personal purpose, therefore, sec 194J is not attracted.

Sec 194M would have been attracted, if the payment or aggregate of payments exceeded ₹ 50 lakhs in the PY 2025-26. However, since the payment does not exceed ₹ 50 lakh in this case, there is no liability to deduct tax at source u/s 194M also.

(c) Sec 194J provides for deduction of tax at source @ 10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible u/s 192. The threshold limit of ₹ 50,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered u/s 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax @ 10% has to be deducted at source u/s 194J in respect of the sum of ₹ 19,000 paid by ABC Ltd. to its director.

Therefore, the amount of tax to be deducted at source:

= ₹ 19,000 x 10% = ₹ 1,900

Qn. 17 Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the FY 2025-26:

- Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31-03-2026.
- Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
- ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2026 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

Ans. (1) Provisions of tax deduction at source u/s 194C are attracted in respect of payment by a company to a sub-contractor. U/s 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual. Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000.

Tax to be deducted = ₹ 4,20,000 x 1% = ₹ 4,200

(3) U/s 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000 in respect of a single transaction. The rate of deduction of tax at source is 30%.

Hence, tax to be deducted = ₹ 1,50,000 x 30% = ₹ 45,000.

(4) As per sec 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 5,00,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹5,00,000.

Qn. 18 Examine the applicability of Tax deduction at source (TDS) or Tax collection at source (TCS) as per the Income-tax Act, 1961 for the AY 2026-27 in the following situations:

(i) Mr. Raja paid ₹ 12 lakhs on 1.11.2025 to M/s. Thomas Cook for a holiday package to Singapore for a week with his family, comprising of his wife and two children, being twins aged 22 years, in the last week of November. Mr. Raja also remitted ₹ 13 lakhs on 28.3.2026, out of his personal savings, under LRS through Bank of India, as gift to his sister residing in London, on the occasion of her 50th birthday

(ii) Mr. Rohit and Mr. Raj are the joint owners of a house property. They sold the house property on 31.12.2025 for ₹ 60 lakhs, receiving ₹ 30 lakhs each as their respective shares. However, the stamp duty value (SDV) of the property on the date of transfer is ₹ 75 lakhs. The property was jointly purchased by Ms. Shashi and Ms. Sujata.

(iii) XYZ Ltd. provided a luxury car worth ₹ 15 lakh to its distributor, Mr. A, as an incentive for achieving high sales targets.

Ans. (i) M/s. Thomas Cook, being a seller of an overseas tour programme package has to collect tax at source @ 5% till ₹ 10 lakhs and 20% thereafter u/s 206C(1G) from Mr. Raja on receiving amount for purchase of package.

M/s Thomas Cook has to collect tax of ₹ 90,000, being ₹ 50,000 (5% of ₹ 10 lakhs) and ₹ 40,000 (20% of ₹ 2 lakhs).

Bank of India, being an authorized dealer has to collect tax at source u/s 206C(1G) @ 20% on amount in excess of ₹ 10 lakhs remitted under the LRS since the remittance of ₹ 13 lakhs is not for the purpose of education and medical treatment.

Bank of India has to collect tax of ₹ 60,000 i.e., 20% of ₹ 3 lakhs, being the amount remitted in excess of ₹ 10 lakhs.

(ii) As per sec 194-IA, if a person (transferor) transfers any immovable property whose consideration for transfer or stamp duty value is not less than ₹ 50 lakh to a person (transferee), then transferee is required to deduct tax at source @ 1% of consideration for transfer or stamp duty value, whichever is higher.

In case there are multiple transferee or transferor in respect of any immovable property, consideration shall be the aggregate of the amounts paid or payable by all the transferees to the transferor or all the transferors for transfer of such immovable property.

Accordingly, in the present case, Ms. Shashi and Ms. Sujata are required to deduct tax at source @1% on ₹ 75 lakhs, being the amount higher of consideration of ₹ 60 lakhs and stamp duty value of ₹ 75 lakhs.

(iii) As per sec 194R, if any person (other than an individual or HUF whose total sales or gross receipts does not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding PY) provides any benefit or perquisite to a resident arising from his business or profession and the total value of such benefits exceeds ₹ 20,000 in a FY, then such person is required to deduct tax at source @ 10% of the total value of the benefit or perquisite. Where the benefit or perquisite is in kind, the person has to ensure before releasing such benefit or perquisite that the tax required to be deducted has been paid in respect of such benefit or perquisite.

In the present case, XYZ Ltd. provided a luxury car worth ₹ 15 lakh to Mr. A, as an incentive which qualifies as a perquisite u/s 194R. Therefore, XYZ Ltd. has to ensure before releasing the car that the tax of ₹ 1,50,000 i.e., 10% of ₹ 15 lakhs has been paid by Mr. A.

Section B – Blast from the past

Qn. 1 Pallavi Bank Ltd., has paid interest of ₹ 9,000 to Mr. A, a resident Indian, from its Chennai branch and ₹ 8,000 from Bangalore branch. If there is no core banking services in the bank, is tax required to be deducted at source from such interest payments made on 31-3-2026? Will your answer be different if there is core banking service present in the bank? Also, explain the provisions of the Income-tax Act, 1961 in this regard.

[May 17]

Ans. Tax is deductible @ 10% u/s 194A in respect of bank interest, if the same exceeds ₹ 50,000.

This threshold is with reference to interest credited or paid by a branch of the bank, where the bank has not adopted core banking solutions.

On the other hand, if the bank has adopted core banking solutions, then, the threshold of ₹ 50,000 would apply in respect of the aggregate interest credited or paid by all the branches of the bank.

Therefore, if Pallavi Bank Ltd. has not adopted core banking solutions, it need not deduct tax on interest of ₹ 9,000 and ₹ 8,000 paid by its Chennai Branch and Bangalore Branch, respectively, to Mr. A, since the interest paid by each branch does not exceed ₹ 50,000. Further, even if Pallavi Bank Ltd. has adopted core banking solutions, it shall not be required to deduct tax at source since the aggregate interest paid by its Chennai and Bangalore branches is only ₹ 17,000 which does not exceed ₹ 50,000.

Qn. 2 What are the clarifications given by CBDT with respect to sec 206C(1F) relating to following issues:

(i) Whether TCS on sale of motor vehicle is applicable only to luxury car?

(ii) Whether TCS is applicable on each sale or aggregate value of sale of motor vehicle, exceeding ₹ 10 lakhs?

(iii) Whether TCS is applicable in case of an individual?

(iv) Whether TCS on sale of motor vehicle is at retail level also or only by manufacturer to distributor or dealer?

[Nov 19]

Ans.

(i) No, as per sec 206C(1F), the seller shall collect tax @ 1% from the purchaser on sale of any motor vehicle of the value exceeding ₹ 10 lakhs.

(ii) Tax is to be collected at source @ 1% on sale consideration of a motor vehicle exceeding ₹ 10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year.

(iii) The term "seller" includes *inter alia*, an individual whose total sales, gross receipts or turnover from the business or profession carried on by him exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the FY immediately preceding the FY in which the motor vehicle is sold. Thus, an individual shall be liable for collection of tax at source on sale of motor vehicle by him

(iv) TCS on sale of motor vehicle is applicable on all transactions of retail sales only. Accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.

Administrative provisions - TDS

Qn. 3 An amount of ₹ 40,000 was paid to Mr. X on 1.7.2025 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 50,000 was due to Mr. X on 28.2.2026, from which tax @ 10% (amounting to ₹ 9,000) on the entire amount of ₹ 90,000 was deducted. However, this tax of ₹ 9,000 was deposited only on 22.6.2026. Compute the interest chargeable u/s 201(1A).

[ICAI – Old SM]

Ans. Interest u/s 201(1A) would be computed as follows –

Particulars	₹
1% on tax deductible but not deducted i.e., 1% on ₹ 4,000 for 8 months	320
1½% on tax deducted but not deposited i.e., 1½% on ₹ 9,000 for 4 months	540
	860

Author's Note: TRACES portal, however would calculate Interest on delay in remittance for 5 months instead of 4 months in this case.

Payment of Taxes & Return filing

13

SECTION A – SM QUESTIONS

Advance Tax and Interest on defaults

Qn. 1 Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.

[Nov 16]

Ans. The proviso to sec 234C contains the provisions for payment of advance tax in case of capital gains and casual income.

Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is not possible for the assessee to estimate his capital gains, or income from lotteries etc., it has been provided that if any such income arises after the due date for any instalment, then, the entire amount of the tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining instalments of advance tax, which are due.

Where no such instalment is due, the entire tax should be paid by 31st March of the relevant FY.

No interest liability on late payment would arise if the entire tax liability is so paid.

Note: In case of casual income the entire tax liability is fully deductible at source @ 30% u/s 194B and 194BB. Therefore, advance tax liability would arise only if the surcharge, if any, and health and education cess @ 4% in respect thereof, along with tax liability in respect of other income, if any, is ₹ 10,000 or more.

Qn. 2 Mr. Sameer, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the FY 2025-26.

Tax deducted at source for this year	12,000
Estimated tax liability for the FY 2025-26	80,000

[Nov 18]

Ans. Determination of advance tax liability of Mr. Sameer

Particulars	₹
Estimated tax liability for the FY 2025-26	80,000
Less: Tax Deducted at source	(12,000)
Net Tax Payable	**68,000**

Due dates for payment of advance tax

Due date of installment	Amount payable
On or before 15th Jun, 2025	₹ 10,200
	[15% of ₹ 68,000]
On or before 15th Sept, 2025	₹ 20,400
	[₹ 30,600 (45% of ₹ 68,000) less ₹ 10,200
On or before 15th Dec, 2025	₹ 20,400
	[₹ 51,000 (75% of ₹ 68,000) less ₹ 30,600
On or before 15th Mar, 2026	₹ 17,000
	[₹ 68,000 (100% of advance tax liability less ₹ 51,000

Return filing

Qn. 3 State with reasons whether you agree or disagree with the following statements:

(a) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.

(b) Time limit for filing return u/s 139(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2026, whether or not opting to offer presumptive income u/s 44AD, is 31st October, 2026.

Ans. (a) **Disagree**

The return of income of LLP should be verified by a designated partner.

Any other partner can verify the Return of Income of LLP only in the following cases:-

(i) where for any unavoidable reason such designated partner is not able to verify the return,

(ii) where there is no designated partner.

(b) **Disagree**

In case Mr. A opts to offer his income as per the presumptive taxation provisions of sec 44AD, then, the due date u/s 139(1) for filing of return of income for the year ended 31.03.2026, shall be 31st July, 2026. In case, Mr. A does not opt for presumptive taxation provisions u/s 44AD, he has to get his accounts audited u/s 44AB, since his turnover exceeds ₹ 1 crore, in which case, the due date for filing return would be 31st October, 2026.

Qn. 4 Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

(i) The Assessing Officer has the power, *inter alia*, to allot PAN to any person by whom no tax is payable.

(ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

Ans. (i) **True:** Sec 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.

(ii) **False**: Sec 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

Qn. 5 Paras aged 55 years is a resident of India. During the FY 2025-26, interest of ₹ 2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income?

What will be your answer, if he has incurred ₹ 3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time?

Ans. An individual is required to furnish a return of income u/s 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section or section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e., i.e. ₹ 4,00,000 under default tax regime u/s 115BAC and ₹ 2,50,000 if exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A) (for AY 2026-27).

<u>Computation of total income of Mr. Paras for AY 2026-27</u>

Particulars	₹
Income from other sources	
Interest earned from Non-resident (External) Account ₹ 2,88,000	NIL
[Exempt u/s 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	**33,000**
Less: Deduction u/s 80TTA (not available under the default tax regime u/s 115BAC)	-
Total Income	**33,000**

In case he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A), he would be eligible for deduction of ₹ 3,000 u/s 80TTA. Accordingly, his total income would be ₹ 30,000. However, in both regimes, total income of ₹ 33,000, before giving effect to deductions under Chapter VI-A, would be considered.

Since the total income of Mr. Paras for AY 2026-27, before giving effect, *inter alia*, to the deductions under Chapter VI-A, is less than the basic exemption limit in both regimes, he is not required to file return of income for AY 2026-27.

Note: In the above solution, interest of ₹ 2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect, inter alia, to the deductions under Chapter VI-A, would be ₹ 3,21,000 (₹ 30,000 + ₹ 2,88,000 + ₹ 3,000), which is higher than the basic exemption limit of ₹ 2,50,000 in case he opts out of default tax regime. Consequently, he would be required to file return of income for AY 2026-27. However, if he pays tax under default tax regime, he is not required to file return for AY 2026-27 as the basic exemption limit is ₹ 4,00,000 u/s 115BAC.

If he has incurred expenditure of ₹ 3 lakhs on foreign travel of self and spouse, he has to mandatorily file his return of income on or before the due date u/s 139(1), even if his income is less than the basic exemption limit

Qn. 6 Explain the term "return of loss" under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?

[Jan 25]

Ans. A return of loss is a return which shows certain losses. Sec 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of sec 139(3).

Sec 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in sec 139(1).

Following losses are covered by sec 139(3):

- business loss to be carried forward u/s 72(1),
- speculation business loss to be carried forward u/s 73(2),
- loss from specified business to be carried forward u/s 73A(2).
- loss under the head "Capital Gains" to be carried forward u/s 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward u/s 74A(3)

However, loss from house property to be carried forward u/s 71B and unabsorbed depreciation u/s 32 can be carried forward even if return of loss has not been filed as required u/s 139(3).

Qn. 7 Explain with brief reasons whether the return of income can be revised u/s 139(5) of the Income-tax Act, 1961 in the following cases:

(i) Belated return filed u/s 139(4).
(ii) Return already revised once u/s 139(5).
(iii) Return of loss filed u/s 139(3).
(iv) Defective or incomplete return filed under section 139(9).

[Nov 19]

Ans. Any person who has furnished a return u/s 139(1) or 139(4) can file a revised return at any time before 3 months prior to the end of the relevant AY or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

(i) A belated return filed u/s 139(4) can be revised.
(ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e., at any time before 3 months prior to the end of the relevant AY or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.

(iii) A return of loss filed u/s 139(3) is deemed to be return filed u/s 139(1), and therefore, can be revised u/s 139(5).

(iv) The defective return has to be rectified within the period of 15 days from the date of intimation received from the Assessing Officer or such further extended period. Where a defective return is rectified within 15 days or such further extended period, then, such return would be a valid return.
Thereafter, if the assessee discovers any omission or wrong statement in such a return, he can furnish a revised return u/s 139(5), within the prescribed time i.e., at any time before 3 months prior to the end of the relevant AY or before the completion of assessment, whichever is earlier.
However, if the defect is not rectified within the said time, it would be an invalid return, in which case, it cannot be revised.

Qn. 8 Mr. Vineet exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) submits his return of income on 12-07-2026 for AY 2026-27 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 21-12-2026, he realized that he had not claimed deduction u/s 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21-03-2027?

[Nov 18]

Ans. Since Mr. Vineet has income only under the heads "Salaries", "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for AY 2026-27 u/s 139(1), in his case, is 31st July, 2026. Since Mr. Vineet has filed his return under optional regime on 12.7.2026, the said return is within the time provided u/s 139(1).
As per sec 139(5), a return furnished u/s 139(1) or a belated return u/s 139(4) can be revised. Therefore, Mr. Vineet can revise the return of income filed by him u/s 139(4) in December 2026, to claim deduction u/s 80TTA, since the time limit for filing a revised return is 3 months prior to the end of the relevant AY, which is 31.12.2026.
However, he cannot revise return had he discovered this omission only on 21-03-2027, since it is beyond 31.12.2026.

Qn. 9 Rishi, a 34 years resident individual, did not file his return of income for the AY 2020-21, 2021-22 and 2022-23. For AY 2023-24, he has filed his return of income on 31.07.23. He filed updated return u/s 139(8A) on 30.04.25 for AY 2024-25. He gives the following information regarding each of the AY

Particulars	2020-21	2021-22	2022-23	2023-24	2024-25
Declared Income u/s 139(1)/ 139(8A)	-	-	-	(₹ 3,50,000)	₹ 7,50,000
Tax liability on total income before TDS/TCS/Interest/Self-Assessment tax	₹ 14,50,000	₹ 5,60,000	₹ 6,30,000	-	-
TDS deducted	₹ 5,00,000	₹ 10,00,000	₹ 2,00,000	-	-
Interest u/s 234A/B/C	₹ 2,90,000	-	₹ 90,000	-	-
Self-Assessment Tax Paid	-	-	₹ 1,00,000	-	-

In May 2025, Rishi came to know about loss from house property of ₹ 2,00,000 which he forgets to claim while filing the return of income for AY 2023-24. Moreover, in AY 2024-25, he has earned dividend income of ₹ 4,500 and ₹ 4,150 from A Ltd. & B Ltd., respectively, which he has not reported in his return of income u/s 139(8A). He approaches you on 16.5.2025 to file updated return for all the AYs u/s 139(8A) in order to clear his income-tax records. You are required to prepare a suggestion for which of the AYs Rishi can file an updated return and tax payable at the time of filing updated return.

Ans.	An updated return can be furnished for the previous year relevant to the AY at any time within 48 months from the end of the relevant AY. Accordingly, the following are the suggestions to Rishi with respect to updated return on 16.5.2025 for AY 2020-21, AY 2021-22, AY 2022-23, AY 2023-24 and AY 2024-25 and tax payable at the time of filing updated return: <u>AY 2020-21:</u> Since the period of 48 months from the end of AY 2020-21 expired on 31.3.2025, updated return cannot be furnished on 16.5.2025 for A.Y. 2020-21. <u>AY 2021-22:</u> Since the period of 48 months from the end of A.Y. 2021-22 expired on 31.3.2026, updated return can be furnished on 16.5.2025 for A.Y. 2021-22. However, the amount of tax payable of ₹ 5,60,000 is before adjusting TDS of ₹ 10,00,000. In such a case, since the refund of ₹ 4,40,000 would arise, an updated return cannot be furnished for AY 2021-22. <u>AY 2022-23:</u> Since the period of 48 months from the end of AY 2022-23 expired on 31.3.2027, updated return can be furnished on 16.5.2025 for AY 2022-23. Since updated return would be furnished after the expiry of 24 months from the end of the relevant AY but before completion of the period of 36 months from the end of the relevant AY, additional income tax would be payable @ 60% of aggregate of tax (after taking into consideration tax deducted at source and self-assessment tax paid) and interest payable u/s 234A/B/C. Rishi is required to pay additional income-tax of ₹ 2,52,000 i.e., 60% of ₹ 4,20,000 [₹ 3,30,000 (₹ 6,30,000 – ₹ 2,00,000 – ₹ 1,00,000) + ₹ 90,000] in addition to tax payable of ₹ 3,30,000, interest payable of ₹ 90,000 and late fees of ₹ 5,000. <u>AY 2023-24:</u> Since the period of 48 months from the end of AY 2023-24 expired on 31.3.2028, updated return can be furnished on 16.5.2025 for AY 2023-24. However, Rishi has declared loss of ₹ 3,50,000 in his original return of income and he wishes to claim additional loss from house property of ₹ 2,00,000 which he forgot to claim while filing the return of income u/s 139(1). In such case, since his loss will increase from ₹ 3,50,000 to ₹ 5,50,000, an updated return cannot be furnished for AY 2023-24. <u>AY 2024-25:</u> Since Rishi has already furnished an updated return u/s 139(8A) for AY 2024-25, he cannot again furnish an updated return u/s 139(8A) for AY 2024-25.
Qn. 10	Mrs. Hetal, an individual, engaged in the business of Beauty Parlour, has got her books of account for the year ending 31.3.2026 audited u/s 44AB. Her total income for the AY 2026-27 is ₹ 6,35,000. She wants to furnish her return of income for the AY 2026-27 through a Tax Return Preparer. Can she do so?
Ans.	Sec 139B provides for submission of return of income through Tax Return Preparers. However, it is not applicable to persons whose books of account are required to be audited u/s 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for AY 2026-27 through a Tax Return Preparer.
Qn. 11	Mr. Aakash has undertaken certain transactions during the FY 2025-26, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents – (i) Payment as Life Insurance Premium of ₹ 45,000 in the FY 2025-26 by account payee cheque to LIC for insuring life of self and spouse. (ii) Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash (iii) Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company (iv) Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives (v) Applied to SBI for issue of credit card. **[May 18]**

Ans.

Monetary limit for mandatory quoting of PAN

Transaction	Is quoting of PAN mandatory in related documents?
(i) Payment as Life Insurance Premium of ₹ 45,000 in the FY 2025-26 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed ₹ 50,000 in the FY 2025-26
(ii) Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash	Yes, since the amount paid in cash exceeds ₹ 50,000
(iii) Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company	Yes, since the amount paid for acquiring debentures exceeds ₹ 50,000. Mode of payment is not relevant in this case.
(iv) Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000
(v) Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.

Section B – Blast from the Past

Qn. 1 Mr. Mani, a resident individual, sold a plot of land on 20th March, 2026. Long term capital gain on such sale amounted to ₹ 5,00,000. Since he had no other income during the PY 2025-26, he did not pay any advance tax instalment.

You are required to calculate the amount of advance tax payable by Mr. Mani, if any assuming he has exercised the option of opting out of the default tax regime as per Sec 115BAC(1A).

Base your answer on the relevant provisions relating to the payment of advance tax on income from capital gain and advise Mr. Mani suitably, so that the liability on late payment does not arise.

[Nov 19]

Ans.

Computation of advance tax payable by Mr. Mani

Particulars	₹
The total income of ₹ 5 lakh comprises only of long-term capital gains on sale of plot on 20.3.2026.	
Therefore, the basic exemption limit of ₹ 2,50,000 can be fully exhausted against long-term capital gains, since Mr. Mani is a resident individual. The balance capital gains of ₹ 2,50,000 is taxable @ 12.5%.	
Tax @ 12.5% on long-term capital gain of ₹ 2,50,000 (i.e., ₹ 5,00,000 less unexhausted basic exemption limit of ₹ 2,50,000)	31,250
Less: Rebate u/s 87A	(12,500)
	18,750
Add: Health and education cess @ 4%	750
Total tax liability	**19,500**

Since Mr. Mani sold the plot of land on 20.3.2026, the long-term capital gain on transfer of such land arises only after due date of fourth instalment, i.e., after 15.3.2026. Accordingly, he is required to pay whole of the tax of ₹ 19,500 on such long-term capital gain on or before 31.3.2026.

Accordingly, if he pays ₹ 19,500 on or before 31.3.2026, interest u/s 234C for deferment of advance tax would not be attracted. Also, interest u/s 234B for default in payment of advance tax would not be attracted.

Qn. 2 Mr. Sachal, a resident individual aged 54, furnishes his income & other details for the PY 2025-26:

(i) Income of ₹ 8,10,000 from wholesale cloth business, whose accounts are audited u/s 44AB.

(ii) Income from other sources ₹ 2,70,000.

(iii) Tax deducted at source ₹ 25,000.

(iv) Advance tax paid ₹ 1,03,000 during the PY 2025-26.

Return of income filed on 11-12-2026. Calculate the interest payable u/s 234B of the Income-tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return and Mr. Sachal has exercised the option to opt out of default tax regime u/s 115BAC(1A).

What are the consequences for delay in furnishing return of income under the Income-tax Act, 1961? Examine, making the required computations in this case.

[May 17, RTP – May 18, Nov 18]

Ans. Computation of interest payable u/s 234B by Mr. Sachal

Particulars	**₹**
Tax on total income of ₹ 10,80,000 [Business income of ₹ 8,10,000 + Income from other sources of ₹ 2,70,000]	1,36,500
Add: Health & Education cess @ 4%	5,460
Tax on total income	1,41,960
Less: Tax deducted at source	(25,000)
Assessed Tax	1,16,960
90% of assessed tax	1,05,264
Advance tax paid	1,03,000
Interest u/s 234B is leviable since advance tax of ₹ 1,03,000 paid is less than ₹ 1,05,264, being 90% of assessed tax	
Number of months from 1st April, 2025 to 11th December, 2026, being the date of processing of return	9
Interest u/s 234B @ 1% per month or part of a month for 9 months on ₹ 13,900 [i.e., difference between assessed tax of ₹ 1,16,960 and advance tax of ₹ 1,03,000 paid, being ₹ 13,960 which is rounded off to ₹ 13,900 under Rule 119A of Rules]	1,251

Consequences for delay in filing return of income on or before the due date

Interest u/s 234A and fee u/s 234F would be attracted for filing return of income beyond the due date specified u/s 139(1).

Interest under section 234A

Since Mr. Sachal's accounts are audited u/s 44AB, the due date for filing of return for AY 2025-26, in his case, is 31.10.2025. Mr. Sachal has filed his return on 11.12.2026 i.e., interest u/s 234A will be payable for 2 months (from 1.11.2026 to 11.12.2026) @ 1% per month or part of month on the amount of tax payable on the total income, as reduced by TDS and advance tax paid i.e., ₹ 13,960 rounded off to ₹ 13,900 under Rule 119A of Income-tax Rules, 1962

Interest u/s 234A = ₹ 13,900 x 1% x 2 = ₹ 278

Fee for late filing of return u/s 234F

Since Mr. Sachal has furnished his return of income after the due date but before 31.12.2026 and his total income exceeds ₹ 5 lakhs, a fee of ₹ 5,000 will be payable by him.

Qn. 3 Mr. Jay having total income of ₹ 8,70,000, did not pay any advance tax during the PY 2025-26. He wishes to pay the whole of the tax, along with interest if any, on filing the return in the month of July, 2026. What is total tax which Mr. Jay has to deposit as self-assessment tax along with interest, if he files the return on 29.07.2026? Assume that he has exercised the option of opting out of the default tax regime provided u/s 115BAC(1A).

[ICAI SM – Oct 2023]

Ans. Obligation to pay advance tax arises in every case, where the advance tax payable is ₹ 10,000 or more. As a consequence of such failure, assessee may be charged with interest u/s 234B and 234C.

In the given case, since Mr. Jay did not deposit any amount of advance tax during the PY, he will need to pay the total tax due on his income along with interest on default of payment of advance tax (sec 234B) and interest for deferment of advance tax (sec 234C) before filing of his return.

Total tax due on returned income of ₹ 8,70,000 is ₹ 89,960 [(20% of ₹ 3,70,000 + ₹ 12,500) + cess @ 4%]

Interest u/s 234B

Interest u/s 234B is attracted - a) When the assessee, who is liable to pay advance tax has failed to pay such tax; or b) Where the advance tax paid by the assessee is less than 90% of the assessed tax.

Since, Mr. Jay did not pay any amount as advance tax, interest u/s 234B at 1% per month or part of the month will be levied beginning from 1st April of the following year i.e., 01.04.2026 till the time he deposits the whole tax under self-assessment.

Interest will be levied on tax liability of ₹ 89,900 (rounded off to nearest hundred, ignoring fraction) at 1% for four months i.e. from 1st April to 29th July.

The interest u/s 234B amount to ₹ 3,596

Interest u/s 234C

Assessees, other than assessee who declares profits and gains in accordance with provision of sec 44AD(1) or sec 44ADA(1), are liable to pay advance tax in 4 installments during the PY. Sec 234C is attracted, if the actual instalment paid by the assessee is the less than the amount required to be paid by him on such instalments. The interest shall be calculated at 1% per month or part of the month for short payment or non-payment of each instalment.

In the given scenario, since Mr. Jay, did not deposit any amount as advance tax, the interest u/s 234C is calculated as under –

Date of Instalment	Specified % of estimated tax	Amount due and unpaid (rounded off to nearest ₹ 100, ignoring fraction)	Period	Interest @ 1%
15th June 2025	15%	13,400	3 months	402
15th September 2025	45%	40,400	3 months	1,212
15th December 2025	75%	67,400	3 months	2,022
15th March 2026	100%	89,900	1 month	899
Total interest u/s 234C				**4,535**

Mr. Jay needs to pay ₹ 98,091 as total of tax and interest on or before filing of return in the month of July, 2026.

Qn. 4 Mr. Atal, a super senior citizen, has reported a Gross total income ₹ 5,60,000 and the deductions eligible under Chapter VI-A amounting to ₹ 70,000 for the PY 2025-26. Is he liable to file his return of income u/s 139(1) for the AY 2026-27? If so, why?

[Nov 16]

Ans. As per sixth proviso to sec 139(1), every person, being an individual whose total income without giving effect to the provisions of, *inter alia*, Chapter VI-A exceeds the basic exemption limit, is compulsorily required to furnish return of income on or before the due date.

Therefore, in the present case, Mr. Atal, a super senior citizen is required to file return of income, since his total income of ₹ 5,60,000 before giving effect to the deduction of ₹ 70,000 under Chapter VI-A, exceeds the basic exemption limit of ₹ 5,00,000 applicable in his case.

Qn. 5 In the following cases relating to PY 2025-26, the total income of the assessee or the total income of any other person in respect of which he/she is assessable under Income-tax Act does not exceed the basic exemption limit. You are required to state with reasons, whether the assessee is still required to file the return of income or loss for AY 2026-27 in each of the following independent situations:

(i) Manish & Sons (HUF) sold a residential house on which there arose a long term capital gain of ₹ 12 lakhs which was invested in Capital Gain Bonds u/s 54EC so that no long term capital gain was taxable.

(ii) Mrs. Archana was born in Germany and married in India. Her residential status u/s 6(6) of the Income-tax Act, 1961 is 'resident and ordinarily resident'. She owns a car in Germany which she uses for her personal purposes during her visit to her parents' place in that country.

(iii) Sudhakar has incurred an expenditure of ₹ 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels.

[Jul 21]

Ans. (i) A HUF whose total income without giving effect to, inter alia, sec 54EC, exceeds the basic exemption limit of ₹ 2,50,000, is required to file a return of its income on or before the due date u/s 139(1). In this case, since the total income without giving effect to exemption u/s 54EC is ₹ 12 lakhs, exceeds the basic exemption limit, the HUF is required to file its return of income for AY 2026-27 on or before the due date u/s 139(1).

(ii) Every person, being a resident other than not ordinarily resident in India would be required to file a return of income or loss for the PY on or before the due date, even if his or her total income does not exceed the basic exemption limit, if such person, at any time during the PY, *inter alia*, holds any asset located outside India.

In this case, though Mrs. Archana owns a car in Germany, the same does not fall within the ambit of "capital asset" as it is a personal effect. Hence, Mrs. Archana is not required to file her return of income for AY 2026-27 on account of owning a car for personal purposes in Germany.

Note – "Asset" for the purpose of the fourth proviso to sec 139(1) has not been specifically defined in the said section or elsewhere in the Act. Schedule FA of the income-tax return forms, however, requires details of foreign assets for the purpose of filing of return of income under this provision. The foreign assets listed in the said Schedule does not include car. It, however, includes "any other capital assets outside India". Car used for personal purposes is not a capital asset as it is a "personal effect". Hence, it is not included in the meaning of "asset" for the purpose of the fourth proviso to sec 139(1). The above answer is based on the view taken regarding the ambit of the term "asset", based on the list of assets detailed in the relevant schedule of the income-tax return forms.

Alternative view - On the plain reading of the fourth proviso to section 139(1) and the general meaning attributable to the word "asset", it is possible to take a view that Mrs. Archana is required to file her return of income as she owns an asset, i.e., a car in Germany. Accordingly, due credit may also be given to the candidates who have answered on this basis.

(iii) If an individual has incurred expenditure exceeding ₹ 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since Mr. Sudhakar has incurred expenditure of ₹ 1,20,000 in the PY 2025-26 towards consumption of electricity, he has to file his return of income for AY 2026-27 on or before the due date u/s 139(1).

Qn. 6 A person other than a company or a firm who is otherwise not required to furnish the return of income, needs to furnish return of income provided they fulfil certain conditions prescribed. Enumerate.

[May 23]

Ans. A person, other than a company or a firm, who is not required to furnish a return under section 139(1), has to furnish their return of income on or before the due date if they fulfill any of the following conditions –

(i) if his total sales, turnover or gross receipts, as the case may be, in the business > ₹ 60 lakhs during the PY; or

(ii) if his total gross receipts in profession > ₹ 10 lakhs during the PY; or

(iii) if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more; or

However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year would be required to file return of income only, if the aggregate of TDS and TCS during the PY, in his case, is ₹ 50,000 or more.

(iv) the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the PY

Qn. 7 What is the time limit within which an updated return can be filed? Also enumerate the circumstances in which updated return cannot be furnished.

[May 23, Jan 25]

Ans. Any person may furnish an updated return of his income or the income of any other person in respect of which he is assessable, for the previous year relevant to the assessment year at any time within 24 months from the end of the relevant AY.

<u>Circumstances in which updated return cannot be furnished</u>

No updated return can be furnished by any person for the relevant AY, where

(a) an updated return has been furnished by him for the relevant AY

(b) any proceeding for assessment or reassessment or recomputation or revision of income is pending or has been completed for the relevant assessment year in his case;

(c) he is such person or belongs to such class of persons, as may be notified by the CBDT.

(d) an updated return is a loss return

(e) the updated return has the effect of decreasing the total tax liability determined on the basis of return furnished u/s 139(1)/(4)/(5) / original or revised return

(f) the updated return results in refund or increases the refund due on the basis of return furnished u/s 139(1)/(4)/(5) / original or revised return.

Qn. 8 Discuss the provisions of sec 139A(1) which provides the persons who are compulsorily required to apply for allotment of Permanent Account Number (PAN) with the Assessing Officer.

[May 19]

Ans. Persons who are mandatorily required to apply for PAN as per sec 139A(1)

(i) Every person whose total income or the total income of any other person in respect of which he is assessable under the Income-tax Act, 1961 during any PY exceeds the basic exemption limit

(ii) Every person carrying on business or profession whose total sales, turnover or gross receipts are or is likely to exceed ₹ 5 lakh in any PY

(iii) Every person, being a resident, other than an individual, which enters into a financial transaction of an amount aggregating to ₹ 2,50,000 or more in a FY

(iv) Every person who is the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of the person referred to in (iii) above or any person competent to act on behalf of the person referred to in (iii) above.

SECTION A – SM QUESTIONS

Marginal Rebate

Qn. 1 Mr. Pawan aged 35 years and a resident in India, has a total income of ₹ 12,15,000 comprising his salary income and interest on bank fixed deposit. Compute his tax liability for AY 2026-27 under default tax regime u/s 115BAC

Ans. Computation of tax liability of Mr. Pawan for the AY 2026-27

Particulars		₹
Step 1: Total income of ₹ 12,15,000 - ₹ 12,00,000	(A)	15,000
Step 2: Tax on total income of ₹ 12,15,000		
Tax @15% of ₹ 15,000 + ₹ 60,000	(B)	62,250
Step 3: Since B > A, rebate u/s 87A would be B – A [₹ 62,250 - ₹ 15,000]		47,250
		15,000
Add: HEC @ 4%		600
Tax liability		**15,600**

Marginal Relief

Qn. 2 Compute the tax liability of Mr. B (aged 51) under the default tax regime, having total income of ₹ 1,01,00,000 for the AY 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit.

Ans. Computation of tax liability of Mr. B for the AY 2025-26

(A)	Tax payable on ₹ 1.01 Crores	
	First 4,00,000	NIL
	Next 4,00,000 @ 5%	20,000
	Next 4,00,000 @ 10%	40,000
	Next 4,00,000 @ 15%	60,000
	Next 4,00,000 @ 20%	80,000
	Next 4,00,000 @ 25%	1,00,000
	Balance ₹ 77 lakhs @ 30%	23,10,000
	Basic Tax	26,10,000
	Add: Surcharge @ 15%	3,91,500
	Income Tax Payable (together with surcharge)	30,01,500
(B)	Tax Payable on ₹ 1 Crores	
	Basic Tax	25,80,000
	Add: Surcharge @ 10%	2,58,000
	Income Tax Payable (together with surcharge)	28,38,000
(C)	Excess Tax payable [(A) - (B)]	1,63,500
(D)	Income earned in excess of nearest limit	1,00,000

For earning an Income of ₹ 1 lakh, Mr. B cannot be levied a tax liability of ₹ 1,63,500.
Hence, ₹ 63,500 [(C) - (D)] shall be granted as Marginal Relief.

Tax Payable (₹ 29,38,000 – ₹ 63,500)	29,38,000
Add: Health & Education cess @ 4%	1,17,520
Total Tax Payable	**30,55,520**

Qn. 3 Compute the tax liability of Mr. D (aged 65) in a most beneficial manner. He is having total income of ₹ 5,01,00,000 for the AY 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit and is the same under both tax regimes.

Ans.

Computation of tax liability of Mr. D under default tax regime for the AY 2025-26

(A)	Tax payable on ₹ 5.01 Crores	
	First 4,00,000	NIL
	Next 4,00,000 @ 5%	20,000
	Next 4,00,000 @ 10%	40,000
	Next 4,00,000 @ 15%	60,000
	Next 4,00,000 @ 20%	80,000
	Next 4,00,000 @ 25%	1,00,000
	Balance ₹ 4.77 lakhs @ 30%	1,43,10,000
	Basic Tax	1,46,10,000
	Add: Surcharge @ 25%	36,52,500
	Income Tax Payable (together with surcharge)	1,82,62,500
	Add: Health & Education cess @ 4%	7,30,500
	Total Tax Payable	**1,89,93,000**

Computation of tax liability of Mr. D under optional tax regime for the AY 2026-27

(A)	Tax payable on ₹ 5.01 Crores	
	First 3,00,000	NIL
	Next 2,00,000 @ 5%	10,000
	Next 5,00,000 @ 20%	1,00,000
	Balance ₹ 491 lakhs @ 30%	1,47,30,000
	Basic Tax	1,48,40,000
	Add: Surcharge @ 37%	54,90,800
	Income Tax Payable (together with surcharge)	2,03,30,800
(B)	Tax Payable on ₹ 5 Crores	
	Income Tax Payable (together with surcharge @ 25%)	1,85,12,500
(C)	Excess Tax payable [(A) - (B)]	18,18,300
(D)	Income earned in excess of nearest limit	1,00,000

For earning an Income of ₹ 1 lakh, Mr. C cannot be levied a tax liability of ₹ 18,18,300. Hence, ₹ 17,18,300 [(C) - (D)] shall be granted as Marginal Relief.

Tax Payable (₹ 2,03,30,800 – ₹ 17,18,300)	1,86,12,500
Add: Health & Education cess @ 4%	7,44,500
Total Tax Payable	**1,93,57,000**

It is beneficial for Mr. D to pay tax under default tax regime under section 115BAC, since his tax liability would be lower by ₹ 3,64,000 (₹ 1,93,57,000 - ₹ 1,89,93,000).

Income from Salaries

Qn. 4 You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2026:

(i) He retired on 31-12-2025 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.

(ii) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.

(iii) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.

(iv) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.

(v) He is receiving ₹ 5,000 as pension. On 1.2.2026, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.

(vi) The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.

[May 23]

Ans. Computation of income under the head "Salaries" of Mr. Raja for the AY 2026-27 under default tax regime

Particulars	₹	₹
Basic Salary = ₹ 25,000 x 9 months		2,25,000
House Rent Allowance = ₹ 6,000 x 9 months		54,000
[Fully taxable under default tax regime]		
Gratuity	3,50,000	
Less: Least of the following exempt u/s 10(10)(ii)	(3,50,000)	Nil
(i) Actual Gratuity received ₹ 3,50,000		
(ii) 15 days salary for every year of completed service [15/26 x ₹ 25,000 x 26] = ₹ 3,75,000		
(iii) Notified limit = ₹ 20,00,000		
Leave encashment	3,15,000	
Less: Least of the following exempt u/s 10(10AA)	(2,50,000)	65,000
(i) ₹ 25,00,000		
(ii) Leave salary actually received ₹ 3,15,000		
(iii) ₹ 2,50,000, being 10 months' salary x ₹ 25,000		
(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired		
375/30 x ₹ 25,000 = ₹ 3,12,500		
[Leave Due = Leave allowed – Leave taken]		
= 750 (30 days per year × 25 years) – 375 days (15 days x 25)		
= 375 days]		
Uncommuted Pension received [₹ 5,000 x 1) + (₹ 5,000 x 2 x 40%)		9,000
Commuted Pension received	3,00,000	
Less: Exempt u/s 10(10A)		
1/3 x ₹ 3,00,000/60% x 100%)	(1,66,667)	1,33,333
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the PY is exempt]		Nil
Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions u/s 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder)		Nil
Gross Salary		**4,86,333**
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less] [Allowable under default tax regime]		(75,000)

Net Salary	**4,11,333**

Qn. 5 Ms. Akansha, a salaried employee, furnishes the following details for the FY 2025-26:

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	8,000
Gift voucher given by employer on her birthday	10,000
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to employer	45,000
[Children of the assessee are also using the Laptop at home]	
Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use. Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	7,000

You are required to compute the income chargeable under the head Salaries for the AY 2026-27 if she pays tax under default tax regime.

Ans. <u>Computation of income chargeable under the head "Salaries" of Ms. Akansha for AY 2026-27 under default tax regime</u>

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per sec 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to sec 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv)	10,000
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per sec 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [₹ (2,400+ 900) × 12] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000
Gross Salary	**12,26,600**
Less: Deductions u/s 16	
- Standard Deduction as per sec 16(ia)	(75,000)
Income chargeable under the head "Salaries"	**11,51,600**

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the PY would be exempt as per the proviso to Rule 3(7)(iv).
In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.
Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.
An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,46,600, respectively.

Set-off and carry forward of losses

Qn. 6 Mr. B, a resident individual, furnishes the following particulars for the PY 2025-26:

Particulars	₹
Income from salary (computed)	45,000
Income from house property	(24,000)
Income from business – non-speculative	(22,000)
Income from speculative business	(4,000)
Short-term capital losses	25,000
Long-term capital gains u/s 112	19,000

What is the total income chargeable to tax for the AY 2026-27 assuming that he pays tax u/s 115BAC?

Ans. Total income of Mr. B for the AY 2026-27

Particulars	₹	₹
Income from salaries		45,000
Income from house property		
Loss from house property can neither be set-off nor can be carried forward, since Mr. B is paying tax under the default tax regime u/s 115BAC	Nil	
Profits and gains of business and profession		
Business loss to be carried forward [Note (ii)]	(22,000)	
Speculative loss to be carried forward [Note (iii)]	(4,000)	
Capital Gains		
Long term capital gain taxable u/s 112	19,000	
Short term capital loss ₹ 25,000 set off against long term capital gains to the extent of ₹ 19,000 [Note (iv)]	(19,000)	-
Balance short term capital loss of ₹ 6,000 to be carried forward [Note (iv)]		-
Taxable income		45,000

Notes:

1. Business loss cannot be set-off against salary income. Therefore, loss of ₹ 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.
2. Loss of ₹ 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.
3. Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short term capital loss of ₹ 25,000 can be set-off against long-term capital gains to the

extent of ₹ 19,000. The balance short term capital loss of ₹ 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.

Qn. 7 Mr. Rajat submits the following information for the financial year ending 31st March, 2026. He decides to pay tax under the default tax regime u/s 115BAC. He desires that you should:

(a) Compute the total income and

(b) Ascertain the amount of losses that can be carried forward.

Particulars	₹
He has two houses:	
(a) House No. I – Income after all statutory deductions	72,000
(b) House No. II – Current year loss	(30,000)
He has three proprietary businesses:	
(a) Textile Business:	
(i) Discontinued from 31st October, 2025 – Current year loss	40,000
(ii) Brought forward business loss of AY 2021-22	95,000
(b) Chemical Business:	
(i) Discontinued from 1st March, 2023 – hence no profit/loss	Nil
(ii) Bad debts allowed in earlier years recovered during this year	35,000
(iii) Brought forward business loss of AY 2022-23	50,000
(c) Leather Business: Profit for the current year	1,00,000
(d) Share of profit in a firm in which he is partner since 2009	16,550
Capital Gains	
(a) Short-term capital gain	60,000
(b) Long-term capital loss	35,000
Contribution to LIC towards premium	10,000

Ans. <u>Computation of total income of Mr. Rajat for the AY 2026-27</u>

Particulars	₹	₹
Income from house property		
House No.1	72,000	
House No.2	(30,000)	42,000
Profits and gains of business or profession		
Profit from leather business	1,00,000	
Bad debts recovered taxable u/s 41(4)	35,000	
	1,35,000	
Less: Current year loss of textile business	(40,000)	
	95,000	
Less: Brought forward business loss of textile business for AY 2021-22 set off against the business income of current year	95,000	Nil
Capital Gains		
Short-term capital gain		60,000
Gross Total Income		1,02,000
Less: Deduction under Chapter VI-A		
U/s 80C – LIC premium paid (not available since he is paying tax under the default tax regime)		-
Total Income		**1,02,000**

<u>Statement of losses to be carried forward to AY 2027-28</u>

Particulars	₹
Business loss of AY 2022-23 to be carried forward u/s 72	50,000

Long term capital loss of AY 2026-27 to be carried forward u/s 74	35,000

Notes:

(1) Share of profit from firm of ₹ 16,550 is exempt u/s 10(2A).

(2) Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year.

Comprehensive questions

Qn. 8 Balamurugan furnishes the following information for the year ended 31-03-2026:

Particulars	₹
Income from textile business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary (Computed)	3,70,000
Long term capital gain u/s 112	70,000

Compute his total income, tax liability and advance tax obligations under default tax regime u/s 115BAC.

Ans. Computation of total income of Balamurugan for the year ended 31.03.2026

Particulars	₹	₹
Salaries	3,70,000	
Less: Loss from house property (Cannot be set off against income under any other head)	-	3,70,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss set-off ₹ 1,35,000 set-off to the extent of ₹ 1,00,000	(1,00,000)	
	-	
Balance current year business loss of ₹ 35,000 to be set-off against long-term capital gain		
Capital Gains		
Long term capital gain	70,000	
Less: Business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		9,05,000

Computation of tax liability for AY 2026-27

Particulars	₹
On total income of ₹ 2,70,000 (excluding lottery winning and LTCG)	Nil
On LTCG of ₹ 5,000 @ 12.5% (balance unexhausted basic exemption limit of ₹ 30,000 can be adjusted against LTCG taxable u/s 112)	625
On lottery winnings of ₹ 5,00,000 @ 30%	1,50,000
	1,50,625
Add: Health and Education cess @ 4%	6,025
Total tax liability	1,56,650

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% u/s 194B. Since the remaining tax liability of ₹ 6,650 (₹ 1,56,650 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Note: The first proviso to sec 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2026.The first proviso to sec 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source u/s 194B. In this case, it has been assumed that tax has been deducted at source from lottery income. Since the remaining tax liability of ₹ 6,650 (₹ 1,56,650 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Qn. 9 From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per the regular provisions of the Income-tax Act, 1961 and as per sec 115BAC for the AY 2026-27. Advise Mr. Siddhant in which regime he should pay tax for AY 2026-27:

Particulars	₹
Salary including dearness allowance	4,35,000
Bonus	15,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2016, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000 @ 15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

(a) Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
(b) House Insurance ₹ 860
(c) He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
(d) In the year 2021-22, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @ 19% p.a.
(e) Siddhant received a gift of ₹ 30,000 each from four friends.
(f) He contributed ₹ 50,000 to Public Provident Fund.

Ans. <u>Computation of total income and tax liability of Siddhant for the AY 2026-27 under default tax regime u/s 115BAC</u>

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		4,35,000
Bonus		11,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		4,73,000
Less: Standard deduction u/s 16(ia)		(75,000)
		3,98,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)	42,000	
Less: Municipal taxes paid	(4,300)	
Net Annual Value (NAV)	37,700	
Less: Deductions u/s 24		

(i) 30% of NAV	₹ 11,310		
(ii) Interest on loan from LIC @ 15% of ₹ 1,60,000 [Note 2]	₹ 24,000	(35,310)	2,390
Income from speculative business			
Income from share speculation business		2,700	
Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700		(2,700)	Nil
Balance loss of ₹ 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.			
Income from Other Sources			
Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per sec 64(1A) [Exemption u/s 10(32) would not be available]		3,800	
Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per sec 64(1)		5,700	
Gift received from four friends (taxable u/s 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)		1,20,000	1,29,500
Gross Total Income			**5,29,890**
Less: Deduction u/s 80C – Not allowable			-
Total Income			**5,29,890**

Particulars	₹
Tax on total income [5% of ₹ 1,29,890 (₹ 5,29,890 - ₹ 4,00,000)]	6,495
Less: Rebate u/s 87A, since total income does not exceed ₹ 7,00,000	(6,495)
Tax liability	**Nil**

Computation of total income and tax liability of Siddhant for AY 2026-27
under normal provisions of the Act

Particulars	₹
Gross Total Income (as per default scheme)	**5,29,890**
Add: Standard deduction [₹ 25,000 being excess amount allowed u/s 115BAC]	25,000
Less: Exemption u/s 10(32) in respect of interest income of minor son included in the hands of Siddhant	(1,500)
Gross total income (under the normal provisions of the Act)	5,53,390
Deduction u/s 80C	(50,000)
Total Income	**5,03,890**

Particulars	₹
Tax on total income [5% of ₹ 2,50,000 + 20% of ₹ 3,390]	13,178
Add: H&EC @ 4%	527
Tax liability	**13,705**
Tax liability (rounded off)	**13,710**

Since his total income as per the normal provisions of the Act exceeds ₹ 5,00,000, he would not be eligible for rebate u/s 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regime u/s 115BAC, it would be beneficial for him to not to exercise the option of shift out of the default tax regime for AY 2026-27.

Notes:

(1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2026;

(2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction u/s 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction u/s 80GG is that the assessee should not own any residential accommodation in the same place.

Qn. 10 Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2026:

(i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,95,000. He paid municipal taxes of ₹ 25,000 for the current FY. Both these floors are of equal size.

(ii) As per interest certificate from HDFC bank, he paid ₹ 1,50,000 as interest and ₹ 80,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2020.

(iii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the FY 2019-20. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 150 lakhs from export turnover. Out of ₹ 150 lakhs, only ₹ 120 lakhs have been received in India in convertible foreign exchange on or before 30.9.2026. This industrial undertaking fulfills all the conditions of sec 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 40 lakhs.

(iv) He employed 20 new employees for the said industrial undertaking during the PY 2025-26. Out of 20 employees, 12 were employed on 1st May 2025 for monthly emoluments of ₹ 18,000 and remaining were employed on 1st September 2025 on monthly emoluments of ₹ 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.

(v) He earned ₹ 30,000 and ₹ 40,000 as interest on saving bank deposits and fixed deposits, respectively.

(vi) He also sold his vacant land on 01.12.2025 for ₹ 16 lakhs. The stamp duty value of land at the time of transfer was ₹ 17 lakhs. This land was acquired by him on 15.10.1998 for ₹ 2.80 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4.8 lakhs and Stamp duty value on the said date was ₹ 4 lakhs. He had incurred registration expenses of ₹ 12,000 at that time.
CII – F.Y. 2001-02: 100; F.Y. 2025-26: 376.

(vii) He paid insurance premium of ₹ 40,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute total income and tax liability of Mr. Sunil for the AY 2026-27 under default tax regime.

[Nov 20]

Ans.

<u>Computation of total income of Mr. Sunil for AY 2026-27</u>

(under default tax regime u/s 115BAC)

	Particulars	₹	₹	₹
I	**Income from house property**			
	<u>Let out portion [First floor]</u>			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,95,000	
	Less: Municipal taxes paid by him in the PY 2025-26 pertaining to let out portion [₹ 25,000/2]		(12,500)	
	Net Annual Value (NAV)		2,82,500	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 2,82,500	84,750		
	(a) Interest on housing loan [₹ 1,50,000 / 2]	75,000	(1,59,750)	
			1,22,750	
	<u>Self-occupied portion [Ground Floor]</u>			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]		-	
	Less: Interest on housing loan [Not allowable u/s 115BAC]		-	1,22,750

II	**Profits and gains of business or profession**			
	Income from SEZ unit			40,00,000
III	**Capital Gains**			
	<u>Long-term capital gains on sale of land (since held for more than 24 months)</u>			
	Full Value of Consideration		16,00,000	
	[Actual consideration of ₹ 16 lakhs, since stamp duty value of ₹ 17 lakhs does not exceed 110% of actual consideration of ₹ 16 lakhs]			
	Less: Cost of acquisition		(4,00,000)	12,00,000
	Cost of acquisition			
	Higher of -			
	Actual cost ₹ 2.80 lakhs + ₹ 0.12 lakhs = ₹ 2.92 lakhs and			
	Lower of Fair Market Value (FMV) as on 1.4.2001 (i.e., ₹ 4.8 lakhs)			
	and Stamp Duty Value (SDV) as on 1.4.2001 (i.e., ₹ 4 lakhs)			
IV	**Income from Other Sources**			
	Interest on savings bank deposits		40,000	
	Interest on fixed deposits		30,000	70,000
	Gross Total Income			**53,92,750**
	Less; Deduction under Chapter VI-A			
	Deduction u/s 80JJAA			(7,12,800)
	30% of the employee cost of the new employees employed during the PY 2025-26 for 240 days or more during the PY 2025-26 allowable as deduction [30% of ₹ 23,76,000 (12 x 18,000 x 11)]			
	As per sec 115BAC, no deduction u/s 10AA or under Chapter VI-A is allowable except u/s 80JJAA			-
	Total income			**46,79,950**

<u>Computation of tax liability of Mr. Sunil u/s 115BAC</u>

Particulars	**₹**	**₹**
Tax on total income of ₹ 46,79,950		
Tax on LTCG on sale of vacant land		
As the asset is a long-term capital asset, being land acquired before 23.07.2024 and transferred on or after 23.07.2024 by a resident individual, the tax shall be computed @20% with indexation benefit or @12.5% without indexation benefit, whichever is more beneficial to the assessee.		
<u>Tax @ 20% with indexation</u>		
Sale consideration = ₹ 16,00,000		
Indexed cost of acquisition = ₹ 4,00,000 x 376/100 = ₹ 15,04,000		
Gain = ₹ 96,000		
Tax @ 20% = ₹ 96,000 x 20% = ₹ 19,200		
<u>Tax @ 12.5% without indexation</u>		
Tax @ 12.5% = ₹ 12,00,000 x 12.5% = ₹ 1,50,000		
Tax on LTCG on sale of vacant land @ 20% with indexation		19,200
Tax on remaining total income of ₹ 34,79,950		
Upto ₹ 4,00,000	Nil	
₹ 4,00,001 – ₹ 8,00,000 [@ 5% of ₹ 4 lakhs]	20,000	
₹ 8,00,001 – ₹ 12,00,000 [@ 10% of ₹ 4 lakhs]	40,000	
₹ 12,00,001 – ₹ 16,00,000 [@ 15% of ₹ 4 lakhs]	60,000	
₹ 16,00,001 – ₹ 20,00,000 [@ 20% of ₹ 4 lakhs]	80,000	

₹ 20,00,001 – ₹ 24,00,000 [@ 25% of ₹ 4 lakhs]	1,00,000	
₹ 24,00,001 – ₹ 34,79,950 [@ 30% of ₹ 10,79,950]	3,23,985	6,23,985
		6,43,185
Add: Health and education cess @ 4%		25,727
Total tax liability		**6,68,912**
Tax liability (Rounded off)		**6,68,910**

Note - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

Taxation of Agricultural Income 15

SECTION A – SM QUESTIONS

Qn. 1 Determine whether the following income can be treated as agricultural income exempt under the Income-Tax Act, 1961

i) Income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961? Examine.

ii) A rural society has as its principal business the selling on behalf of its member societies, butter made by these societies from cream sold to them by farmers. The making of butter was a factory process separated from the farm

iii) X was the managing agent of a company. He was entitled for a commission at the rate of 10% p.a. on the annual net profits of the company. A part of the company's income was agricultural income. X claimed that since his remuneration was calculated with reference to income of the company, part of which was agricultural income, such part of the commission as was proportionate to the agricultural income was exempt from income tax.

iv) Y owned 100 acres of agricultural land, a part of which was used as pasture for cows. The lands were purely maintained for manuring and other purposes connected with agriculture and only the surplus milk after satisfying the assessee's needs was sold.

v) Income from the sale of forest trees of spontaneous growth

Ans.

i) As per Explanation 3 to sec 2(1A) of the Act, income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income and exempt from tax, whether or not the basic operations were carried out on land.

ii) The butter resulting from the factory operations separated from the farm is not an agricultural product and the society is, therefore, not entitled to exemption u/s 10(1) in respect of such income.

iii) Since, X received remuneration under a contract for personal service calculated on the amount of profits earned by the company; such remuneration does not constitute agricultural income.

iv) The regularity with which the sales of milk were effected and quantity of milk sold shows that the assessee carries on regular business of producing milk and selling it as a commercial proposition. Hence, it is not agricultural income.

v) Forest trees of spontaneous growth which grow on the soil unaided by any human skill and labour there is no cultivation of the soil at all. Even though operations in the nature of forestry operations performed by the assessee may have the effect of nursing and fostering the growth of such forest trees, it cannot constitute agricultural operations.

Income from the sale of such forest trees of spontaneous growth does not, therefore, constitute agricultural income.

Qn. 2 Examine the taxability of agricultural income under the Income-tax Act, 1961. How will income be computed where an individual derives agricultural and non-agricultural income?

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

Further, such aggregation has to be done only if the tax-payer is an individual, HUF, AOP, BOI or an artificial juridical person, since the Finance Act prescribes slab rates of income-tax for these assessees.

In the case of other assessees such as partnership firms, companies etc., whose income is chargeable to tax at a flat rate, aggregation of agricultural income would have no effect.

Since the second part of the question requires the manner of computation of income where an individual derives agricultural and non-agricultural income, the same can be answered on the basis of Rules 7A, 7B and 8 of the Income-tax Rules, 1962 dealing with composite income.

Rule	Particulars	Business Income	Agricultural Income
Rule 7A	Income from sale of rubber products derived from rubber plants grown by the seller in India.	35%	65%
Rule 7B	Income from sale of coffee		
	- grown and cured by the seller in India	25%	75%
	- grown, cured, roasted and grounded by the seller in India	40%	60%
Rule 8	Income from sale of tea grown and manufactured by the seller in India	40%	60%

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

(1) Aggregate the agricultural income with non-agricultural income and determine tax payable on such amount.

(2) Aggregate the agricultural income with the basic exemption limit of the assessee i.e., ₹ 2,50,000/ ₹ 3,00,000/ ₹ 4,00,000/ ₹ 5,00,000, as the case may be, and determine tax on such amount.

(3) Compute the difference between the tax computed in Step (1) and Step (2), which shall be the tax payable in respect of non-agricultural income.

(4) The tax payable so computed in step (3) shall be increased by surcharge, if applicable or reduced by rebate u/s 87A. Thereafter, health and education cess @ 4% has to be added to compute the total tax liability.

Qn. 3 Mr. B grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lacs and the market value of the same is ₹ 22 lacs. After incurring ₹ 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. Compute B's business income and agricultural income.

[Nov 16]

Ans. Computation of Business Income and Agriculture Income of Mr. B

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

Qn. 4 Mr. C manufactures latex from the rubber plants grown by him in India. These are then sold in the market for ₹ 30 lakhs. The cost of growing rubber plants is ₹ 10 lakhs and that of manufacturing latex is ₹ 8 lakhs. Compute his total income.

[May 18]

Ans.	The total income of Mr. C comprises of agricultural income and business income.
	Total profits from the sale of latex = ₹ 30 lakhs (-) ₹ 10 lakhs (-) ₹ 8 lakhs = ₹ 12 lakhs.
	a) Agricultural income = 65% of ₹ 12 lakhs = ₹ 7.8 lakhs
	b) Business income = 35% of ₹ 12 lakhs = ₹ 4.2 lakhs
Qn. 5	Mr. Sumit, a resident Indian, earns income of ₹ 15 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in India and ₹ 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia during the AY 2026-27. What would be his business income, assuming he has no other business?
Ans.	Since Mr. Sumit is a resident, his global income would be taxable in India. Income of ₹ 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia would be his business income since it is from rubber plants grown **outside India**. 35% income from sale of rubber manufactured from latex obtained from rubber plants grown by him in India would be taxable as business income and balance 65% would be exempt as agricultural income.
	Business income = 35% of ₹ 15 lakhs + ₹ 20 lakhs = ₹ 25.25 lakhs
Qn. 6	Mr. Raja, a resident Indian, earns income of ₹ 10 lakhs from sale of coffee grown and cured in India during the AY 2026-27. His friend, Mr. Shyam, a resident Indian, earns income of ₹ 20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the AY 2026-27. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam?
Ans.	In case of income derived from the sale of coffee grown and cured by the seller in India, 25% income on such sale is taxable as business income. In case of income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, 40% income on such sale is taxable as business income.
	Business income of Mr. Raja = 25% of ₹ 10 lakhs = ₹ 2.5 lakhs
	Business income of Mr. Shyam = 40% of ₹ 20 lakhs = ₹ 8 lakhs
Qn. 7	Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2026:

S.No.	Particulars	₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the AY 2026-27

[May 18]

Ans. <u>Computation of business income and agricultural income of Ms. Vivitha for the AY 2026-27</u>

Sr. No.	Source of income	Gross (₹)	Business income %	Business income ₹	Agricultural income
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	**1,95,000**
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	**75,000**
(iii)	Sale of coffee grown, cured, roasted and grounded outside India. (Note 1)	2,50,000	100%	2,50,000	-

(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	**2,40,000**
(v)	Saplings and seedlings grown in nursery in India (Note 2)	80,000		-	80,000
	Total			5,40,000	5,90,000

Notes:

1. Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.
2. Explanation 3 to sec 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land.

Qn. 8 Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2026 are given below:

Particulars	₹
Opening balance of car (only asset in the block) as on 1.4.2025 (i.e. WDV as on 31.3.2025 (-) depreciation for PY 2024-25)	3,00,000
Opening balance of machinery as on 1.4.2025 (i.e., WDV as on 31.3.2025 (-) depreciation for PY 2024-25)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are ₹ 50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities for the AY 2026-27. Show the WDV of the assets as on 1.4.2026.

Ans. Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962. As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

Particulars	₹	₹	₹
Sale value of cured coffee			22,00,000
Expenses for growing coffee		3,10,000	
Car expenses (80% of ₹ 50,000)		40,000	
Depreciation on car (80% of 15% of ₹ 3,00,000)		36,000	
Total cost of agricultural operations		3,86,000	
Expenditure for coffee curing operations	3,00,000		
Add: Depreciation on machinery (15% of ₹ 15,00,000)	2,25,000		
Total cost of the curing operations		5,25,000	
Total cost of composite operations			(9,11,000)
Total profits from composite activities			12,89,000

Business income (25% of above)			3,22,250
Agricultural income (75% of above)			9,66,750

Computation of value of depreciable assets as on 31.3.2026

Particulars	₹	₹	₹
Car			
Opening balance as on 1.4.2024 (i.e., WDV as on 31.3.2025		3,00,000	
(-) depreciation for PY 2024-25)			
Depreciation thereon at 15%	45,000		
Less: Disallowance @ 20% for personal use	(9,000)		
Depreciation actually allowed		(36,000)	
WDV as on 1.4.2026			2,64,000
Machinery			
Opening balance as on 1.4.2025 (i.e., WDV as on 31.3.2025		15,00,000	
(-) depreciation for PY 2024-25)			
Less: Depreciation @ 15%		(2,25,000)	
WDV as on 1.4.2026			12,75,000

Explanation 7 to sec 43(6) provides that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the PY, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

Qn. 9 Mr. X, a resident, has provided the following particulars of his income for the PY 2025-26.

i)	Income from salary (computed)	- ₹ 15,80,000
ii)	Income from house property (computed)	- ₹ 2,50,000
iii)	Agricultural income from a land in Jaipur	- ₹ 4,80,000
iv)	Expenses incurred for earning agricultural income	- ₹ 1,70,000

Compute his tax liability assuming his age is:

(a) 45 years

(b) 70 years

Ans. (a) Computation of tax liability (age 45 years)

Computation of total income of Mr. X for the AY 2026-27

under default tax regime u/s 115BAC

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 4,00,000.

Step 1

Income from other heads		18,30,000
Net Agricultural Income	3,10,000	
Less: Exempt u/s 10(1)	(3,10,000)	-
Total Income		18,30,000

Step 2: Tax on ₹ 21,40,000 [₹ 18,30,000 of other incomes (+) ₹ 3,10,000 of agricultural income] = 2,35,000

Step 3: Tax on ₹ 7,10,000 [₹ 3,10,000 of agricultural income (+) ₹ 4,00,000 of basic exemption limit] = 15,500

Step 4, 5 & 6:

Basic Tax [Step 2 (-) Step 3]	2,19,500
Add: Health & education cess @ 4%	8,780
Total Tax Liability	2,28,280

Computation of total income of Mr. X for the AY 2026-27
under normal provisions of the Act

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 3,00,000.

Step 1

Income from other heads		18,30,000
Net Agricultural Income	3,10,000	
Less: Exempt u/s 10(1)	(3,10,000)	-
Total Income		18,30,000

Step 2: Tax on ₹ 21,40,000 [₹ 18,30,000 of other incomes (+) ₹ 3,10,000 of agricultural income] = 4,54,500

Step 3: Tax on ₹ 5,60,000 [₹ 3,10,000 of agricultural income (+) ₹ 2,50,000 of basic exemption limit] = 24,500

Step 4, 5 & 6:

Basic Tax [Step 2 (-) Step 3]	4,30,000
Add: Health & education cess @ 4%	17,200
Total Tax Liability	4,47,200

(b) Computation of tax liability (age 70 years)

Computation of total income of Mr. X for the AY 2026-27
under default tax regime u/s 115BAC

Tax liability of Mr. X would be the same under default tax regime whether he is of the age 45 years or 70 years i.e., ₹ 2,28,280

Computation of total income of Mr. X for the AY 2026-27
under normal provisions of the Act

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 3,00,000.

Step 1

Income from other heads		18,30,000
Net Agricultural Income	3,10,000	
Less: Exempt u/s 10(1)	(3,10,000)	-
Total Income		18,30,000

Step 2: Tax on ₹ 21,40,000 [₹ 18,30,000 of other incomes (+) ₹ 3,10,000 of agricultural income] = 4,52,000

Step 3: Tax on ₹ 6,10,000 [₹ 3,10,000 of agricultural income (+) ₹ 3,00,000 of basic exemption limit] = 32,000

Step 4, 5 & 6:

Basic Tax [Step 2 (-) Step 3]	4,20,000
Add: Health & education cess @ 4%	16,800
Total Tax Liability	4,36,800

Section B – Blast from the Past

Qn. 1 Discuss with brief reasons, whether rent received for letting out agricultural land for a movie shooting can be regarded as agricultural income, as per the provisions of the Income-tax Act, 1961

[May 17]

Ans. As per sec 2(1A), "agricultural income" means, *inter alia,*

- any rent or revenue derived from land
- which is situated in India and is used for agricultural purposes.

In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose and hence, it does not constitute agricultural income.

Qn. 2 Discuss the taxability of the said transactions

(i) Mr. Rajpal took a land on rent from Ms. Shilpa on monthly rent of ₹ 10,000. He sublets the land to Mr. Manish for a monthly rent of ₹ 11,500. Manish uses the land for grazing of cattle required for agricultural activities. Mr. Rajpal wants to claim deduction of ₹ 10,000 (being rent paid by him to Ms. Shilpa) from the rental income received by it from Mr. Manish.

(ii) Mr. Netram grows paddy on land. He then employs mechanical operations on grain to make it fit for sale in the market, like removing hay and chaff from the grain, filtering the grain and finally packing the rice in gunny bags. He claims that entire income earned by him from sale of rice is agricultural income not liable to income tax since paddy as grown on land is not fit for sale in its original form.

[Jan 21]

Ans. (i) The rent or revenue derived from land situated in India and used for agricultural purposes would be agricultural income u/s 2(1A)(a). Therefore, rent received from sub-letting of the land used for grazing of cattle required for agriculture activities is agricultural income. The rent can either be received by the owner of the land or by the original tenant from the sub-tenant.

Accordingly, rent received by Mr. Rajpal from Mr. Manish for using land for grazing of cattle required for agricultural activities is agricultural income exempt u/s 10(1). As per sec 14A, no deduction is allowable in respect of exempt income.

(ii) The income from the process ordinarily employed to render the produce fit to be taken to the market would be agricultural income u/s 2(1A)(b)(ii). The process of making the rice ready from paddy for the market may involve manual operations or mechanical operations, both of which constitute processes ordinarily employed to make the product fit for the market.

Accordingly, the entire income earned by Mr. Netram from sale of rice is agricultural income.

SECTION A – SM QUESTIONS

Qn. 1 Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of ₹ 80,000 p.m. He has received transport allowance of ₹ 15,000 p.m. and house rent allowance of ₹ 20,000 p.m. from the company for the PY 2025-26. He has paid rent of ₹ 25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of ₹ 2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2026 and his parents live in that house.

Other Information

1. Contribution to PPF - ₹ 1,50,000
2. Contribution to pension scheme referred to in sec 80CCD - ₹ 50,000
3. Payment of medical insurance premium for father, who is of the age of 65 - ₹ 55,000
4. Payment of medical insurance premium for self and spouse - ₹ 32,000

Compute the total income and tax liability of Mr. A for the AY 2026-27 in the most beneficial manner.

Ans.

Computation of total income and tax liability of Mr. A for AY 2026-27
under default tax regime u/s 115BAC

Particulars		₹
Salaries		
Basic Salary [₹ 80,000 x 12]		9,60,000
Transport allowance [₹ 15,000 x 12]		1,80,000
HRA received [₹ 20,000 x 12]		2,40,000
Gross salary		13,80,000
Less: Standard deduction u/s 16(ia)		(75,000)
		13,05,000
Income from house property		
Interest on housing loan		-
Gross Total Income		**13,05,000**
Less: Deductions under Chapter VI- A		
Section 80C		
Contribution in PPF		-
Section 80CCD		
Contribution to pension scheme		-
Section 80D		
Mediclaim insurance premium for self and parents		-
Total Income		**13,05,000**
Tax liability		
Tax @ 5% on ₹ 4,00,000 [₹ 8,00,000 - ₹ 4,00,000]	20,000	
Tax @ 10% on ₹ 4,00,000 [₹ 12,00,000 - ₹ 8,00,000]	40,000	
Tax @ 10% on ₹ 4,00,000 [₹ 13,05,000 - ₹ 12,00,000]	15,750	75,750
Add: Health & Education cess @ 4%		3,030
Total Tax Liability		**78,780**

Computation of total income and tax liability of Mr. A for AY 2026-27
under normal provisions of the Act

Particulars			₹
Salaries			
Basic Salary [₹ 50,000 x 12]			9,60,000
Transport allowance [₹ 15,000 x 12]			1,80,000
HRA received		2,40,000	
Less: Least of the following exempt u/s 10(13A)		(2,04,000)	36,000
HRA Received	2,40,000		

Actual rent paid – 10% of salary [₹ 3,00,000 – ₹ 96,000]	2,04,000	
50% of salary	3,00,000	
Gross salary		11,76,000
Less: Standard deduction u/s 16(ia)		(50,000)
		11,26,000
Income from house property		
[Annual Value is Nil. Deduction u/s 24(b) for interest on housing loan would be restricted to ₹ 2,00,000, in case of self-occupied property, which would represent loss from house property]		(2,00,000)
Gross Total Income		**9,26,000**
Less: Deductions under Chapter VI-A		
Section 80C		
Contribution to PPF		(1,50,000)
Section 80CCD(1B)		
Own contribution to pension scheme		(50,000)
Section 80D		
Mediclaim insurance premium		
For self and spouse, restricted to	25,000	
For father, who is a senior citizen, restricted to	50,000	(75,000)
Total Income		**6,51,000**
Tax liability		
Tax @ 5% on ₹ 2,50,000 [₹ 5,00,000 - ₹ 2,50,000]	12,500	
Tax @ 20% on ₹ 1,51,000 [₹ 6,51,000 - ₹ 2,50,000]	30,200	42,700
Less: Rebate u/s 87A		(1,708)
Total Tax Liability		**44,408**
Total Tax Liability (Rounded off)		**44,410**

Since tax liability as per the normal provisions of the Act is lower than the tax liability under the default tax regime u/s 115BAC, it would be beneficial for Mr. A to shift out of the default tax regime u/s 115BAC for AY 2026-27.

Note: In this case, Mr. A is entitled to exemption u/s 10(13A), benefit of interest on housing loan in respect of self-occupied property and Chapter VI-A deductions, owing to which his total income is reduced by ₹ 6,90,000. His total income under the regular provisions of the Act is less than ₹ 6,54,000. Hence, in this case, it is beneficial for Mr. A to shift out of the default tax regime u/s 115BAC for AY 2026-27.

Qn. 2 Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2025 and came to India for the first time on 16.03.2025. She left for USA on 19.9.2025. She returned to India again on 27.03.2026. While in India, she had purchased a show room in Mumbai on 30.04.2025, which was leased out to a company on a rent of ₹ 25,000 p.m. from 1.05.2025. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2026. She had received the following cash gifts from her relatives and friends during 1.4.2025 to 31.3.2026:

1.	From parents of husband	₹ 51,000
2.	From married sister of husband	₹ 11,000
3.	From two very close friends of her husband (₹ 1,51,000 and ₹ 21,000)	₹ 1,72,000

(a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the AY 2026-27 if she opts out of the default tax regime u/s 115BAC.

(b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is 18,00,000 and she is not liable to tax in USA?

Ans. I. U/s 6(1), an individual is said to be resident in India in any PY, if he satisfies any one of the following conditions:

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

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

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

Therefore, the residential status of Miss Charlie, an American National, for AY 2026-27 has to be determined on the basis of her stay in India during the PY relevant to AY 2026-27 i.e. PY 2025-26 and in the preceding 4 AYs.

Her stay in India during the PY 2025-26 and in the preceding 4 years are as under:

PY 2025-26		
01.04.2025 to 19.09.2025	-	172 days
27.03.2026 to 31.03.2026	-	5 days
Total		177 days
Four preceding PYs		
PY 2024-25	-	16 days
PY 2023-24	-	Nil
PY 2022-23	-	Nil
PY 2021-22	-	Nil
Total		16 days

The total stay of the assessee during the PY in India was less than 182 days and during the 4 years preceding this year was for 16 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the AY 2026-27.

Computation of total income of Miss Charlie for the AY 2026-27

Particulars		₹	₹
Income from house property			
Show room located in Mumbai remained on rent from 01.05.2025 to 31.03.2026 @ ₹ 25,000/- p.m.			
Gross Annual Value [₹ 25,000 x 11] (Note 1)		2,75,000	
Less: Municipal taxes		Nil	
Net Annual Value (NAV)		2,75,000	
Less: Deduction u/s 24			
30% of NAV	82,500		
Interest on loan	97,500	(1,80,000)	95,000
Income from other sources			
Cash gifts received from non-relatives is chargeable to tax as per sec 56(2)(x), if the aggregate value of such gifts exceeds ₹ 50,000.			
₹ 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.		Nil	
₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.		Nil	
Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable u/s 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. (Note 2)		1,72,000	1,72,000
Total income			2,67,000

Computation of tax liability by Miss Charlie for the AY 2026-27

Particulars	₹
Tax on total income of ₹ 2,67,000	850
Add: Health and Education cess @ 4%	34
Total tax liability	**884**
Total tax liability (rounded off)	**880**

Notes:

1. Actual rent received has been taken as the gross annual value in the absence of other information (i.e., Municipal value, fair rental value and standard rent) in the question.
2. If the aggregate value of taxable gifts received from non-relatives exceed ₹ 50,000 during the year, the entire amount received (i.e., the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable u/s 56(2)(x).
3. Since Miss Charlie is a non-resident for the AY 2026-27, rebate u/s 87A would not be available to her, even though her total income does not exceed ₹ 5 lakhs.

II. Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds Rs. 18,00,000

If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the PY and 365 days during the 4 immediately preceding PYs would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the PY 2025-26 but the period of her stay in India during the 4 immediately preceding PYs is less than 365 days (only 16 days), her residential status as per sec 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of sec 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the PY 2025-26.

Qn. 3 Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2026 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	35,38,400	By Consultation and medical charges	58,85,850
To Staff salary	13,80,000	By Income-tax refund (principal ₹ 5,000, interest ₹ 450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500
To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 35	1,50,000		
To Net profit	4,40,400		
	59,63,800		59,63,800

(i) Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.

(ii) Clinic equipments are:

1.4.2025	Opening W.D.V.	- ₹ 5,00,000
7.12.2025	Acquired (cost) by cheque	- ₹ 2,00,000

(iii) Rent received relates to property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2025, has been included in "administrative expenses".

(iv) She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".

(v) Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the PY 2025-26.

(vi) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.

(vii) An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2026 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the AY 2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act.

Ans.

Computation of total income of Dr. Niranjana for AY 2026-27 under default tax regime

	Particulars	₹	₹	₹
I	**Income from Salary**			
	Basic Salary (₹ 7,500 x 12)		90,000	
	Less: Standard deduction u/s 16(ia)		(75,000)	15,000
II	**Income from house property**			
	Gross Annual Value (GAV)		27,000	
	Less: Municipal taxes paid		(2,000)	
	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 24 @ 30% of ₹ 25,000		(7,500)	17,500
III	**Income from profession**			
	Net profit as per Income and Expenditure account		4,40,400	
	Less: Items of income to be treated separately			
	(i) Rent received (taxable under the head “Income from house property”)	27,000		
	(ii) Dividend from units of UTI (taxable under the head “Income from other sources”)	10,500		
	(iii) Winning from game show on T.V. (net of TDS) – taxable under the head “Income from other sources”	35,000		
	(iv) Income tax refund	5,450	(77,950)	
			3,62,450	
	Less: Allowable expenditure			
	Depreciation on clinic equipments			
	on ₹ 5,00,000 @ 15%	75,000		
	on ₹ 2,00,000 @ 7.5%	15,000		
	(On equipments acquired during the year in December 2025, she is entitled to depreciation @ 50% of normal depreciation, since the same are put to use for less than 180 days during the year)		(90,000)	
			2,72,450	
	Add: Items of expenditure not allowable while computing business income			
	(i) Amount paid to scientific research association approved u/s 35 (not allowed under default tax regime)	1,50,000		
	(ii) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
	(iii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	1,82,000	4,54,450

IV	**Income from other sources**			
	(a) Interest on income-tax refund		450	
	(b) Dividend from UTI (taxable in the hands of unit holders)		10,500	
	(c) Winnings from TV game show (₹ 35,000 + ₹ 15,000)		50,000	60,950
	Gross Total Income			**5,47,900**
	Less: Deductions under Chapter VI-A:			
	Sec 80C – Not allowed		-	
	Sec 80D – Not allowed		-	
	Sec 80E – Not allowed		-	-
	Total income			**5,47,900**

Computation of total income of Dr. Niranjana for AY 2026-27 under normal provisions of the Act

Particulars	₹	₹
Gross Total Income as per default tax regime		5,47,900
Add: Standard deduction of ₹ 25,000, being the excess amount allowed u/s 115BAC		25,000
Less: Items of expenditure allowable while computing business income under normal provisions of the Act		
100% deduction is allowable in respect of the amount paid to scientific research association allowable under normal provisions of the Act.		(1,50,000)
Gross Total Income as per normal provisions of the Act		4,22,900
Less: Deductions under Chapter VI-A:		
(a) Sec 80C - Tuition fee paid to university for full time education of her daughter	1,00,000	
(b) Sec 80D - Medical insurance premium (fully allowed since she is a senior citizen)	28,000	
(c) Sec 80E - Interest on loan taken for higher education is deductible	55,000	(1,83,000)
Total income		2,39,900

Notes:

(i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".

(ii) Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @ 30% as per sec 115BB.

(iii) Dr. Niranjana would not be eligible for deduction u/s 80GG, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

Qn. 4 Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2026 reads as follows:

Expenditure	**(₹)**	**Income**	**(₹)**	**(₹)**
▪ Salary to staff	15,50,000	▪ Fees earned:		
▪ Stipend to articled Assistants	1,37,000	Audit	27,88,000	
		Taxation services	15,40,300	
▪ Incentive to articled Assistants	13,000	Consultancy	12,70,000	55,98,300
▪ Office rent	12,24,000	▪ Dividend on shares of X Ltd.,		
▪ Printing and stationery	12,22,000	an Indian company (Gross)		10,524

▪ Meeting, seminar and Conference	31,600	▪ Income from UTI (Gross),		7,600
▪ Purchase of car (for official use)	80,000	▪ Honorarium received from various institutions for valuation of answer papers		15,800
▪ Repair, maintenance and petrol of car	4,000	▪ Rent received from residential flat let out		85,600
▪ Travelling expenses	5,25,000			
▪ Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	57,17,824			**57,17,824**

Other Information:

(i) Allowable rate of depreciation on motor car is 15%.

(ii) Value of benefits received from clients during the course of profession is ₹ 10,500.

(iii) Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.

(iv) Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2025 to 30-09-2026.

(v) Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.

(vi) The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.

(vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.

(viii) She invested an amount of ₹ 10,000 in National Saving Certificate.

Compute the total income and tax payable of Ms. Purvi for the AY 2026-27.

[Nov 17]

Ans. Computation of total income and tax payable of Ms. Purvi for the AY 2026-27 under default tax regime

Particulars	₹	₹
Income from house property (Working Note 1)		57,820
Profit and gains of business or profession (Working Note 2)		9,20,200
Income from other sources (Working Note 3)		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VI-A – not alloable		-
Total Income		**10,11,944**
Total Income (rounded off)		**10,11,940**
Tax on total income		
Upto ₹ 4,00,000	Nil	
₹ 4,00,001 - ₹ 8,00,000 @ 5%	20,000	
₹ 8,00,001 - ₹ 10,11,940 @ 20%	21,194	41,194
Less: Rebate u/s 87A since the total income does not exceed ₹ 12 lakhs		(41,194)
Total tax liability		**Nil**

Computation of total income and tax payable of Ms. Purvi for the AY 2026-27 under regular provisions of the Act

Particulars	₹	₹
Gross Total Income		10,11,944
[Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources" would remain the same even if Ms. Purvi opts out of the default tax regime u/s 115BAC		

Less: Deductions under Chapter VI-A (Working Note 4)		(10,000)
Total Income		**10,01,944**
Total Income (rounded off)		**10,01,940**
Tax on total income		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @ 5%	12,500	
₹ 5,00,001 - ₹ 10,00,000 @ 20%	1,00,000	
₹ 10,00,001 – ₹ 10,01,940 @ 30%	582	1,13,082
Add: Health and Education cess @ 4%		4,523
Total tax liability		**1,17,605**
Total tax liability (rounded off)		**1,17,610**

Since tax liability under default tax regime u/s 115BAC is less as compared to tax liability under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to pay tax under default tax regime u/s 115BAC

Working Notes:

(1) Income from House Property

Particulars	₹	₹
Gross Annual Value u/s 23(1)	85,600	
Less: Municipal taxes paid	(3,000)	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 24 @ 30% of NAV	(24,780)	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head "Profits & Gains of Business or Profession"

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable u/s 37(1) since it is a capital expenditure	80,000	
(iii) Municipal Taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income u/s 28(iv)]		10,500
		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head "Income from other sources")	10,524	
(ii) Income from UTI (taxable under the head "Income from other sources")	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	(1,19,524)
		9,32,200
Less: Depreciation on motor car @ 15% (Note (i))		(12,000)
		9,20,200

Notes:

(i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for u/s 32(1)(ii).
Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below sec 32(1)(ii).

(ii) Incentive to articled assistants for passing IPCC examination in their first attempt is deductible u/s 37(1).

(iii) Repairs and maintenance paid in advance for the period 1.4.2026 to 30.9.2026 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.

(iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	
	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	33,924

(4) Deduction under Chapter VI-A :

Particulars	₹
Deduction u/s 80C (Investment in NSC)	10,000
Deduction u/s 80D (Notes (i) & (ii))	Nil
Total deduction under Chapter VI-A	**10,000**

Notes:

(i) Premium paid to insure the health of brother is not eligible for deduction u/s 80D, even though he is a dependent, since brother is not included in the definition of "family".

(ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

Qn. 5 Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2026 revealed the following information:

1. The net profit was ₹ 11,20,000.
2. The following incomes were credited in the profit and loss account:
   (a) Dividend from UTI ₹ 22,000 (Gross)
   (b) Interest on debentures ₹ 17,500 (Gross)
   (c) Winnings from horse races ₹ 15,000 (Gross)
3. It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:
   Opening stock ₹ 8,000.
   Closing stock ₹ 12,000.
4. ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified u/s 35(1)(ii).
5. Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
6. Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
7. Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. ¾th is for business purposes.

8. Miscellaneous expenses included ₹ 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2026 for distribution of the company's product to the warehouses.
9. Depreciation debited in the books was ₹ 55,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹ 50,000.
10. Drawings ₹ 10,000 debited in books.
11. Investment in NSC ₹ 15,000 debited in books.

Compute the total income of Mr. Y for the AY 2026-27 under optional tax regime as per normal provisions of the Act.

Ans.

Computation of total income of Mr. Y for the AY 2026-27

Particulars	₹
Profits and gains of business or profession (Working Note 1)	11,21,500
Income from other sources (Working Note 2)	54,500
Gross Total Income	11,76,000
Less: Deduction u/s 80C (Investment in NSC)	(15,000)
Total Income	**11,61,000**

Working Notes:

1. Computation of profits and gains of business or profession

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
Add: Expenses debited to profit and loss account but not allowable as deduction		
- Salary paid to brother disallowed to the extent considered unreasonable [Sec 40A(2)]	2,500	
- Motor car expenses attributable to personal use not allowable (₹ 78,000 × ¼)	19,500	
- Depreciation debited in the books of account	55,000	
- Drawings (not allowable since it is personal in nature) [Note (iii)]	10,000	
- Investment in NSC [Note (iii)]	15,000	1,02,000
		12,22,000
Add: Under-statement of closing stock		12,000
		12,34,000
Less: Under-statement of opening stock		(8,000)
Less: Contribution to a University approved and notified u/s 35(1)(ii) is eligible for 100% deduction. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required.		-
		12,26,000
Less: Incomes credited to profit and loss account but not taxable as business income		
- Income from UTI [taxable under the head "Income from other sources"]	22,000	
- Interest on debentures (taxable under the head "Income from other sources")	17,500	
- Winnings from horse races (taxable under the head "Income from other sources")	15,000	(54,500)
		11,71,500
Less: Depreciation allowable under the Income-tax Rules, 1962		(50,000)
		11,21,500

Notes:

(i) Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction u/s 37.

(ii) Disallowance u/s 40A(3) is not attracted in respect of cash payment exceeding ₹ 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of ₹ 35,000 is applicable (i.e. payment of upto ₹ 35,000 can be made in cash without attracting disallowance u/s 40A(3))

(iii) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.

(iv) In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹ 50,000. It has been assumed that, in the said figure of ₹ 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

2. Computation of "Income from Other Sources"

Particulars	₹
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	54,500

Qn. 6 Mr. Rishabh, a resident individual, aged 54 years, is engaged in the business of manufacturing clothes. He earned profit of ₹ 82,45,000 as per profit and loss account after debiting and crediting the following items:

(i) Depreciation ₹ 15,40,000

(ii) Short term capital gains on transfer of listed equity shares in a company on which STT is paid ₹ 10,00,000

(iii) He received income-tax refund of ₹ 15,550 which includes interest on refund of ₹ 4,550.

(iv) Dividend income from Indian companies ₹ 15,00,000

Additional information –

(i) Mr. Rishabh installed new plant and machinery for ₹ 65 lakhs on 1.10.2025 which was put to use on 1.1.2026. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 1962.

(ii) Mr. Rishabh took a loan from SBI of ₹ 50 lakhs on 15.9.2025 @ 10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2026 has been paid on 31.3.2026 and the same has been debited to profit and loss account.

(iii) Advance tax paid during the year is ₹ 17,50,000

(iv) Rishabh purchased goods for ₹ 40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹ 35 lakhs.

(v) He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2020.

(vi) He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.

(vii) On 1.7.2025, Mr. Rishabh withdrew ₹ 1.5 crores in cash from three current accounts maintained by him with HSBC. There are no other withdrawals during the year. He regularly files his return of income.

You are required to compute the total income and tax payable after adjusting TDS/TCS/advance tax, if any, by Mr. Rishabh for the AY 2026-27, in the manner so that he can make maximum tax savings.

[RTP – May 22]

Ans. Computation of total income of Mr. Rishabh for AY 2026-27 (under default tax regime u/s 115BAC)

	Particulars	₹	₹	₹
I	**Income from business or profession**			
	Net profit as per profit and loss account		82,45,000	
	Add: Items of expenditure not allowable while computing business income			
	(i) Interest on loan taken for purchase of plant & machinery [Interest from the date on which capital was borrowed till the date on which asset was first put to use, not allowable as deduction u/s 36(1)(iii). Accordingly, interest of ₹ 1,53,125 [₹ 50,00,000 x 10.5% x 3.5/12] has to be added back, since the same is debited to the profit and loss account]	1,53,125		
	(ii) Purchase of goods at a price higher than the fair market value [The difference between the purchase price (₹ 40 lakhs) and the fair market value (₹ 35 lakhs) has to be added back as per sec 40A(2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value]	5,00,000	6,53,125	
			88,98,125	
	Less: Items of income to be treated separately under the respective head of income			
	(i) Income-tax refund including interest on refund of ₹ 4,550	15,550		
	(ii) Dividend from Indian companies	15,00,000		
	(iii) Short term capital gains on transfer of listed equity shares	10,00,000	(25,15,550)	
			63,82,575	
	Less: Depreciation on interest on loan capitalized to plant and machinery ₹ 1,53,125, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized			
	Normal depreciation @ 15% x 50% on such interest		(11,484)	
			63,71,091	
	Add: Additional depreciation on newly plant and machinery [Not allowable under default tax regime] [₹ 65,00,000 x 20% x 50%]		6,50,000	70,21,091
II	**Capital Gains**			
	Short term capital gains on transfer of listed equity shares			10,00,000
III	Income from Other Sources			
	Interest on income-tax refund		4,550	
	Dividend from Indian companies		15,00,000	15,04,550
	Gross Total Income			**95,25,641**
	Less: Deductions under Chapter VI-A – Not allowable under default tax regime			Nil
	Total Income			**95,25,641**
	Total Income (Rounded off)			**95,25,640**

Computation of tax payable under default tax regime

Particulars	₹	₹
Tax on total income of ₹ 95,25,640		
Tax on STCG of ₹ 10,00,000 @ 20% u/s 111A		2,00,000
Tax on remaining total income of ₹ 85,25,640		
Upto ₹ 4,00,000	Nil	
₹ 4,00,001 – ₹ 8,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 8,00,001 – ₹ 12,00,000 [@ 10% of ₹ 4 lakhs]	40,000	
₹ 12,00,001 – ₹ 16,00,000 [@ 15% of ₹ 4 lakhs]	60,000	
₹ 16,00,001 – ₹ 20,00,000 [@ 20% of ₹ 4 lakhs]	80,000	
₹ 20,00,001 – ₹ 24,00,000 [@ 25% of ₹ 4 lakhs]	1,00,000	
₹ 24,00,001 – ₹ 85,25,640 [@ 30% of ₹ 61,25,640]	18,37,692	21,37,692
		23,37,692
Add: Surcharge @ 10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		2,33,769
		25,71,461
Add: Health and education cess @ 4%		1,02,858
Total tax liability		26,74,319
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	1,00,000	
Less: Advance tax paid	17,50,000	(18,50,000)
Tax payable		**8,24,319**
Tax payable (rounded off)		**8,24,320**

Computation of total income of Mr. Rishabh under optional tax regime for AY 2026-27

Particulars	₹	₹
Gross Total Income as per default tax regime		95,25,641
Less: Additional depreciation on plant and machinery		
- On interest which is capitalised	15,313	
- On cost of plant and machinery [₹ 65 lakhs x 20% x 50%]	6,50,000	(6,65,313)
Gross Total Income as per normal provisions of the Act		**88,60,328**
- Deduction u/s 80C		
Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether dependent or not falls within the meaning of term "Person". Accordingly, whole of the amount of ₹ 40,000 is allowable as it does not exceed 10% of the ₹ 5, 00,000, being the sum assured]	40,000	
- Deduction u/s 80D		
Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to ₹ 25,000	25,000	(65,000)
Total Income		**87,95,328**
Total Income (Rounded off)		**87,95,330**

Computation of tax payable under optional tax regime

Particulars	₹	₹
Tax on total income of ₹ 87,95,330		
Tax on short term capital gains on transfer of listed equity shares @ 20% u/s 111A		2,00,000

Tax on other Income of ₹ 77,95,330		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@ 5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@ 20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001 - ₹ 77,95,330 [@ 30% of ₹ 67,95,330]	20,38,599	21,51,099
		23,51,099
Add: Surcharge @ 10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		2,35,110
		25,86,209
Add: Health and education cess @ 4%		1,03,448
Total tax liability		26,89,657
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	1,00,000	
Less: Advance tax paid	17,50,000	(18,50,000)
Tax payable		**8,39,657**
Tax payable (rounded off)		**8,39,660**

Since tax payable as per sec 115BAC is lower than the tax payable as per normal provisions of the Income-tax Act, 1961, it is beneficial for Mr. Rishabh to pay tax under default tax regime u/s 115BAC for AY 2026-27.

Qn. 7 Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the FY 2025-26.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1.4.2025) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
		Office rent	30,000
Rent	50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Life insurance premium (10% of sum assured)	24,000
		Motor car (acquired in Jan. 2026 by A/c payee cheque)	4,25,000
		Medical insurance premium (for self and wife) (paid by A/c Payee cheque)	18,000
		Books bought on 1.07.2025 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1.11.2025 by A/c payee cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2026) Cash on hand and at Bank	19,15,000
	62,50,000		62,50,000

Following further information is given to you:

(1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 2010-11, when the housing loan was taken.

(2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.

(3) The written down value of assets as on 1-4-2025 are given below:

Furniture & Fittings	₹ 60,000
Plant & Machinery (Air-conditioners, Photocopiers, etc.)	₹ 80,000
Computers	₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the AY 2026-27 assuming that he has shifted out of the default tax regime u/s 115BAC.

[May 18]

Ans.

Computation of total income of Mr. Rajiv for the AY 2026-27

Particulars		₹	₹	₹
Income from house property				
Self-occupied				
Annual value		Nil		
Less: Deduction u/s 24(b)				
Interest on housing loan				
50% of ₹ 88,000 = 44,000		44,000		
Loss from self-occupied property			(44,000)	
Let out property				
Annual value (Rent receivable has been taken as the annual value in the absence of other information)		60,000		
Less: Deductions u/s 24				
30% of Net Annual Value	18,000			
Interest on housing loan (50% of ₹ 88,000)	44,000	62,000	(2,000)	
Loss from house property				(46,000)
Profits and gains of business or profession				
Fees from professional services			59,38,000	
Less: Expenses allowable as deduction				
Staff salary, bonus and stipend		21,50,000		
Other administrative expenses		11,48,000		
Office rent		30,000		
Motor car maintenance (₹ 10,000 x 4/5)		8,000		
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)		Nil	(33,36,000)	
			26,02,000	
Depreciation on:				
Motor car ₹ 4,25,000 x 7.5% x 4/5		25,500		
Books being annual publications @ 40%		8,000		
Furniture and fittings @ 10% of ₹ 60,000		6,000		
Plant and machinery @ 15% of ₹ 80,000		12,000		
Computer @ 40% of ₹ 50,000		20,000		
Computer (New) ₹ 30,000 @ 40% x 50%		6,000	(77,500)	25,24,500
Gross Total income				**24,78,500**

Less: Deductions under Chapter VI-A			
Deduction u/s 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of ₹ 1,44,000 is allowed as deduction since it is			
within the limit of ₹ 1,50,000		1,44,000	
Deduction u/s 80D			
Medical insurance premium paid ₹ 18,000		18,000	(1,62,000)
Total income			**23,16,500**

Qn. 8 Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2026:

- Basic Salary	₹ 15,000 p.m.
- DA (50% of it is meant for retirement benefits)	₹ 12,000 p.m.
- Commission as a percentage of turnover of the Company	0.5 %
- Turnover of the Company	₹ 50 lacs
- Bonus	₹ 50,000
- Gratuity	₹ 30,000
- Own Contribution to R.P.F.	₹ 30,000
- Employer's contribution to R.P.F.	20% of basic salary
- Interest credited in the R.P.F. account @ 15% p.a.	₹ 15,000

- Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.
- Music System purchased on 01.04.2025 by the company for ₹ 85,000 and was given to him for personal use.
- Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.
- Received interest of ₹ 5,860 on bank FDRs on 24.4.2025 and interest of ₹ 7,540 from the debentures of Indian Companies on 5.5.2025.
- Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.
- Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
- Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute the total income and tax payable thereon for the AY 2026-27. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime u/s 115BAC.

Ans. Computation of Total Income of Mr. Ramadin for the AY 2026-27

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 x 12)		1,80,000
Dearness Allowance (₹ 12,000 x12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000
Gratuity (Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt (See Note 2)	(33,240)	2,760
Interest credited in recognized provident fund account @ 15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	(9,500)	5,500

Gift of Gold ring worth ₹ 10,000 on 25th wedding anniversary by employer (Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e., 10% of ₹ 85,000		8,500
		4,55,760
Less: Standard deduction u/s 16(ia)		(50,000)
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of sec 44AE will apply i.e., ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest from debentures (₹ 6,786 x 100/90)	7,540	13,400
Gross total Income		**5,99,160**
Less: Deductions under Chapter VI-A		
Sec 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	(1,25,370)
Sec 80D – Mediclaim Insurance		(22,500)
Sec 80G (Note 4)		(10,600)
Total Income		**4,40,690**
Tax on total income		
Income-tax		9,535
Add: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000		(9,535)
Total Tax Payable		**Nil**

Notes:

i. Gratuity received during service is fully taxable.

ii. Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e., 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
=12% of (₹ 1,80,000+ (50% of ₹ 1,44,000) + ₹ 25,000)
=12% of 2,77,000 = ₹ 33,240

iii. An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,00,760.

iv. Deduction u/s 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000)	5,500
(amount contributed ₹ 11,000 or 10% of Adjusted Gross Total Income i.e., ₹ 45,129, whichever is lower)	
Total deduction	**10,600**

Adjusted Gross Total Income = Gross Total Income – Deductions u/s 80C and 80D = ₹ 5,99,160 – ₹ 1,47,870 = ₹ 4,51,290

Qn. 9 From the following particulars furnished by Mr. X for the year ended 31.3.2026, you are requested to compute his total income and tax payable for the AY 2026-27, assuming that he opt out of the default tax regime u/s 115BAC.

(a) Mr. X retired on 31.12.2025 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.

(b) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.

(c) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.

(d) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.

(e) After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2026.

(f) Mr. X has deposited ₹ 1,00,000 in public provident fund.

Ans.

Computation of total income of Mr. X for AY 2026-27

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 25,000 x 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 x 9 months)	54,000	
Less: Exemption u/s 10(13A) (Note 1)	(36,000)	18,000
Gratuity:		
Actual amount received	3,50,000	
Less: Exemption u/s 10(10)(ii) (Note 2)	(3,50,000)	-
Leave encashment:		
Actual amount received	3,15,000	
Less: Exemption u/s 10(10AA) (Note 3)	(2,45,000)	70,000
Gross Salary		3,13,000
Less: Standard deduction u/s 16(ia)		(50,000)
		2,63,000
Profits and gains of business or profession		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		**2,63,000**
Less: Deduction u/s 80C		
Deposit in Public Provident Fund		(1,00,000)
Total income		**1,63,000**
Tax on total income		**Nil**

Notes:

(1) As per sec 10(13A), house rent allowance will be exempt to the extent of least of the following 3 amounts:

		₹
(i)	HRA actually received (₹ 6,000 x 9)	54,000
(ii)	Rent paid in excess of 10% of salary (₹ 6,500 – ₹ 2,500) x 9 months	36,000
(iii)	50% of salary	1,12,500

(2) Gratuity of ₹ 3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts:

		₹
(i)	Actual amount received	3,50,000
(ii)	Half month salary for each year of completed service [(₹ 25,000 x 15/26) x 26 years]	3,75,000
(iii)	Statutory limit	20,00,000

(3) Leave encashment is exempt upto the least of the following:

		₹
(i)	Actual amount received	3,15,000
(ii)	10 months average salary (₹ 24,500 x 10)	2,45,000
(iii)	Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (Note 4)	3,18,550
(iv)	Statutory limit	3,00,000

(4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	= 30 days/year x 26 = 780 days
Less: Leave taken /availed by Mr. X during the period of his service	= 15 days/year x 26 = 390 days
Earned leave to the credit of Mr. X at the time of his retirement	390 days
Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	= 390 x ₹ 24,500/30 = ₹ 3,18,500

Qn. 10 Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the PY ended 31.3.2026:

S.No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	-	60,000
2.	Pension received from Canadian Government	20,000	-
3.	Long-term capital gain on sale of land on 15.5.2025 at Mumbai	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares on 23.4.2025 of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	-	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	-
7.	Mediclaim policy premium paid by A/c Payee Cheque	-	25,000
8.	Deposit in PPF	-	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the taxable income and tax liability of Mrs. Rosy and Mrs. Mary for the AY 2026-27 and tax thereon assuming both exercised the option to shift out of the default tax regime.

Ans. Computation of taxable income of Mrs. Rosy and Mrs. Mary for the AY 2026-27

S.No.	Particulars		Mrs. Rosy (NR)	Mrs. Mary (ROR)
(I)	**Salaries**			
	Pension received from State Govt.	₹ 60,000		
	Less: Standard deduction u/s 16(ia)	(₹ 50,000)	-	10,000

	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	-
		-	10,000
(II)	**Income from house property**		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e., municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction u/s 24(a) @ 30%	(18,000)	(9,000)
		42,000	21,000
(III)	**Capital gains**		
	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
		1,20,000	3,50,000
(A)	**Gross Total Income [(I)+(II)+(III)]**	**1,62,000**	**3,81,000**
	Less: Deductions under Chapter VIA		
1.	Deduction u/s 80C		
	1. LIC Premium paid	-	10,000
	2. Premium paid to Canadian Life Insurance Corporation	40,000	-
	3. Deposit in PPF	-	20,000
		40,000	**30,000**
2.	Deduction u/s 80D – Mediclaim premium paid	.	25,000
		40,000	55,000
(B)	Total deduction under Chapter VIA is restricted to income other than capital gains taxable u/s 111A & 112	40,000	31,000
(C)	**Total income (A-B)**	**1,22,000**	**3,50,000**
	Tax liability of Mrs. Rosy for AY 2026-27		
	Tax on long-term capital gains @ 12.5% of ₹ 1,00,000	12,500	
	Tax on short-term capital gains @ 20% of ₹ 20,000	4,000	
	Tax on balance income of ₹ 2,000	Nil	
		16,500	
	Tax liability of Mrs. Mary for AY 2026-27		
	Tax on LTCG @12.5% of ₹ 1,00,000		12,500
	Tax on STCG of ₹ 2,50,000 [unexhausted basic exemption limit of ₹ 2,50,000 is adjusted)]		Nil
	Less: Rebate u/s 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		(12,500)
			Nil
	Add: Health and Education cess @ 4%	660	Nil
	Total tax liability	17,160	Nil

Notes:

(1) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed as per rates u/s 112/111A. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable u/s 112 and short-term capital gains taxable u/s 111A, Mrs. Rosy cannot do so.

(2) Since long-term capital gains is taxable at the rate of 12.5% and short-term capital gains is taxable at the rate of 20%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹ 2,50,000 against short-term capital gains of ₹ 2,50,000

(3) Rebate u/s 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹ 5,00,000, since she is non-resident for the AY 2026-27.

Qn. 11 Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the FY 2019-20 for production of washing machines. The unit fulfills all the conditions of sec 10AA of the Income-tax Act, 1961. During the FY 2024-25, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of sec 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2025 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the FY 2025-26 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2026	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction u/s 35AD)	1,05,00,000

Compute income-tax (including AMT u/s 115JC) liability of Mr. X for AY 2026-27 both as per Sec 115BAC and as per regular provisions of the Income-tax Act for AY 2026-27. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act,

[Jan 21, May 23]

Ans. Computation of total income and tax liability of Mr. X for AY 2026-'

(under the default tax regime u/s 115BAC)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation u/s 32 on building @ 10% of ₹ 65 lakhs (normal depreciation u/s 32 is allowable)	(6,50,000)	
Business income of warehousing facility chargeable to tax		98,50,000
Total Income		**1,38,50,000**
Computation of tax liability as per Sec 115BAC		
Tax on ₹ 1,38,50,000		37,35,000
Add: Surcharge @ 15%		5,60,250
		42,95,250
Add: H&EC @ 4%		1,71,810
Total tax liability		**44,67,060**

Notes:

(1) Deductions u/s 10AA and 35AD are not allowable as per sec 115BAC(2). However, normal depreciation u/s 32 is allowable.

(2) Mr. X is not liable to alternate minimum tax u/s 115JC under default tax regime u/s 115BAC.

Computation of total income and tax liability of Mr. X for AY 2026-27

(under regular provisions of the Act)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	40,00,000	
Less: Deduction u/s 10AA [Note (1)]	(16,00,000)	

Business income of SEZ unit chargeable to tax		24,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation u/s 35AD [Note (2)]	(65,00,000)	
Business income of warehousing facility chargeable to tax		40,00,000
Total Income		**64,00,000**
Computation of tax liability (under the normal/regular provisions)		
Tax on ₹ 64,00,000		17,32,500
Add: Surcharge @ 10% (since the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore)		1,73,250
		19,05,750
Add: H&EC @ 4%		76,230
Total tax liability		**19,81,980**

Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

Particulars	₹	₹
Total Income (computed above as per regular provisions)		64,00,000
Add: Deduction u/s 10AA		(16,00,000)
		80,00,000
Add: Deduction u/s 35AD	65,00,000	
Less: Depreciation u/s 32		
On building @ 10% of ₹ 65 lakhs (assuming the capital expenditure of ₹ 65 lakhs is incurred entirely on buildings)	(6,50,000)	58,50,000
Adjusted Total Income		**1,38,50,000**
Alternate Minimum Tax @ 18.5%		25,62,250
Add: Surcharge @ 15% (since adjusted total income > ₹ 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess @ 4%		1,17,863
		30,64,451
Tax liability u/s 115JC (rounded off)		**30,64,450**

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @ 18.5% thereof plus surcharge @ 15% and cess @ 4%. Therefore, tax liability as per sec 115JC is ₹ 30,64,450.

Since the tax liability of Mr. X u/s 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him to opt out of the default tax regime u/s 115BAC for AY 2026-27.

Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward u/s 115JEE

	₹
Tax liability u/s 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	(19,81,980)
	10,82,470

Notes:

(1) Deduction u/s 10AA in respect of Unit in SEZ =

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

₹ 40,00,000 × (₹ 80,00,000/ ₹ 1,00,00,000) x 50% = ₹ 16,00,000

(2) Deduction @ 100% of the capital expenditure is available u/s 35AD for AY 2026-27 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the PY in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

Deduction u/s 35AD would, however, not be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the FY 2024-25 and capitalized in the books of account on 1.4.2025, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction u/s 35AD

Section B – Blast from the Past

Qn. 1 Mr. Ravi, a resident and ordinarily resident in India, owns a let out house property having different flats in Kanpur which has municipal value of ₹ 27,00,000 and standard rent of ₹ 29,80,000. Market rent of similar property is ₹ 30,00,000. Annual rent was ₹ 40,00,000 which includes ₹ 10,00,000 pertaining to different amenities provided in the building. One flat in the property (annual rent is ₹ 2,40,000) remains vacant for 4 months during the PY. He has incurred following expenses in respect of aforesaid property:

Municipal taxes of ₹ 4,00,000 for the FY 2025-26 (10% rebate is obtained for payment before due date).

Arrears of municipal tax of FY 2024-25 paid during the year of ₹ 1,40,000 which includes interest on arrears of ₹ 25,000.

Lift maintenance expenses of ₹ 2,40,000 which includes a payment of ₹ 30,000 which is made in cash.

Salary of ₹ 88,000 paid to staff for collecting house rent and other charges.

Compute the total income of Mr. Ravi for the AY 2026-27 assuming that Mr. Ravi has opted to shift out of the default tax regime as per sec 115BAC(1A).

[Nov 21]

Ans. Computation of total income of Mr. Ravi for AY 2026-27 under the regular provisions of the Act

Particulars	Amount (₹)	Amount (₹)
Income from house property		
Gross Annual Value		
Expected rent ₹ 29,80,000 [Higher of Municipal Value of ₹ 27,00,000 p.a. and Fair Rent of ₹ 30,00,000 p.a., but restricted to Standard Rent of ₹ 29,80,000 p.a.]		
Actual rent ₹ 29,40,000 [₹ 30,00,000, being annual rent for house property less rent of ₹ 60,000 (₹ 2,40,000 x 4/12 x 3/4) due to vacancy]		
Gross Annual Value	29,40,000	
In this case, the actual rent is lower than the expected rent due to vacancy. Otherwise, the actual rent of ₹ 30,00,000 would have been higher than the expected rent. In such a case, the actual rent would be the gross annual value, even if it is lower than the expected rent.		
Less: Municipal taxes actually paid during the year:		
[₹ 4,00,000 – rebate of ₹ 40,000] = ₹ 3,60,000		
[₹ 1,40,000 arrears – ₹ 25,000 interest] = ₹ 1,15,000	(4,75,000)	
Net Annual Value	24,65,000	
Less: Deduction from Net Annual Value		
30% of Net Annual Value	(7,39,500)	17,25,500
Income from Other Sources/Profits and gains from business or profession		
Rent for amenities	10,00,000	
Less: Loss due to vacancy [₹ 2,40,000 x 4/12 x ¼]	(20,000)	
	9,80,000	
Less: Expenditure in respect thereof		
- Lift maintenance expenses [excluding cash payment		

of ₹ 30,000 disallowed] = ₹ 2,40,000 - ₹ 30,000	2,10,000		
- Salary to staff [₹ 88,000 x 1/4, being the proportion pertaining to amenities]	22,000	(2,32,000)	7,48,000
Total Income			**24,73,500**

Qn. 2 Mr. Akash owns a residential house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 1,60,000, ₹ 1,70,000 and ₹ 1,90,000, respectively. The house has two independent units. Unit I (25% of floor area) is utilized for the purpose of his profession and Unit II (75% of floor area) is let out for residential purposes at a monthly rent of ₹ 8,500. Municipal taxes @ 8% of the Municipal Value were paid during the year by Mr. Akash. He made the following payments in respect of the house property during the PY 2025-26:

Light and Water charges ₹ 2,000, Repairs ₹ 1,45,000, Interest on loan taken for the repair of property ₹ 36,000. Mr. Akash has taken a loan of ₹ 5,00,000 in July, 2019 for the construction of the above house property. Construction was completed on 30th June, 2022. He paid interest on loan @ 12% per annum and every month such interest was paid. No repayment of loan has been made so far.

Income of Mr. Akash from his profession amounted to ₹ 8,00,000 during the year (without debiting house rent and other incidental expenditure including admissible depreciation of ₹ 8,000 on the portion of house used for profession).

Determine the Gross total income of Mr. Akash for the AY 2026-27 ignoring the provisions of sec 115BAC.

[RTP – May 23]

Ans. Computation of Gross total income of Mr. Akash for the AY 2026-27

Particulars		₹	₹
I Income from House Property			
Unit-II (75% of floor area)			
Gross Annual Value			
(a) Actual rent received (₹ 8,500 x 12)	₹ 1,02,000		
(b) Expected rent	₹ 1,27,500		
[Higher of municipal value (i.e. ₹ 1,60,000) and fair rent (i.e. ₹ 1,70,000) but restricted to standard rent (i.e. ₹ 1,90,000) ₹ 1,70,000 x 75%]			
Higher of (a) or (b) is GAV		1,27,500	
Less: Municipal taxes (₹ 1,60,000 x 8% x 75%)		(9,600)	
NAV		1,17,900	
Less: Deductions u/s 24			
(a) 30% of NAV	35,370		
(b) Interest on loan (See note)	96,750	(1,32,120)	(14,220)
II Profits & Gains of business & profession			
Income from Profession		8,00,000	
Less: Light & Water Charges (25% of ₹ 2,000)	500		
Municipal taxes (25% of ₹ 12,800)	3,200		
Repairs (25% of ₹ 1,45,000)	36,250		
Interest on loan taken for repair (25% of ₹ 36,000)	9,000		
Interest on loan taken for construction of house property (25% of ₹ 60,000)	15,000		
Depreciation	8,000	(71,950)	7,28,050
Gross Total Income			**7,13,830**

Note: Computation of Interest on loan

	₹
Interest for the year (₹ 5,00,000 x 12%)	60,000
Pre-construction period Interest	

12% of ₹ 5,00,000 for 33 months = 1,65,000	
To be allowed in 5 equal instalments from the year of completion (₹ 1,65,000 x 1/5)	33,000
Interest on loan taken for repair (no restriction for let out property)	36,000
Total Interest deduction u/s 24(b)	**1,29,000**
Total Interest deduction u/s 24(b) for let out property (75% x ₹ 1,29,000)	**96,750**

Qn. 3 Mr. Lalit, a dealer in shares and securities, has entered into following transactions during the PY 2025-26:

(i) Received a motor car of ₹ 5,00,000 as gift from his friend Sunil on the occasion of his marriage anniversary.

(ii) Cash gift of ₹ 21,000 each from his four friends.

(iii) Land at Jaipur on 1st July, 2025 as a gift from his friend Kabra, the stamp duty value of the land is ₹ 6 lakhs as on the date. The land was acquired by Mr. Kabra in the PY 2001-02 for ₹ 2 lakhs.

Mr. Lalit purchased from his friend Mr. Abhishek, who is also a dealer in shares, 1000 shares of ABC Ltd. @ 400 each on 19th June, 2025 the fair market value of which was ₹ 600 each on that date. Mr. Lalit sold these shares in the course of his business on 23rd June,2025.

Further, on 1st November, 2025, Mr. Lalit took possession of his residential house booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2025 was ₹ 32 lakh and on the date of booking was ₹ 24 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

He received a shop (building) of the fair market value ₹ 1,50,000 and cash ₹ 50,000 in distribution from the ABC (P) Ltd at the time of liquidation process of the company in proportion of his share capital. The balance in general reserve of the company attributable to his share capital is ₹ 1,25,000.

On 1st March, 2026, he sold the plot of land at Jaipur for ₹ 8 lakh.

Compute the income of Mr. Lalit chargeable under the head "Income from other sources" and "Capital Gains" for AY 2026-27.

[May 22]

Ans. Computation of "Income from Other Sources" of Mr. Lalit for the AY 2026-27

	Particulars	₹
(i)	Motor car is not included in the definition of "property" for the purpose of sec 56(2)(x), hence, value of the same is not taxable, even though it is received without any consideration.	-
(ii)	Cash gift is taxable under section 56(2)(x) [since the aggregate of ₹ 84,000 (₹ 21,000 x 4) exceeds ₹ 50,000]	84,000
(iii)	Stamp value of plot of land at Jaipur, received without consideration, is taxable u/s 56(2)(x), since the same exceeds ₹ 50,000	6,00,000
(iv)	Difference of ₹ 2 lakh [1000 shares x ₹ 200] in the value of shares of ABC Ltd. purchased from Mr. Abhishek, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. Lalit (since he is a dealer in shares) and not capital asset.	-
(v)	Difference between the stamp duty value of ₹ 24 lakh on the date of booking (since advance was paid by account payee cheque on that date) and the actual consideration of ₹ 20 lakh paid is taxable u/s 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	4,00,000
(vi)	Distribution of assets by ABC (P) Ltd. on liquidation attributable to the accumulated profits (general reserve) of the company is taxable as dividend u/s 2(22)(c).	1,25,000
	Income taxable under the head "Income from other sources"	**12,09,000**

Computation of "Capital Gains" of Mr. Lalit for the AY 2026-27

Particulars	₹
Capital gains on sale of land at Jaipur	
Sale Consideration	8,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax u/s 56(2)(x)]	(6,00,000)
Short-term capital gains (since held for a period of not more than 24 months. Period of holding of previous owner, Mr. Kabra, not to be considered)	2,00,000
Capital gains on distribution of assets on liquidation of ABC (P) Ltd.	
Full value of consideration for capital gains on distribution of assets on liquidation of ABC (P) Ltd.	
FMV of assets distributed	1,50,000
Cash	50,000
	2,00,000
Less: Deemed dividend u/s 2(22)(c)	(1,25,000)
Full value of consideration for computing capital gains	75,000

Note -

(i) As cost of acquisition of shares in ABC(P) Ltd. is not given in the question, capital gains on distribution of assets on liquidation of ABC(P) Ltd. in the hands of Mr. Lalit has not been computed.

(ii) As per sec 56(1)(i), dividend income is chargeable under the head "Income from Other Sources". Hence, deemed dividend u/s 2(22)(c) would be taxable under the head "Income from Other Sources" in the hands of Mr. Lalit, who is a dealer in shares

Qn. 4 You are required to compute the total income and tax liability of Mr. Anoop, a resident individual aged 55 years, for the AY 2026-27 from the following information shown in his Profit and Loss Account for the year ended 31st March 2026. Ignore the provisions of Sec 115BAC

(i) The net profit was ₹ 8,40,000.

(ii) Depreciation debited in the books of account was ₹ 1,05,000.

(iii) The following incomes were credited in the Profit & Loss Account:
   - (a) Interest on notified government securities ₹ 32,000
   - (b) Dividend from a foreign company ₹ 28,000.
   - (c) Gold chain worth ₹ 78,000 received as gift from his mother.

(iv) Interest on loan amounting to ₹ 82,000 was paid in respect of capital of ₹ 8,20,000 borrowed for the purchase of new plant & machinery which has been put to use on 12th April, 2026.

(v) General expenses included:
   - (a) An expenditure of ₹ 18,500 which was paid by a bearer cheque.
   - (b) Compensation of ₹ 4,500 paid to an employee while terminating his services in business unit.

Additional Information:

(1) Depreciation allowable as per Income-tax Act, 1961 was ₹ 1,16,000 [without considering depreciation on new plant & machinery referred to in (iv) above].

(2) He contributed the following amounts by cheque:
   - (a) ₹ 48,000 in Sukanya Samridhi Scheme in the name of his minor daughter Anya.
   - (b) ₹ 23,000 to the Clean Ganga Fund set up by the Central Government.
   - (c) ₹ 28,000 towards premium for health insurance and ₹ 2,500 on account of preventive health check-up for self and his wife.
   - (d) ₹ 35,000 on account of medical expenses of his father aged 82 years (no insurance scheme had been availed on the health of his father).

[Nov 16]

Ans.

Computation of total income of Mr. Anoop for the AY 2026-27

Particulars	₹	₹	₹
Profits and gains from business or profession			
Net profit as per profit and loss account		8,40,000	
Less: Income credited to profit and loss account but not taxable under this head			
Interest on notified government securities	32,000		
Dividend from foreign company	28,000		
Gift of gold chain received from his mother	78,000	(1,38,000)	
		7,02,000	
Add: Depreciation debited in the books of account		1,05,000	
		8,07,000	
Add: Expenses debited to profit and loss account but not allowable as deduction			
Interest on capital borrowed for purchase of plant & machinery [As per the proviso to sec 36(1)(iii), the interest on loan borrowed for purchase of new asset which is not put to use upto 31.3.2026 not allowable as deduction. The said amount has to be added to the cost of the asset. Since the amount has been debited to profit and loss account, it has to be added back].	82,000		
Expenditure in excess of ₹ 10,000 paid by bearer cheque to be disallowed as per sec 40A(3)	18,500		
Compensation paid to an employee on termination of his services in the business unit is allowable on the grounds of commercial expediency. Hence, no disallowance is attracted	-	1,00,500	
		9,07,500	
Less: Depreciation allowable under the Income-tax Act, 1961		(1,16,000)	
[Depreciation on new plant & machinery would not be allowed, since it was not put to use during the PY 2024-25]		.	7,91,500
Income from Other Sources			
Interest on notified Government Securities, exempt u/s 10(15)		-	
Dividend from foreign company		28,000	
Gift of gold chain received from his mother is not taxable, since mother is a relative		-	28,000
Gross Total Income			**8,19,500**
Less: Deductions under Chapter VI-A			
U/s 80C			
Deposit in Sukanya Samridhi Scheme		48,000	
Under section 80D			
Medical insurance premium			
Self and wife ₹ 28,000 + ₹ 2,500 preventive health check-up, subject to a maximum of	25,000		
Medical expenses of father, being a very senior citizen, ₹ 35,000, since there is no insurance policy in his name	35,000	60,000	
U/s 80G			
Donation to Clean Ganga Fund (qualifies for 100% deduction)		23,000	(1,31,000)
Total Income			**6,88,500**
Tax on total income			50,200
Add: Health & Education cess @ 4%			2,008
Tax Payable			**52,208**

Tax Payable (rounded off)			**52,210**

Qn. 5 Mrs. Babu, working as journalist with ABC Limited, provides the following information for the year ended 31-03-2026.

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

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

She made payment through cheque ₹ 12,500 for Mediclaim Insurance Policy for her major daughter.

She had contributed ₹ 1,196 p.m. towards National Pension Scheme and ₹ 5,000 p.m. towards Sukanya Samridhi account.

M/s. ABC Limited has taken residential house of Mrs. Babu as Company's guest house and later purchased from her in the year 2024 at market value for ₹ 75 lakhs. Purchase cost was only ₹ 10 lakhs in April, 2012.

During August, 2025, Mrs. Babu had lost her gold chain and a diamond ring which she had purchased in April, 2012 for ₹ 1,13,000 and market value of these two items were ₹ 2,50,000 and she has received insurance compensation of ₹ 2,75,000 during Feb 2026.

Compute Total Income for the AY 2026-27. Ignore provisions of Sec 115BAC

[May 18]

Ans. <u>Computation of Total Income of Mrs. Babu for the AY 2026-27</u>

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 25,000 x 12)		3,00,000
Dearness Allowance (₹ 3,00,000 x 50%)		1,50,000
Employer's contribution to recognized provident fund:		
Actual contribution [20% of ₹ 3,00,000]	60,000	
Less: Exempt [12% of ₹ 3,75,000 (basic salary + 50% of dearness allowance, which forms part of retirement benefits)]	(45,000)	15,000
Interest credited in recognized provident fund account @ 15% p.a.	15,000	
Less: Exempt up to 9.5% p.a.	(9,500)	5,500
Gross Salary		4,70,500
Less: Standard deduction u/s 16(ia)		(50,000)
		4,20,500
Income from house property		
Arrears of rent [Taxable u/s 25A, even if Mrs. Babu is no longer the owner of house property]	69,000	
Less: 30% of arrears of rent	(20,700)	48,300
Capital gain on sale of guest house:		
As the sale was made in the year 2024, the capital gain does not relate to AY 2026-27		Nil
Capital Gain on jewellery [Long term, since the capital assets are held for more than 36 months] [Note 1]		
Insurance Compensation received for loss of gold chain and diamond ring, being capital assets deemed to be full value of consideration	2,75,000	
Less: Cost of acquisition	(1,13,000)	1,62,000
Income from Other Sources		
Interest from savings bank account	10,000	

Interest on debentures [Note 2]	12,040	22,040
Gross total Income		**6,52,840**
Less: Deductions under Chapter VI-A		
Sec 80C		
Own contribution to RPF 30,000		
Deposit in Sukanya Samridhi Scheme [₹ 5,000 x 12] 60,000	90,000	
Sec 80CCD - Contribution to National Pension Scheme	14,352	
Sec 80D - Mediclaim Insurance for major daughter, assuming that she is dependent on Mrs. Babu [Note 3]	12,500	
Sec 80TTA – Interest on savings bank account (allowed in full upto ₹ 10,000)	10,000	(1,26,852)
Total Income		**5,25,988**
Total Income (rounded off)		**5,25,990**

Notes:

(1) In case of loss of gold chain and diamond ring, capital gains tax liability would be attracted since there has been an extinguishment of rights in the capital asset.
Alternate view: If a view is taken that capital gains tax liability would not be attracted in respect of the insurance compensation received in this case, since it does not fall within the scope of section 45(1A), then, the total income would be ₹ 3,63,990.

(2) As per the provisions of sec 193, tax has to be deducted at 10% on interest on debentures exceeding ₹ 10,000 credited or paid to any person. In the question, since no information is given relating to TDS on interest on debentures, the total income has been computed assuming ₹ 12,040 to be the gross interest. However, it is also possible to assume that tax @ 10% has been deducted and ₹ 12,040 represents the net interest received. If it is so assumed, the figure of ₹ 12,040 has to be grossed up to arrive at the gross interest of ₹ 13,378 and the total income would change accordingly.

(3) Deduction u/s 80D for medical insurance premium paid to insure the health of major daughter has been allowed as deduction, assuming that she is dependent on Mrs. Babu. However, if it is assumed that she is not dependent of Mrs. Babu, no deduction would be available u/s 80D. In this case, the total income would change accordingly.

Qn. 6 Mr. Murari, a resident individual, age 48 years provides consultancy services in the field of accountancy. His Income and Expenditure account for the year ended 31st March, 2026 is as follows:

Income and Expenditure account for the year ending 31st March, 2026

Expenditure	Amount (₹)	Income	Amount (₹)
To Salary	3,00,000	By Consulting fees	8,00,000
To Motor car expenses	58,000	By Share of Profit from HUF	25,000
To Depreciation	47,500	By Interest on saving bank deposits	15,000
To Medical expenses	70,000	By Interest on income tax refund	8,000
To Purchase of computer	80,000		
To Bonus	10,000		
To General expenses	55,000		
To Office & administrative	75,000		
To Excess of income over Expenditure	1,52,500		
	8,48,000		8,48,000

The following other information relates to the FY 2025-26:

(1) Salary includes a payment of ₹ 12,000 per month to his brother-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is ₹ 10,000 per month.

(2) Interest on saving bank deposit belongs to his wife who has deposited the money out of the pocket money given to her every month.

(3) Written down value of the assets as on 1st April, 2025 are as follows:

Motor Car (40% used for personal use)	₹ 2,00,000
Furniture and Fittings	₹ 50,000

(4) Medical expenses includes:
- Family planning expenditure ₹ 15,000 incurred for the employees which was revenue in nature.
- Medical expenses for his father ₹ 35,000. (Father's age is 65 years)

(5) The computer was purchased on 5th June, 2025 on credit. The total invoice was paid in the following manner:
- ₹ 18,000 paid in cash as down payment on the date of purchase.
- Remaining amount was paid through account payee cheque on 10th August, 2025.

(6) Bonus was paid on 31st October, 2026.

(7) General expenses include commission payment of ₹ 22,000 to Mr. Sridhar for the promotion of business on 17th September, 2025 without deduction of tax at source.

(8) He also received gold coins from a family friend on the occasion of marriage anniversary on 5th December, 2025. The market value of the coins on the said date was ₹ 55,000.

Compute the total income and the tax liability of Mr. Murari for the AY 2026-27 assuming Mr. Murari has opted to shift out of default tax regime as per Sec 115BAC(1A)

[Nov 18]

Ans.

Computation of Total Income of Mr. Murari for the AY 2026-27

Particulars	₹	₹
Profit and gains from business or profession		
Net income as per Income and Expenditure Account		1,52,500
Add: Expenses debited but not allowable		
- Excess salary of ₹ 2,000 per month to brother-in-law [not disallowed since brother-in-law does not fall within the definition of 'relative']	-	
- Motor car expenses attributable to personal use not allowable (₹ 58,000 x 40%)	23,200	
- Depreciation as per books of account	47,500	
- Medical expenses of ₹ 15,000 for family planning expenditure for the employees [disallowed, since such expenditure is allowable to company assessee only]	15,000	
- Medical expenditure of ₹ 55,000 [including expenses of ₹ 35,000 for his father, not allowable, since it is personal in nature]	55,000	
Note: If it is assumed that only ₹ 35,000 is medical expenditure for father and balance ₹ 20,000 is expenditure for staff, then such expenditure is eligible for deduction. In such case, the disallowance would be limited to ₹ 35,000 instead of ₹ 55,000.		
- Purchase of computer (not allowable since it is capital in nature)	80,000	
- Bonus (allowed since it is paid on the due date of filing of return of income i.e., on 31.10.2026)	-	
Note: For the PY 2025-26, the gross receipts i.e., fees of Mr. Murari from consultancy services is ₹ 8 lakhs. Since his gross receipt in respect of such profession is less than ₹ 50 lakhs, he is eligible to opt for presumptive income scheme u/s 44ADA. His profits and gains from profession would be ₹ 4,00,000, being 50% of ₹ 8,00,000. No deduction in respect of any expenditure is allowed while computing presumptive business income as per the provisions of sec 44ADA. Since he is maintaining books of account and his profits and gains from profession as per books of account is ₹ 2,77,400, which is less than ₹ 4,00,000, it is more beneficial for him to declare profits and gains from such profession as per the regular provisions of the Act. For this purpose, he has to get his books		

of account audited u/s 44AB, in which case, his due date for filing return of income would be 31.10.2026)		
- Commission paid without deduction of tax at source [Disallowance is not attracted since he is not liable to deduct tax at source, assuming that his gross receipts did not exceed ₹ 50 lakhs in the PY 2024-25 also] [See Note given at the end of the solution for alternate view]	-	2,20,700
		3,73,200
Less: Income credited but not taxable or taxable under any other head		
- Share of profit from HUF (Exempt)	25,000	
- Interest on saving bank deposit	15,000	
- Interest on income-tax refund	8,000	(48,000)
		3,25,200
Less: Depreciation allowable under the Income-tax Act, 1961 [Working Note]		(47,800)
		2,77,400
Income from Other Sources		
- Interest on saving bank deposit of wife [Interest not to be included in the total income of Mr. Murari since the deposit was made out of pocket money given to her, assuming that pocket money is in the nature of pin money *Re; R. Dalmia vs. CIT (1982) 133 ITR 169 (Del.)*]	-	
Note – It is also possible to assume that pocket money is not in the nature of pin money. If it is so assumed, the interest of ₹ 15,000 would be included in the hands of Mr. Murari. Consequently, he would be entitled to a deduction of ₹ 10,000 u/s 80TTA.		
- Interest on income-tax refund	8,000	
- Value of gold coins received from a family friend on the occasion of marriage anniversary (taxable u/s 56(2)(x), as the fair market value of such coins exceeds ₹ 50,000)	55,000	63,000
Gross Total Income		**3,40,400**
Less: Deduction under Chapter VI-A		
Sec 80D - Medical expenses for father (Deduction allowable since father, aged 65 years, is a senior citizen)		(35,000)
Total Income		**3,05,400**

Computation of tax liability of Mr. Murari for AY 2026-27

Particulars	₹	₹
Tax on total income of ₹ 3,05,400		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 3,05,400 [i.e., ₹ 55,400 @ 5%]	2,770	2,770
Less: Rebate u/s 87A [Since his total income does not exceed ₹ 5,00,000]		(2,770)
Tax liability		**Nil**

Working note:

Computation of depreciation allowable as per Income-tax Act, 1961

Particulars	₹
On Motor Car - ₹ 2,00,000 x 15% x 60%	18,000
On Furniture and fittings - ₹ 50,000 x 10%	5,000
On Computer - ₹ 62,000 x 40% [Actual cost of the computer is ₹ 62,000 (i.e., ₹ 80,000 – ₹ 18,000). ₹ 18,000 paid otherwise than by way of account payee cheque/bank draft or use of ECS is not includible in actual cost.	24,800
	47,800

Note - Mr. Murari would be liable to deduct tax at source u/s 194-H on commission paid during the PY 2025-26, only if his gross receipts from profession during the PY 2024-25 exceeded ₹ 50 lakhs. The figure of gross receipts from profession during the PY 2024-25 is not given in the question. Since his gross receipts from profession for PY 2025-26 is only ₹ 8 lakhs, it is logical to assume that the gross receipts for PY 2024-25 were less than ₹ 50 lakhs. Accordingly, assuming that his gross receipts for PY 2024-25 also did not exceed the specified limit of ₹ 50 lakhs, Mr. Murari would not be liable to deduct tax at source u/s 194-H for the PY 2025-26. Hence, no disallowance would be attracted u/s 40(a)(ia)

However, since the statement in item no. (7) under "Other Information" that commission is paid to Mr. Sridhar without deduction of tax at source may seem to indicate that Mr. Murari has the obligation to deduct tax at source u/s 194-H, it is possible to take a view that his gross receipts in the PY 2024-25 exceeded ₹ 50 lakhs. Based on this view, ₹ 6,600, being 30% of ₹ 22,000 has to be disallowed for failure to deduct tax on commission paid to Mr. Sridhar.

Qn. 7 Mr. Madhvan is a finance manager in Star Private Limited. He gets a salary of ₹ 30,000 per month. He owns two houses, one of which has been let out to his employer and which is in tum provided to him as rent free accommodation. Following details (annual) are furnished in respect of two house properties for the FY 2025-26.

	House 1	House 2
Fair rent	75,000	1,95,000
Actual rent	65,000	2,85,000
Municipal Valuation	74,000	1,90,000
Municipal taxes paid	18,000	70,000
Repairs	15,000	35,000
Insurance premium on building	12,000	17,000
Ground rent	7,000	9,000
Nature of occupation	Let-out to Star Private Limited	Let-out to Ms. Puja

₹ 17,000 were paid as interest on loan taken by mortgaging House 1 for construction of House 2.

During the PY 2025-26, Mr. Madhvan purchased a rural agricultural land for ₹ 2,50,000. Stamp valuation of such property is ₹ 3,00,000.

Determine the taxable income of Mr. Madhvan for the AY 2026-27. All workings should form part of your answer.

[May 19]

Ans. <u>Computation of taxable income of Mr. Madhvan for AY 2026-27</u>

Particulars	₹	₹	₹
Salaries			
Basic Salary = ₹ 30,000 x 12		3,60,000	
Rent free accommodation		36,000	
[Lower of lease rental paid or payable by the employer (or) 15% of salary i.e., lower of ₹ 65,000 or ₹ 36,000, being 10% of ₹ 3,60,000]			
Gross Salary		3,96,000	
Less: Standard deduction u/s 16(ia) [Actual salary or ₹ 50,000, whichever is less]		(50,000)	3,46,000
Income from house property	**House 1**	**House 2**	
Municipal value (A)	74,000	1,90,000	
Fair rent (B)	75,000	1,95,000	
Higher of (A) and (B) = (C)	75,000	1,95,000	
Actual rent received	65,000	2,85,000	
Gross Annual Value [Higher of (C) and Actual rent]	**75,000**	**2,85,000**	
Less: Municipal tax paid	(18,000)	(70,000)	
Net Annual Value (NAV)	57,000	2,15,000	

Less: Deductions u/s 24			
30% of NAV	(17,100)	(64,500)	
Interest on loan	Nil	(17,000)	
	39,900	1,33,500	
Income from house property [₹ 39,900 + ₹ 1,33,500]			1,73,400
Income from Other Sources			
Purchase of rural agricultural land for a consideration less than stamp duty value [Not taxable u/s 56(2)(x), since rural agricultural land is not a capital asset]			Nil
Total Income			**5,19,400**

Note - Expenditure on repairs, insurance premium on building and ground rent are not allowable under the head "Income from house property."

Qn. 8 You are required to compute the total income of the Ms. Radhika, a resident individual, aged 37 years and the tax payable for the AY 2026-27. She furnishes the following particulars relating to the year ended 31/3/2026:

(i)	Winnings from a TV Game show (Net)	77,000
(ii)	Gift received from Father's brother	85,000
(iii)	Gift received from Archita, her close friend	80,000
(iv)	Interest on capital received from TVA & Co., a partnership firm in which she is a partner (@ 15% p.a.)	4,50,000
(v)	Rent received for a vacant plot of land	3,37,000
(vi)	Amount received from Lime Pvt. Ltd., for a house at Delhi for which she had been in negotiation for enhanced rent three years back. This has not been taxed in any earlier year. The house was, however, sold off in March, 2025.	2,85,000
(vii)	Amount received under Keyman Insurance Policy	4,35,000
(viii)	Amount forfeited by her for the vacant plot, since the buyer could not finalize the deal as per agreement.	3,10,000
(ix)	Donation given in cash to a charitable trust registered u/s 12AB	22,000
(x)	She owns agricultural lands at Dhaka, Bangladesh. She has derived agricultural income therefrom	5,20,000
(xi)	Public Provident Fund paid in the name of her minor daughter	1,25,000
(xii)	Interest credited in the said PPF account during the year	50,900
(xiii)	Share of profits received from TVA & Co., a partnership firm	1,50,000

Computation should be made under proper heads of income. Ignore provisions of Sec 115BAC

[RTP – Nov 19]

Ans. Computation of total income of Ms. Radhika for AY 2026-27

Particulars	₹	₹
Income from house property		
Arrears of rent [Taxable, even if Ms. Radhika is no longer the owner of house property]	2,85,000	
Less: 30% of arrears of rent	(85,500)	1,99,500
Profits and gains of business or profession		
Interest on capital @ 12%, being the maximum allowable interest [₹ 4,50,000/15% x 12%] assuming interest @ 12% is authorized by the partnership deed and has been allowed as deduction while computing the income of the firm	3,60,000	
Share of profit from TVA & Co., a firm [Exempt]	-	
Amount received under Keyman Insurance Policy	4,35,000	7,95,000
Income from other sources		

Winning from a TV Game show (Gross) [₹ 77,000 x 100/(100-30)]	1,10,000	
Gift received from father's brother would be exempt, since father's brother falls within the definition of relative	-	
Gift received from her close friend would be taxable, since it exceeds ₹ 50,000	80,000	
Rent received for a vacant plot of land	3,37,000	
Amount forfeited on cancellation of agreement for transfer of vacant plot	3,10,000	
Agricultural income from agricultural land at Dhaka, Bangladesh [not exempt, since such income is derived from land outside India]	5,20,000	
Interest credited in PPF account [Exempt]	-	13,57,000
Gross Total Income		**23,51,500**
Less: Deductions under Chapter VI-A		
Sec 80C		
PPF subscription in the name of minor daughter	1,25,000	
Sec 80G		
Donation of ₹ 22,000 to a charitable trust registered u/s 12AB is not allowable as deduction since the same is made in cash in excess of ₹ 2,000	-	(1,25,000)
Total Income		**22,26,500**

Computation of tax liability of Ms. Radhika for AY 2026-27

Particulars	₹	₹
Tax on winnings of ₹ 1,10,000 from TV game show @ 30%		33,000
Tax on balance income of ₹ 21,16,500		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @ 5%	12,500	
₹ 5,00,001 - ₹ 10,00,000 @ 20%	1,00,000	
₹ 10,00,001 - ₹ 21,16,500 @ 30%	3,34,950	4,47,450
		4,80,450
Add: Health and Education cess @ 4%		19,218
Tax liability		4,99,668
Less: TDS		
U/s 194B		(33,000)
Tax payable		**4,66,668**
Tax payable (rounded off)		**4,66,670**

Qn. 9 Mr. Krishna (aged 65 years), a furniture manufacturer, reported a profit of ₹ 5,64,44,700 for the PY 2025-26 after debiting/crediting the following items:

Debits:

1. ₹ 20,000 paid to a Gurudwara registered u/s 80G of the Income-tax Act, in cash where no cheques are accepted.
2. ₹ 48,000 contributed to a university approved and notified u/s 35(1)(ii) to be used for scientific research.
3. Interest paid ₹ 1,67,000 on loan taken for purchase of E-vehicle on 15-05-2022 from a bank. The E-vehicle was purchased for the personal use of his wife.
4. His firm has purchased timber under a forest lease of ₹ 20,00,000 for the purpose of business.

Credits:

1. Income of ₹ 4,00,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.

2. He received ₹ 3,00,000 from a debtor which was written off as bad in the year 2021-22. Amount due from the debtor (which was written off as bad) was ₹ 5,00,000, out of which tax officer had only allowed ₹ 3,00,000 as deduction in computing the total income for AY 2022-23.
3. He sold some furniture to his brother for ₹ 7,00,000. The fair market value of such furniture was ₹ 9,00,000.

Other information:

1. Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.
2. Mr. Krishna purchased a new car of ₹ 12,00,000 on 1st September, 2025 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.
3. Mr. Krishna had sold a house on 30th March, 2023 and deposited the long-term capital gains of ₹ 25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1st March, 2026, he sold another house property in which he resided for ₹ 1 crore. He earned a long-term capital gain of ₹ 50,00,000 on sale of this property. On 25th March, 2026, he withdrew money out of his capital gain account and invested ₹ 1 crore on construction of one house.
4. Mr. Krishna also made the following payments during the PY 2025-26
   - Lump-sum premium of ₹ 30,000 paid on 30th March, 2026 for the medical policy taken for self and spouse. The policy shall be effective for five years i.e. from 30th March, 2026 to 29th March, 2031.
   - ₹ 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable by Mr. Krishna for the AY 2026-27. Ignore Sec 115BAC

[Jan 21]

Ans.

<u>Computation of total income of Mr. Krishna for AY 2026-27</u>

	Particulars	₹	₹	₹
I	**Income from business or profession**			
	Net profit as per profit and loss account		5,64,44,700	
	Add: Items of expenditure debited but not allowable while computing business income			
	1. Donation to Gurudwara in cash	20,000		
	[not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income]			
	2. Interest on loan taken for purchase of e-vehicle			
	[Interest on loan for purchase of e-vehicle for personal purpose is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income]	1,67,000		
	3. Sale of furniture to brother at less than FMV	-		
	[The provisions of sec 40A(2) are not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of ₹ 2 lakh]	-	1,87,000	
			5,66,31,700	
	Less: Items of income credited but not taxable or taxable under any other head of income			
	4. Royalty on patent	4,00,000		

	[Not taxable as business income since Mr. Krishna is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income]			
	5. Bad debt recovered	2,00,000		
	[Actual bad debt is ₹ 2 lakhs i.e., ₹ 5 lakhs less ₹ 3 lakh, being the amount of bad debt recovered. Bad debt written off is ₹ 3 lakhs. Bad debt recovered to the extent of ₹ 1 lakh being excess of bad debt recovered over actual bad debt would be deemed to be business income. Since the entire ₹ 3 lakhs is credited to the profit and loss account, ₹ 2 lakhs has to be reduced]		(6,00,000)	
			5,60,31,700	
	Less: Allowable expenditure			
	6. Contribution to a university approved and notified u/s 35(1)(ii) for scientific research		-	
	[Eligible for deduction @ 100%. Since, this is already debited to profit and loss account, further adjustment is required]			
	7. Depreciation on car		(1,80,000)	
	[₹ 12 lakh x 15%, since the asset is put to use for more than 180 days]			5,58,51,700
II	**Capital Gain**			
	Long term capital gain on sale of house property		50,00,000	
	Less: Exemption u/s 54		(50,00,000)	-
	[Since whole amount of long term capital gain is invested in construction of house within the stipulated time limit.]			
	[Capital gain of ₹ 25 lakhs in capital gain account scheme is not taxable in PY 2025-26, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of ₹ 75 lakhs invested in construction of house is eligible for exemption u/s 54, subject to a maximum of ₹ 50 lakhs being long-term capital gain on sale of house property during the PY 2025-26]			
III	**Income from Other Sources**			
	Royalty on patent			4,00,000
	[Taxable as "income from other sources", since he is engaged in business of manufacturing furniture]			
	Gross Total Income			**5,62,51,700**
	Less: Deduction under Chapter VI-A			
	Deduction u/s 80D			
	- Mediclaim premium for self and spouse	5,000		
	[In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant PYs. [₹ 30,000/6 years, being relevant PYs in which the insurance is in force]			
	- Preventive health check-up of self and spouse	5,000		

[Preventive health check-up paid in cash allowed to the extent of ₹ 5,000]	______	10,000	
Deduction u/s 80EEB		1,50,000	
[Since the loan is sanctioned by Bank during the period 1/4/2019 – 31/3/2023, interest on loan taken for purchase of e-vehicle is allowed to the extent of ₹ 1,50,000]			
Deduction u/s 80G		-	
[Donation of ₹ 20,000 to Gurudwara not allowable as deduction since amount exceeding ₹ 2,000 paid in cash]			
Deduction u/s 80RRB		3,00,000	
[Deduction in respect of royalty on patent registered under the Patent Act subject to a maximum of ₹ 3 lakh]			(4,60,000)
Total income			**5,57,91,700**

Computation of tax liability of Mr. Krishna for AY 2026-27

Particulars	₹	₹
Tax on total income of ₹ 5,57,91,700		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 5,00,000 [@ 5% of ₹ 2 lakh]	10,000	
₹ 5,00,001 – ₹ 10,00,000 [@ 20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001 – ₹ 5,57,91,700 [@ 30% of ₹ 5,47,91,700]	1,64,37,510	1,65,47,510
Add: Surcharge @ 37%, since total income exceeds ₹ 5,00,00,000		61,22,579
		2,26,70,089
Add: Health and education cess @ 4%		9,06,844
Total tax liability		2,35,76,933
Less: TCS u/s 206C(1) @ 2% on ₹ 20 lakh i.e., timber	40,000	
TCS u/s 206C(1F) @ 1% of ₹ 12 lakh i.e., sale of motor car where consideration exceeds ₹ 10 lakh	12,000	
TDS u/s 194-IA @ 1% of ₹ 1 crore i.e., sale of immovable property where consideration is ₹ 50 lakh or more	1,00,000	(1,52,000)
Tax payable		**2,34,24,933**
Tax payable (rounded off)		**2,34,24,930**

Qn. 10 Mr. Raman, a resident individual aged 62 years, is engaged in the business of manufacturing and sales of spare parts for motor bikes, as a proprietor. He prepares his accounts on mercantile basis. This business is carried out on the ground floor of a two storied commercial building owned by him, the written down value of which is ₹ 8 lakhs as on April 1, 2026. He prepares his accounts on accrual basis. The Statement of Profit and Loss for the PY ended on March 31, 2026 shows a net profit of ₹ 9.25 lakhs (before taxation and depreciation) after debiting/crediting the following items:

(i) Travelling expenses includes ₹ 2,40,000 being expenditure incurred on a foreign tour to Taiwan for attending a business exhibition and meeting with vendors, out of which ₹ 40,000 is incurred in Indian currency and ₹ 2,00,000 in foreign currency. Mr. Raman has spent 10 days in Taiwan, out of which 4 days were utilized by him for attending marriage ceremony of a vendor's son.

(ii) Administrative expenses include ₹ 9,525 paid towards interest on delay in deposit of GST.

(iii) General expenses include a sum of ₹ 3,88,000 paid to a non-resident as fee for technical services without deduction of tax at source.

(iv) Fire insurance premium of ₹ 66,000 for the entire building remained unpaid till 31st March, 2026.

(v) Expenditure of ₹ 75,000, was paid to a scientific research association approved u/s 35. Out of ₹ 75,000, ₹ 50,000 was utilised towards the purchase of land by the research association.

(vi) He let out first floor of his commercial building to Mr. Aman on April 1, 2025 and received rent of ₹ 35,000 per month. Municipal taxes ₹ 20,000 relating to the building were paid equally by both Mr. Raman and Mr. Aman. Rent received was credited and municipal taxes of ₹ 10,000 (relating to ground floor) was debited to the statement of profit and loss.

(vii) He sold a piece of land for ₹ 44 lakhs on 12th April, 2025. He had acquired the land for 40 lakhs on 1stJanuary, 2024. The gain of 4,00,000 is credited to the statement of profit and loss.

(CII for FY 2023-24-348; FY 2025-26-376)

Additional Information:

(v) Mr. Raman purchased raw material from M/s. Paul Industries, a micro enterprise, for ₹ 49,000 on March 10, 2026. However, the payment to M/s. Paul Industries was made on April 5, 2026 by cheque. No written agreement for payment existed between M/s. Paul Industries and Mr. Raman. Another supplier M/s. Kal Industries, a small enterprise, with whom also no written agreement existed for payment, was paid ₹ 1,34,000 in cash on April 5, 2026 for purchase of raw material on March 31, 2026. Both M/s. Paul Industries and M/s. Kal Industries follow mercantile system of accounting.

(vi) Mr. Raman acquired a registered trademark on July 15, 2025 for ₹ 2,00,000. Mr. Raman started using this trademark for his business from January 15, 2026. Mr. Raman omitted to enter any transaction relating to this trademark in his books of accounts.

(vii) Mr. Raman bought a car for personal use on 12th April, 2022 for ₹ 5,40,000. He started using this car for business purposes from 01.04.2025. As on that day, the market value of the car was ₹ 2,10,000. Assume the rate of depreciation to be 15%.

(viii) He incurred ₹ 2,50,000 on the purchase of a new machinery to be used in the production of spare parts for motor bikes on May 15, 2025.

(ix) He has paid tuition fees of ₹ 25,000 for the education of his daughter to a college.

(x) During the year, Mr. Raman has incurred ₹ 9,500 in cash for preventive health check-up where ₹ 5,000 was for himself and ₹ 4,500 was for his parents who are super senior citizens.

(xi) Donation paid to a registered political party by way of cheque ₹ 20,000.

Compute the total income and tax payable for AY 2026-27 by Mr. Raman under default tax regime and optional tax regime as per normal provisions of the Act. Which option is advantageous to Mr. Raman?

[Sep 24]

Ans. <u>Computation of total income and tax payable by Mr. Raman for AY 2026-27 under default tax regime</u>

	Particulars	₹	₹
I	**Income from house property**		
	Gross Annual Value of first floor (Rent received has been taken as gross annual value in the absence of other information) [₹ 35,000 x 12]	4,20,000	
	Less: Municipal taxes (paid by tenant, Mr. Aman, hence not deductible)	Nil	
	Net Annual Value	4,20,000	
	Less: Deduction @30% of NAV	(1,26,000)	2,94,000
II	**Profits and gains of business or profession**		
	Net Profit	9,25,000	
	Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other heads of income		
	- Travelling expenses	Nil	
	[Allowable since the same is incurred wholly and exclusively for business purpose]		
	[Note - Alternatively, it is possible to assume that the proportionate foreign tour expenditure attributable to attending the marriage ceremony of a vendor's son is a personal expenditure. In such case, ₹ 2,40,000 X 4/10 = ₹ 96,000 would be disallowed.]		
	- Interest on delay in deposit of GST	Nil	

		[Interest on delay in deposit in GST is compensatory in nature and hence, allowable as expenditure]		
		- Fee for technical services to non-resident	3,88,000	
		[100% disallowed u/s 40(a)(i) since the TDS was not deducted]		
		- Fire insurance premium	33,000	
		[Fire insurance premium for ground floor which is occupied for business purpose is allowed since Mr. Raman is following mercantile system of accounting. Remaining half for let out portion is disallowed] [₹ 66,000/2]		
		- Contribution to scientific research association approved u/s 35 [Not allowable u/s 35(1)(ii) as per default tax regime]	75,000	
		- Municipal taxes for ground floor [Allowable since the ground floor is occupied for business purpose]	Nil	
		- Sum payable for purchase of raw material from M/s Paul Industries, a micro enterprise [Not allowable as per sec 43B(h) since payment was made to a micro enterprise on 5.4.2026 which is beyond the time limit specified u/s 15 of the MSMED Act, 2006 i.e., within 15 days from 10.3.2026]	49,000	
		- Sum payable for purchase of raw material from M/s Kal Industries, a small enterprise [Allowable as per sec 43B(h) since payment was made to a small enterprise on 5.4.2026 i.e., within 15 days from 31.3.2026. However, since the payment is made in cash on 5.4.2026, ₹ 1,34,000 for purchase of raw material would be the deemed income of PY 2026-27 as per sec 40A(3A)]	Nil	
			14,70,000	
		Less: Incomes credited to profit and loss account but not taxable as business income		
		- Rent received for let out portion	(4,20,000)	
		- Gain on sale of land	(4,00,000)	
			6,50,000	
		Less: Depreciation		
		- On trademark [₹ 2,00,000 x 25% x 50%, since trademark is put to use for less than 180 days]	25,000	
		- On Car [₹ 5,40,000 x 15%]	81,000	
		- On new Plant & machinery [₹ 2,50,000 x 15%]	37,500	
		- On Building [₹ 8,00,000 x 10%]	80,000	
		Additional depreciation		
		- On new Plant & machinery [Not allowable under default tax regime]	Nil	
		Income from Business		**4,26,500**
	III	**Capital Gains**		
		Full value of consideration	44,00,000	
		Less: Cost of acquisition	(40,00,000)	
		Short term capital gains on land [Since land is held for less than 24 months]		**4,00,000**
		Gross Total Income		11,20,500
		Less: Deduction under Chapter VI-A [Not allowable under default tax regime]		Nil
		Total Income		**11,20,500**
		Tax Payable – Nil Since the total income of Mr. Raman does not exceed ₹ 12,00,000 and hence, he is eligible for rebate u/s 87A		Nil

Computation of total income and tax payable by Mr. Raman for AY 2026-27 under normal provisions of the Act

Particulars	₹	₹
Gross Total Income as per default tax regime		11,20,500
Less: Additional depreciation on new Plant & machinery [₹ 2,50,000 x 20%]		(50,000)
Less: Contribution to scientific research association approved u/s 35		(75,000)
Gross Total Income as per normal provisions of the Act		**9,95,500**
Less: Deduction under Chapter VI-A		
Deduction u/s 80C		
Tuition fees to a college for daughter's education	25,000	
Deduction u/s 80D		
Preventive health check-up for self and parents restricted to	5,000	
Deduction u/s 80GGC		
Donation to a registered political party since the payment is made otherwise than by cash	20,000	(50,000)
Total Income as per normal provisions of the Act		**9,45,500**
Tax Payable		
Up to ₹ 3,00,000	Nil	
From ₹ 3,00,001 to ₹ 5,00,000 @ 5%	10,000	
From ₹ 5,00,001 to ₹ 9,45,500 @ 20%	89,100	99,100
Add: Health and education cess @ 4%		3,964
Tax Payable		**1,03,064**
Tax Payable (Rounded off)		**1,03,060**

Since tax payable under default tax regime is lower than the tax payable under normal provisions of the Act, it would be beneficial for Mr. Raman to pay tax under default tax regime u/s 115BAC.

Qn. 11 Dr. Rohan, 82 years old resident surgeon, having his Nursing Home in Mumbai, gives the following particulars for the year ended on 31.03.2026.

Receipts	₹	**Payments**	₹
Opening Balance b/d	1,25,000	Salary to Staff	3,50,000
Fees from visits to other hospitals (net)	5,85,000	Taxes & Insurance	26,000
Fees for March, 2025 received in April, 2025		Entertainment Expenses	1,10,000
- IPD 40,000			
- OPD 45,000	85,000	Purchase of Television	48,000
Dividend from shares (net)	18,900	Gift to daughter-in law	60,000
Fees received during the year	10,25,000	Interest on loan for repairs to property	65,000
Gifts received from relatives of patients	45,000	Personal medical expenses	70,000
Honorarium for painting services in Jai Hind Art School (net)	22,500	Deposits in PPF A/c	55,000
Income-tax Refund (Including interest ₹ 1,500)	12,100	Nursing Home expenses	3,75,000
		Prof. fees paid for consulting services	1,20,000
		Purchase of furniture at home	1,35,000
		Personal Expenses	3,00,000
		Balance c/f	2,04,500
	19,18,500		19,18,500

Other Information:

(a) He keeps his books of accounts on cash basis and has not opted for the provisions of sec 44ADA.
(b) Salary includes ₹ 60,000 paid to his sister who is a qualified nurse paid in cash.
(c) Entertainment expenses include ₹ 25,000 for dinner to doctors in a five star hotel.
(d) Interest on loan for repairs to property includes ₹ 40,000 for his residential property.
(e) His daughter in law earned income of ₹ 10,000 from the amount received as gift.
(f) Fixed Assets values as on 01.04.2025 are as under:
Nursing Home Equipment's ₹ 2,20,000, Medical Books (incl. annual publications ₹ 10,000) ₹ 35,000, Laptop ₹ 40,000.
(g) Television purchased for nursing home purpose on 21.09.2025 is put to use on 03.10.2025.
(h) He has donated ₹ 10,000 towards PM CARES Fund on 15.08.2025.

You are required to

(i) Compute the total income and tax payable by him for AY 2026-27 as per the regular provisions of the Income-tax Act, 1961 assume that he has opted out of default tax regime
(ii) What will be his total income and tax payable, if he opts for the provisions of sec 44ADA? Will it be more beneficial for him to adopt sec 44ADA?

[Nov 22]

Ans.

Computation of total income and tax payable by Dr. Rohan for AY 2026-27 as per the regular provisions of the Act

	Particulars	₹	₹	₹
I	**Income from house property**			
	Annual value [Assuming residential property is self-occupied]		Nil	
	Less: Deduction under section 24(b)			
	Interest on loan for property repairs, ₹ 40,000, restricted to		30,000	
	Loss from self-occupied property		(30,000)	
	[can be set-off against Profits and gains of business or profession or Income from other sources]			
II	**Profits and gains from business and profession**			
	Gross Receipts			
	Fees from visits to other hospitals [5,85,000/90%]	6,50,000		
	Fees for March 2025 received in April 2025 [Fees for March 2025 is chargeable to tax during PY 2025-26, since Dr. Rohan is following cash system of accounting] [40,000 + 45,000]	85,000		
	Fees received during the year	10,25,000		
	Gifts received from relatives of patients [taxable as business income]	45,000	18,05,000	
	Less: Permissible deductions			
	Salary to staff [Salary paid to his sister who is a qualified nurse in cash disallowed u/s 40A(3), since such cash payment exceeds ₹ 10,000] [₹ 3,50,000 – ₹ 60,000]	2,90,000		
	Taxes and insurance	26,000		
	Entertainment expenses, including dinner to doctors [Assuming that the entire sum was incurred wholly and exclusively for business purpose]	1,10,000		
	Interest on loan for repair to property [to the extent relating to business] = ₹ 65,000 – ₹ 40,000, relating to residential property	25,000		
	Nursing home expenses	3,75,000		
	Professional fees paid for consulting services	1,20,000	(9,46,000)	

			8,59,000	
	Less: Depreciation u/s 32			
	Nursing home equipment's [2,20,000 x 15%]	33,000		
	Note – Nursing home equipment would be eligible for depreciation @ 15%, being the general rate for plant and machinery. The main solution has, accordingly, been worked out applying 15%. However, if such equipment are in the nature of life saving medical equipment, they would be eligible for higher depreciation @ 40%. If 40% rate is applied, depreciation would be ₹ 88,000			
	Medical books [35,000 x 40%]	14,000		
	Laptop [40,000 x 40%]	16,000		
	Television [48,000 x 15%, since the television is put to use for 180 days during the PY 2025-26]	7,200	(70,200)	7,88,800
	Note - Television would be eligible for depreciation @ 15%. However, television connected to laptop or other medical equipment and used by Doctor may be classified as plant and machinery eligible for depreciation @ 40%. If 40% rate is applied, depreciation for TV would be ₹ 19,200.			
	Also, it is possible to take a view that Television is furniture and fixtures qualifying for depreciation @ 10%. If 10% rate is applied, depreciation for TV would be ₹ 4,800.			
III	**Income from Other Sources**			
	Dividend from shares [18,900/90%]		21,000	
	Honorarium for painting services in Jai Hind Art School [22,500/90%]		25,000	
	Honorarium (Alternative without TDS) - ₹ 22,500			
	Note – In the question, it is mentioned that Dr. Rohan has received Honorarium for painting services in Jai Hind Art School (Net) of ₹ 22,500. Since the threshold limit for deducting tax at source u/s 194J is ₹ 50,000, there is no requirement to deduct tax at source on such income. Accordingly, question can be answered without grossing up the amount of honorarium of ₹ 22,500.			
	Interest on income-tax refund		1,500	
	Income earned from gift to daughter in law [Income earned by daughter in law from asset gifted without consideration to her by Dr. Rohan is includible in the hands of Dr. Rohan]		10,000	57,500
Gross Total Income				**8,16,300**
Less: Deduction under Chapter VI-A				
Deduction u/s 80C				
- Deposits in PPF			55,000	
Deduction u/s 80D				
- Medical expenses to the extent of ₹ 50,000 since Dr. Rohan is a senior citizen (assuming he has not taken any medical insurance policy)			50,000	
Deduction u/s 80G				
- Donation towards PM CARES Fund			10,000	(1,15,000)
Total Income				**7,01,300**
Tax Payable				

Upto ₹ 5,00,000 [since Dr. Rohan is aged 80 years or above]		Nil	
₹ 5,00,001 to ₹ 7,01,300 [₹ 2,01,300 @ 20%]		40,260	40,260
Add: HEC @ 4%			1,610
Tax liability			41,870
Less: TDS on fees from visits to other hospitals		65,000	
TDS on dividend from shares		2,100	
TDS on honorarium for painting services in Jai Hind art School		2,500	(69,600)
Tax Refundable			**27,730**

Computation of total income and tax payable by Dr. Rohan for AY 2026-27 if he opts for sec 44ADA

Particulars	₹	₹
I Income from house property		
Loss from self-occupied property		(30,000)
II Income from business or profession		
Income from profession [18,05,000 x 50%] [No other expenditure or depreciation is allowed]		9,02,500
III Income from Other Sources		57,500
Gross Total Income		**9,30,000**
Less: Deduction under Chapter VI-A		(1,15,000)
Total Income		**8,15,000**
Tax Payable		
Upto ₹ 5,00,000	Nil	
₹ 5,00,001 to ₹ 8,15,000 [3,15,000@ 20%]	63,000	63,000
Less: HEC @ 4%		2,520
Tax liability		65,520
Less: TDS		(69,600)
Tax Refundable		**4,080**

Since tax refundable in case Dr. Rohan opts for the provisions of sec 44ADA is lower than the regular provisions of the Act, it would be beneficial for him not to opt for sec 44ADA and get his books of account audited and declare income under the regular provisions.

Qn. 12 Mr. Mukesh born on 1.4.1966 furnished his original return for AY 2026-27 on 30.07.2026. He has shown salary income of ₹ 7.30 lakhs (computed) and interest from his savings bank of ₹ 12,700 and from his fixed deposits of ₹ 43,000. He also claimed deduction u/s 80C of ₹ 1.50 lakhs. He had claimed deduction u/s 80D of ₹ 25,000. He also claimed deduction u/s 80TTA of ₹ 10,000. His employer had deducted TDS of ₹ 33,950 from his salary, which he adjusted fully against tax payable.

He paid health insurance premium of ₹ 38,000 by account payee cheque for self and wife. He paid ₹ 1,500 in cash for his health check-up and ₹ 4,000 by cheque for preventive health check-up of his parents. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 80 years, staying with his younger brother. He further incurred medical expenditure of ₹ 25,000 on his father, aged 81 years, who is staying with him. His father is not covered under any Mediclaim policy.

He seeks your advice about possibility of revising his return and if possible file his revised return. Analyse the above narrated facts as per applicable provisions of the Income-tax Act, 1961. Does he need to revise his return and for what reasons? Please advise him suitably and if needed, re-compute his income and tax payable or refund due for the AY 2026-27.

[Nov 20]

Ans.

Computation of total income of Mr. Mukesh for AY 2026-27
[As per the original return filed by him]

	Particulars	₹	₹
(i)	Salaries (Computed)		7,30,000
(ii)	Income from Other Sources		
	Interest on savings bank account	12,700	
	Interest on fixed deposits	43,000	55,700
			7,85,700
	Less: Deductions under Chapter VI-A		
(i)	Deduction u/s 80C	1,50,000	
(ii)	Deduction u/s 80D	25,000	
(iii)	Deduction u/s 80TTA	10,000	(1,85,000)
	Total Income		6,00,700

Computation of tax liability of Mr. Mukesh for AY 2026-27 (As per original return)

	₹
Tax on total income [20% of ₹ 1,00,700 (i.e., ₹ 6,00,700 – ₹ 5,00,000) + ₹ 12,500]	32,640
Add: HEC @ 4%	1,306
Tax payable on total income	33,946
Tax payable on total income (rounded off)	33,950
Less: Tax deducted at source u/s 192	(33,950)
Tax Payable	Nil

Need for filing revised return - Analysis

Since Mr. Mukesh's birthday falls on 1.4.2026, he would be treated as having completed 60 years of age in the PY 2025-26, and hence, he would be eligible for the benefit of higher deduction u/s 80D, higher deduction of upto ₹ 50,000 u/s 80TTB (instead of ₹ 10,000 u/s 80TTA) while computing his total income as well as for higher basic exemption limit of ₹ 3,00,000 in the PY 2025-26 itself while computing his tax liability. Also, he would be entitled to deduction in respect of medical insurance premium paid to insure the health of his mother and medical expenses incurred on his father who is not covered under any Mediclaim policy.

Accordingly, having discovered such omissions in the original return, he has to file his revised return of income u/s 139(5) on or before 31.12.2026 to avail these benefits which he has not availed while filing his original return of income.

The computation of total income and tax liability (refund due) as per the revised return are worked out hereunder -

Computation of Total Income of Mr. Mukesh for the AY 2026-27 [As per the Revised Return]

	Particulars		₹	₹	₹
(i)	Salaries (Computed)				7,30,000
(ii)	Income from Other Sources				
	Interest on savings bank account			12,700	
	Interest on fixed deposits			43,000	55,700
	Gross Total Income				7,85,700
	Less: Deductions under Chapter VI-A				
(i)	Deduction u/s 80C			1,50,000	
(ii)	Deduction u/s 80D				
	Medical insurance premium for self and spouse	38,000			
	Preventive health check-up for self (allowable even if paid in cash)	1,500			

	Fully allowed as it is within the overall limit of ₹ 50,000 for family		39,500		
	Medical insurance premium for mother	33,000			
	Medical expenditure for father not covered under any policy	25,000			
	Preventive health check-up for parents (₹ 4,000, restricted to ₹ 3,500, being ₹ 5,000 – ₹ 1,500 claimed for self and spouse)	3,500			
		61,500			
	Restricted to maximum of ₹ 50,000 for parents		50,000	89,500	
(iii)	Deduction u/s 80TTB				
	Interest on savings bank account		12,700		
	Interest on fixed deposits		43,000		
			55,700		
	Restricted to maximum of ₹ 50,000			50,000	(2,89,500)
	Total Income				**4,96,200**

Computation of tax liability of Mr. Mukesh for AY 2026-27 [As per the Revised Return]

	₹
Tax on total income [5% of ₹ 1,96,200 (i.e., ₹ 4,96,200 – ₹ 3,00,000 basic exemption limit)	9,810
Less: Rebate u/s 87A (Since his total income does not exceed ₹ 5 lakh) – ₹ 12,500 or tax on total income, whichever is lower	(9,810)
Tax payable on total income	Nil
Less: Tax deducted at source u/s 192	(33,950)
Refund due	**(33,950)**

Therefore, Mr. Mukesh has to file a revised return showing the above revised computation of total income and tax liability on or before 31.12.2026 to claim the enhanced deductions which he had not claimed in the original return and get refund of the entire income-tax of ₹ 33,950 deducted at source by his employer.