

## **SUPER FIFTY QUESTIONS**

### **Question 1 [ICAI Study Mat, RTP Nov 18]**

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 lakhs, and the cost of cultivation of such sugarcane is ₹ 5 lakhs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lakhs and the market value of the same is ₹ 22 lakhs. After incurring ₹ 1.5 lakhs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lakhs. Compute B's business income and agricultural income.

**Solution:**

#### **Computation of Business Income and Agriculture Income of Mr. B**

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

### **Question 2**

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 Assessment Year 2025-26. 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.

**Solution**

#### **Computation of tax liability of Mr. D under default tax regime for the A.Y. 2025-26**

Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000

₹ 3,00,000 – ₹ 7,00,000@5%	₹ 20,000
₹ 7,00,001 – ₹ 10,00,000@10%	₹ 30,000
₹ 10,00,001 – ₹ 12,00,000@15%	₹ 30,000
₹ 12,00,001 – ₹ 15,00,000@20%	₹ 60,000
₹ 15,00,001 – ₹ 5,01,00,000@30%	₹ 1,45,80,000
<b>Total</b>	<b>₹ 1,47,20,000</b>
Add: Surcharge@25%	₹ 36,80,000
	₹ 1,84,00,000
Add: Health and education cess @4%	₹ 7,36,000
<b>Tax liability</b>	<b>₹ 1,91,36,000</b>

**Computation of tax liability of Mr. D under optional tax regime for the A.Y. 2025-26**

(A)	Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000	
	₹ 3,00,000 – ₹ 5,00,000 @ 5%	₹ 10,000
	₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000
	₹ 10,00,001 – ₹ 5,01,00,000@30%	<u>₹ 1,47,30,000</u>
	<b>Total</b>	<b>₹ 1,48,40,000</b>
	Add: Surcharge @ 37%	<u>₹ 54,90,800</u> ₹ 2,03,30,800
(B)	Income-tax computed on total income of ₹ 5 crore	
	(₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000)	₹ 1,48,10,000
	Add: Surcharge@25%	<u>₹ 37,02,500</u>
		<b>₹ 1,85,12,500</b>
(C)	Total Income Less ₹ 5 crore	₹ 1,00,000
(D)	Income-tax computed on total income of ₹ 5 crore plus the excess of total income over ₹ 5 crore (B +C)	₹ 1,86,12,500
(E)	Tax liability (A) or (D), whichever is lower	₹ 1,86,12,500
	Add: Health and education cess@4%	<u>₹ 7,44,500</u>
	<b>Tax liability (including cess)</b>	<b>₹ 1,93,57,000</b>
(F)	<b>Marginal Relief (A – D)</b>	<b>₹ 17,18,300</b>

**Alternative method**

(A)	Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000	
	₹ 3,00,000 – ₹ 5,00,000@5%	₹ 10,000
	₹ 5,00,001 – ₹ 10,00,000@20%	₹ 1,00,000
	₹ 10,00,001 – ₹ 5,01,00,000@30%	<u>₹ 1,47,30,000</u>
	<b>Total</b>	<b>₹ 1,48,40,000</b>
	Add: Surcharge @ 37%	<u>₹ 54,90,800</u> ₹ 2,03,30,800
(B)	Income-tax computed on total income of ₹ 5 crore	
	[(₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000)	
	plus surcharge@25%]	₹ 1,85,12,500
(C)	Excess tax payable (A)-(B)	₹ 18,18,300
(D)	Marginal Relief (₹ 18,18,300 – ₹ 1,00,000, being the amount of income in excess of ₹ 5,00,00,000)	<b>₹ 17,18,300</b>
(E)	Tax liability (A) - (D)	₹ 1,86,12,500
	Add: Health and education cess @4%	<u>₹ 7,44,500</u>
	<b>Tax liability (including cess)</b>	<b>₹ 1,93,57,000</b>

It is **beneficial** for Mr. D to pay tax under **default tax regime** under section 115BAC, **since his tax liability would be lower** by ₹ 2,21,000 (₹ 1,93,57,000 - ₹ 1,91,36,000).

**Question 3**

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

**Solution: Computation of tax liability of Mr. Pawan for A.Y. 2025-26**

Particulars		
Step 1: Total Income of ₹ 7,15,000 - ₹ 7,00,000		(A)
Step 2: Tax on total income of ₹ 7,15,000		(B)
Tax@10%of ₹ 15,000 + ₹ 20,000		
Step 3: Since B>A, rebate u/s 87A would be B-A		
[₹ 21,500 - ₹ 15,000]	6,500	
	15,000	
Add: HEC@4%	600	
<b>Tax Liability</b>	<b>15,600</b>	

**Question 4**

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

i.	Income from salary (computed) -	₹ 10,80,000
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 for A.Y. 2025-26 assuming his age is -

- (a) 45 years  
(b) 70 years

**Solution****(a) Computation of tax liability (age 45 years)****Computation of total income of Mr. X for the A.Y. 2025-26 under default tax regime under section 115BAC**

For the purpose of **partial integration of taxes**, Mr. X has satisfied **both the conditions** i.e.

- Net agricultural** income **exceeds ₹ 5,000 p.a.**, and
- Non-agricultural** income **exceeds the basic exemption limit** of ₹ 3,00,000.

His tax liability is computed in the following manner:

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

Step 1	:	₹ 13,30,000 + ₹ 3,10,000 = ₹ 16,40,000
		Tax on ₹ 16,40,000 = ₹ 1,82,000
		(i.e., 5% of ₹ 4,00,000 plus 10% of ₹ 3,00,000 plus 15% of ₹ 2,00,000 plus 20% of ₹ 3,00,000 plus 30% of ₹ 1,40,000)
Step 2	:	₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000
		Tax on ₹ 6,10,000 = ₹ 15,500
		(i.e. 5% of ₹ 3,10,000)
Step 3	:	₹ 1,82,000 – ₹ 15,500 = ₹ 1,66,500
Step 4 & 5	:	Total tax payable = ₹ 1,66,500
		= ₹ 1,66,500 + 4% of ₹ 1,66,500 = ₹ 1,73,160.

**Computation of total income of Mr. X for the A.Y. 2025-26 under normal provisions of the Act**

For the purpose of **partial integration of taxes**, Mr. X has **satisfied both the conditions** i.e.

- Net agricultural** income **exceeds ₹ 5,000 p.a.**, and
- Non-agricultural** income **exceeds the basic exemption limit** of ₹ 2,50,000.

His tax liability is computed in the following manner:

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

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

Step 2 : ₹ 3,10,000 + ₹ 2,50,000 = ₹ 5,60,000  
 Tax on ₹ 5,60,000 = ₹ 24,500  
 (i.e. 5% of ₹ 2,50,000 plus 20% of ₹ 60,000)

Step 3 : ₹ 3,04,500 – ₹ 24,500 = ₹ 2,80,000

Step 4 & 5 : Total tax payable = ₹ 2,80,000  
 = ₹ 2,80,000 + 4% of ₹ 2,80,000 = ₹ 2,91,200.

**(b) Computation of tax liability (age 70 years)**

**Computation of total income of Mr. X for the A.Y. 2025-26 under default tax regime under section 115BAC**

Tax liability of Mr. X would be same under default tax regime whether he is of age of 45 years or 70 years i.e., ₹ 1,73,160.

**Computation of total income of Mr. X for the A.Y. 2025-26 under normal provisions of the Act**

His tax liability is computed in the following manner:

Step 1 : ₹ 13,30,000 + ₹ 3,10,000 = ₹ 16,40,000  
 Tax on ₹ 16,40,000 = ₹ 3,02,000  
 (i.e., 5% of ₹ 2,00,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 6,40,000)

Step 2 : ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000  
 Tax on ₹ 6,10,000 = ₹ 32,000  
 (i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 1,10,000)

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

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

**Question 5**

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.

**Solution**

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.

**Question 6**

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and nonresident for the A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided under section 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 gains are received in India	40,000
Income earned from business in Germany which is controlled in 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 a 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 previous year	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 in Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

**Solution: Computation of total income for the A.Y. 2025-26**

Particulars	Resident and ordinarily resident ₹	Resident but not ordinarily resident ₹	Nonresident ₹
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 gains on sale of plant at Germany, 50% of gains are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled in 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 house 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 and received there	16,000	-	-
Past foreign untaxed income brought to India during the previous year	-	-	-
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 in 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 under section 10(1)]	-	-	-
<b>Gross Total Income</b>	<b>3,52,000</b>	<b>2,18,000</b>	<b>1,83,000</b>
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of ₹ 10,000]	10,000	10,000	10,000
<b>Total Income</b>	<b>3,42,000</b>	<b>2,08,000</b>	<b>1,73,000</b>

#### Question 7 [MTP 1 May 24 – 6 Marks]

Mr. Akash, an Indian citizen aged 45 years, worked in XYZ Ltd. in Delhi. He got a job offer from ABC Inc., California on 01.06.2023. He left India for the first time on 31.07.2023 and joined ABC Inc. on 08.08.2023. During the P.Y. 2024-25, Mr. Akash visited India from 25.05.2024 to 22.09.2024. He has received the following income for the previous year 2024-25:

Particulars	Rs.
Salary from ABC Inc., California received in California (Computed)	7,00,000
Dividend from Indian companies	5,00,000
Agricultural income from land situated in Nepal, received in Nepal	4,00,000
Rent received/receivable from house property in Delhi	5,50,000
Profits from a profession in California, which was set up in India, received there	6,00,000

Determine the residential status of Mr. Akash and compute his total income for the A.Y. 2025-26.

#### Solution

As per section 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 previous year in case such person has **total income, other than** the income from **foreign sources, not exceeding Rs. 15 lakhs**.



However, if such person has total income, other than the income from foreign sources, **exceeding Rs. 15 lakhs**, he would **also be a resident** if he has been in India for **at least 120 days** during the relevant previous year **and** has been in India during the **4 years immediately preceding** the previous year 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. Akash for PY 24-25 would be:

Particulars	Amount (Rs.)
Salary from ABC Inc., California received in California (Computed) (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)	5,00,000
Agricultural income from land situated in Nepal (Not included in total income, since it is accrued or arisen outside India and received outside India)	-
Rent received/receivable from house property in Delhi (Included in total income, since it is deemed to accrue or arise in India)	5,50,000
Less: 30% of Rs. 5.50 lakhs	1,65,000
Profits from a profession in California, which was set up in India, received there	6,00,000
<b>Total income, other than the income from foreign sources</b>	<b>14,85,000</b>

Since, Mr. Akash is an Indian citizen who comes on a visit to India only for 121 days in the P.Y. 2024-25 and his total income, other than income from foreign sources does not exceed Rs. 15 lakhs, he would be non- resident for the A.Y. 2025-26.

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 (Rs.)
Salary from ABC Inc., California received in California (Computed) (Not taxable, since it neither accrues or arises in India nor is it received in India)	-
Dividend from Indian companies (Taxable, since deemed to accrue or arise in India)	5,00,000
Agricultural income from land situated in Nepal (Not taxable, since it neither accrues or arises in India nor is it received in India)	-
Rent received/receivable from house property in Delhi (Taxable, since it is deemed to accrue or arise in India)	5,50,000
Less: 30% of Rs. 5.50 lakhs	1,65,000
Profits from a profession in California, which was set up in India, received there	-
Gross Total Income/ Total income	8,85,000

#### Question 8 [MTP 1 May 21 – 7 Marks]

Determine the residential status and total income of Mr. Raghu for the assessment year 2025-26 from the information given below. Mr. Raghu (age 62 years), an American citizen, is employed with a multinational company in Gurugram. Mr. Raghu holds a senior level position as researcher in the company, since 2009. To share his knowledge and finding in research, company gave him an opportunity to travel to other group companies outside India while continuing to be based at the Gurugram office. The details of his travel outside India for the financial year 2024-25 are as under:

Country	Period of stay
USA	25 August, 2024 to 10 November, 2024
UK	20 November, 2024 to 23 December, 2024
Germany	10 January, 2025 to 24 March, 2025

During the last four years preceding the previous year 2024-25, he was present in India for 380 days. During the last seven previous years preceding the previous year 2024-25, he was present in India for 700 days. During the P.Y. 2024-25, he earned the following incomes:

- (1) Salary Rs. 15,00,000. The entire salary is paid by the Indian company in his Indian bank account.
- (2) Dividend amounting to Rs. 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore.
- (3) Interest on fixed deposit with Punjab National Bank (Delhi) amounting to Rs. 10,500 was credited to his saving account.

Assume he is not opting default tax regime provided u/s 115BAC(1A).

### Solution

#### Determination of residential status

Mr. Raghu would be a **resident** in India in P.Y. 2024-25, 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 previous year** for a total period of **365 days or more and** has been in India for **at least 60 days in the previous year**.

If he satisfies **any one** of the conditions mentioned above, he is a **resident**. If **both** the above conditions are **not satisfied**, he would be a **non-resident**. During the P.Y. 2020-21 Mr. Raghu stayed in India for 179 days i.e., 365 days – 186 days [78 days + 34 days + 74 days] and 380 days i.e., more than 365 days during the 4 preceding previous years. He satisfies the second basic condition for being a resident. Hence, he is a resident in India for A.Y. 2025-26.

A person would be “Not ordinarily Resident” in India in any previous year, if such person:

- (a) has been a **non-resident in 9 out of 10 previous years** preceding the relevant previous year; or
- (b) has during the **7 previous years immediately preceding** the relevant previous year been in India for **729 days or less**.

For the previous year 2024-25, Mr. Raghu would be “Resident but not ordinarily resident” since he stayed for less than 729 days during the 7 previous years immediately preceding P.Y. 2024-25

#### Computation of total income of Mr. Raghu for A.Y.2024 -25

Particulars	Amount (Rs.)
(1) Salary from Indian company received in a bank account in India 15,00,000	
Less: Standard deduction u/s 16(ia) 50,000	14,50,000
(2) Dividend of Rs. 48,000 received from Singapore based company transferred to his bank account in Singapore is not taxable in the hands of the resident but not ordinarily resident since the income has neither accrued or arisen in India nor has it been received in India.	Nil
(3) Interest on fixed deposit with PNB credited to his savings bank account is taxable in the hands of Mr. Raghu as Income from other sources, since it has accrued and arisen in India and is also received in India.	10,500
<b>Gross Total Income</b>	<b>14,60,500</b>
Less: Deduction u/s 80TTB	10,500
<b>Total Income</b>	<b>14,50,000</b>



**Question 9 [MTP 2 May 23 – 6 Marks]**

Mr. Sarthak, an individual and Indian citizen living in Dubai, since year 2005 and never came to India for a single day since then, earned the following incomes during previous year 2024-25:

	Particulars	Amount (in Rs.)
(i)	Income accrued and arisen in Dubai but he is not liable to tax in Dubai	20,00,000
(ii)	Income accrued and arisen in India	5,00,000
(iii)	Income deemed to accrue and arise in India	8,00,000
(iv)	Income arising in Dubai from a profession set up in India	10,00,000

- (I) Determine the residential status of Mr. Sarthak and taxable income for the previous year 2024-25 (assuming no other income arise during the previous year).
- (II) What would be your answer if income arising in Dubai from a profession set up in India is Rs. 2 lakhs instead of Rs. 10 lakhs?
- (III) What would be your answer, if Mr. Sarthak is not an Indian citizen but his parents were born in India?

**Solution**

- (I) Mr. Sarthak is an Indian citizen living in Dubai since 2005 who never came to India for a single day since then, he would not be a resident in India for the P.Y. 2024 -25 on the basis of number of days of his stay in India as per section 6(1). However, since he is an Indian citizen
- having total income (excluding income from foreign sources) of Rs. 23 lakhs, which **exceeds the threshold of Rs. 15 lakhs** during the previous year; and
  - not liable to tax in Dubai,
- he would be deemed resident in India for the P.Y. 2024-25 by virtue of section 6(1A).

A **deemed resident is always a resident but not ordinarily resident in India (RNOR)**.

**Computation of Total Income for A.Y.2025-26**

	Particulars	Rs.
(i)	Income accrued and arisen in Dubai (not taxable in case of an RNOR)	-
(ii)	Income accrued and arisen in India (taxable)	5,00,000
(iii)	Income deemed to accrue or arise in India (taxable)	8,00,000
(iv)	Income arising in Dubai from a profession set up in India would be taxable in case of RNOR	10,00,000
	Total income	23,00,000

- (II) If income **arising in Dubai from a profession set up in India** is Rs. 2 lakhs instead of Rs. 10 lakhs, his total income (excluding income from foreign sources) would be only Rs. 15 lakhs. Since the same does **not exceed the threshold limit** of Rs. 15 lakhs, he would not be deemed resident. Accordingly, he would be non-resident in India for the P.Y. 2024-25 and hence, his total income would be only Rs. 13 lakhs (aggregate of (ii) and (iii) above i.e., Rs. 5 lakhs + Rs. 8 lakhs).
- (III) If Mr. Sarthak is **not an Indian citizen and his parents were born in India**, he would be person of **Indian origin**. In such case, the provisions relating to **deemed resident would not apply** to him. Accordingly, he would be non-resident in India during the P.Y. 2024-25 and his total income would be Rs. 13 lakhs.

**Question 10 [ICAI Study Mat, RTP Nov 20]**

Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the P.Y.2024-25 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	31.3.2000	31.3.2002	01.4.2016
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, 2017 for purchase of property			₹ 1,75,000

Compute Ganesh's income from house property for A.Y.2025-26 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

**Solution**

Let us first calculate the income from each house property assuming that they are deemed to be let out.

**Computation of income from house property of Ganesh for the A.Y. 2025-26**

Particulars	Amount in ₹		
	House I	House II	House III
Gross Annual Value (GAV) ER is the GAV of house property ER = Higher of MV and FR, but restricted to SR	3,50,000	3,60,000	3,75,000
Less: Municipal taxes (paid by the owner during the previous year)	36,000	28,800	19,800
<b>Net Annual Value (NAV)</b>	<b>3,14,000</b>	<b>3,31,200</b>	<b>3,55,200</b>
Less: Deductions under section 24			
(a) 30% of NAV	94,200	99,360	1,06,560
(b) Interest on borrowed capital	-	55,000	1,75,000
<b>Income from house property</b>	<b>2,19,800</b>	<b>1,76,840</b>	<b>73,640</b>

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

**Under default tax regime under section 115BAC****OPTION 1 (House I and II– self-occupied and House III – deemed to be let out)**

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

Particulars	Amount in Rs.
House I (Self-occupied)	Nil
House II (Self-occupied) (No interest deduction)	Nil
House III (Deemed to be let-out)	73,640
<b>Income from house property</b>	<b>73,640</b>

**OPTION 2 (House I and III – self-occupied and House II – deemed to be let out)**

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

Particulars	Amount in Rs.
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	1,76,840
House III (Self-occupied) (No interest deduction)	Nil
<b>Income from house property</b>	<b>1,76,840</b>

**OPTION 3 (House II and III –self-occupied and House I – deemed to be let out)**

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

Particulars	Amount in Rs.
House I (Deemed to be let-out)	2,19,800
House II (Self-occupied) (No interest deduction)	-
House III (Self-occupied) (No interest deduction)	-
<b>Income from house property</b>	<b>2,19,800</b>

Since **Option 1 is most beneficial**, Ganesh should opt to treat House I and II as self-occupied and House III as deemed to be let out. His income from house property would be Rs. 73,640 for the A.Y. 2025-26 under default tax regime under section 115BAC.

**If Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)**

**OPTION 1 (House I and II– self-occupied and House III – deemed to be let out)**

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

Particulars	Amount in Rs.
House I (Self-occupied)	Nil
House II (Self-occupied) (Interest deduction restricted to Rs. 30,000)	(30,000)
House III (Deemed to be let-out)	73,640
<b>Income from house property</b>	<b>43,640</b>

**OPTION 2 (House I and III – self-occupied and House II – deemed to be let out)**

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

Particulars	Amount in Rs.
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	1,76,840
House III (Self-occupied)	(1,75,000)
<b>Income from house property</b>	<b>1,840</b>

**OPTION 3 (House II and III –self-occupied and House I – deemed to be let out)**

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

Particulars	Amount in Rs.
House I (Deemed to be let-out)	2,19,800
House II (Self-occupied) (Interest deduction restricted to Rs. 30,000)	(30,000)
House III (Self-occupied) (No interest deduction)	(1,75,000)
(Total interest deduction restricted to Rs. 2,00,000)	(2,00,000)
<b>Income from house property</b>	<b>19,800</b>

Since **Option 2 is most beneficial** in this case, Ganesh should opt to treat House I and III as self-occupied and House II as deemed to be let out. His income from house property would be Rs. 1,840 for the A.Y. 2025-26 under the optional tax regime i.e., the normal provisions of the Act.

**Question 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 A.Y. 2025-26.

**Solution: Computation of income from house property of Mr. Raman for A.Y. 2025-26**

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

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

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

**Question 12 [ICAI SM, MTP 1 May 24, MTP 2 Nov 24, MTP 1 Nov 22, RTP Nov 19]**

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2024-25. 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 1.7.2024, 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 31.3.2025. 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, 2022 for purchasing this flat. Interest on loan was as under:

Particulars	₹
Period prior to 1.4.2024	49,200
1.4.2024 to 30.6.2024	50,800
1.7.2024 to 31.3.2025	1,31,300

She had a house property in Bangalore, which was sold in March, 2021. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2025. This amount has not been charged to tax earlier. Compute the income chargeable from house property of Mrs. Rohini Ravi for the A.Y. 2025-26 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Would your answer change if she pays tax under the default tax regime under section 115BAC?

### Solution

- (i) 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 under section 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 A.Y.2025- 26 will be calculated as under:

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

### 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
<b>Interest deduction allowable under section</b>	<b>24 1,91,940</b>

**Interest deduction** under section 24(b) is **allowable** since she has exercised the **option of shifting out of the default tax** regime provided under section 115BAC(1A).



- (ii) Yes, the answer would change if she pays tax under the default tax regime under section 115BAC. Under the **default tax regime, deduction under section 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.

### Question 13

A car purchased by Dr. Soman on 10.08.2021 for ₹ 5,25,000 for personal use is brought into professional use on 1.07.2024 by him, when its market value was ₹ 2,50,000. Compute the actual cost of the car and the amount of depreciation for the A.Y. 2025-26 assuming the rate of depreciation to be 15%.

### Solution

As per **section 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 section 32 for the A.Y.2025-26 would be ₹ 78,750, being ₹ 5,25,000 x 15%.

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

### Question 14

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2024. He incurred capital expenditure of ₹ 80 lakh, ₹ 60 lakh and ₹ 50 lakh, respectively, on purchase of land and building during the period January, 2024 to March, 2024 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2023. The cost of land included in the above figures is ₹ 50 lakh, ₹ 40 lakh and ₹ 30 lakh, respectively. During the P.Y. 2024-25, 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 A.Y.2025-26 and the loss to be carried forward, assuming that Mr. A is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and has fulfilled all the conditions specified under section 35AD and wants to claim deduction under section 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 under section 35AD and section 32) for the A.Y. 2025-26 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.

### Solution: Computation of profits and gains of business or profession for A.Y.2025-26

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



**Computation of income/loss from specified business under section 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) Less: Deduction under section 35AD	16	14	30
(B)	Capital expenditure incurred prior to 1.4.2024 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2024 (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 P.Y. 2024-25	20	15	35
(D)	Total capital expenditure (B + C)	50	35	85
(E)	Deduction under section 35AD 100% of capital expenditure (food grains/ sugar)	50	35	85
	<b>Total deduction u/s 35AD for A.Y.2025-26</b>	<b>50</b>	<b>35</b>	<b>85</b>
(F)	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)

**Notes:**

- (i) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2025-26 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 1.4.2012 or on or after 1.4.2009, respectively.
- (ii) 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 under section 35AD in respect of capital expenditure incurred in respect of such business.
- (iii) Mr. A can, however, claim depreciation@10% under section 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 P.Y.2024-25.
- (iv) 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.

**Question 15**

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 A.Y. 2025-26, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

	Particulars	(₹ in lakhs)
(i)	WDV of block as on 31.3.2024 (15% rate)	50.00
(ii)	Depreciation for P.Y. 2023-24	7.50
(iii)	New machinery purchased on 12-10-2024	10.00
(iv)	Machinery imported from Colombo on 12-4-2024. This machine had been used only in Colombo earlier and the assessee is the first user in India.	9.00
(v)	New computer installed in generation wing unit on 15-7-2024	2.00

All assets were purchased by A/c payee cheque.

#### Solution: Computation of depreciation under section 32 for A.Y.2025-26

Particulars	₹	₹
Normal Depreciation		
Depreciation@15% on ₹ 51,50,000, being machinery put to use for more than 180 days [WDV as on 31.3.2024 of ₹ 50,00,000 – Depreciation for P.Y. 2023-24 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	
	<b>8,47,500</b>	
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 12-10-2024]	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
<b>Depreciation on Plant and Machinery</b>		<b>10,67,500</b>

#### Note:-

Mr. Abhimanyu is **eligible for additional depreciation** since he has exercised the **option of shifting out** of the default tax regime provided under section 115BAC(1A). The **benefit of additional depreciation** is available to new plant and machinery **acquired and installed in power sector undertakings**. 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 12.10.2024, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y.2025-26. 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.

#### Question 16 [RTP May 2025]

Mr. Ganesh, a resident and ordinarily resident aged 61 years, is engaged in the business of manufacturing furniture. He is subject to tax audit under section 44AB of Income-tax Act, 1961. He

has provided following information:

**Profit & Loss account for the year ended 31st March, 2025**

Particulars	(Rs.)	Particulars	(Rs.)
To Administrative expenses	64,30,000	By Gross Profit	2,57,30,000
To Salaries & wages	80,00,000	By Winning from lottery (Net of TDS @ 30%)	31,500
To Interest on loans	7,50,000	Bad debt recovered	3,00,000
To Depreciation	6,17,000		
To Professional fees	12,70,000		
To Rent, rates & taxes	22,80,000		
To Travelling & conveyance	11,40,000		
To Loss on sale of asset of scientific research	2,00,000		
To Net Profit	53,74,500		
<b>Total</b>	<b>2,60,61,500</b>	<b>Total</b>	<b>2,60,61,500</b>

**Other information:**

- (i) Opening and closing stock of finished goods were undervalued by 10%. Opening stock of Rs. 14,50,000 and Closing stock of Rs. 15,58,000 was shown.
- (ii) Salaries & wages include following items:
  - (a) Contributed 20% of basic salary in National Pension Scheme referred in section 80CCD regarding salary paid to an employee Mr. Ramesh who has withdrawn basic salary of Rs. 5,00,000 and Dearness allowance is 40% of basic salary. 50% of Dearness allowance forms part of the salary.
  - (b) Some of the employees opted for retirement under the voluntary retirement scheme; a sum of Rs. 3,40,000 was paid to them on 1st January, 2025.
- (iii) Interest on loan includes interest paid @ 15% per annum on loan of Rs. 12,00,000 which was taken from State Bank of India on 01.05.2022 for purchase of new electric car of Rs. 15,00,000. The car is used for personal purpose. No amount is repaid so far.
- (iv) Depreciation allowable as per Income-tax Rules, 1962 is Rs. 4,50,000 but during the calculation of such depreciation following addition was not considered: Motor car purchased for Rs. 3,00,000 for supply of finished goods to dealers on 25-08-2024.
- (v) An asset was purchased for Rs. 6,00,000 on 23.7.2021 for conducting scientific research and the deduction was claimed under section 35 of the Income-tax Act, 1961. This asset was sold on 05-09-2024 for a consideration of Rs. 4,00,000.
- (vi) Administrative expenses includes expenditure of Rs. 1,75,000, paid to a scientific research association approved under section 35. Out of Rs. 1,75,000, Rs. 50,000 was utilised towards the purchase of land by the research association.
- (vii) He received Rs. 3,00,000 from a debtor which was written off as bad in the year 2018-19. Amount due from the debtor (which was written off as bad) was Rs. 5,00,000, out of which tax officer had only allowed Rs. 3,00,000 as deduction in computing the total income for assessment year 2018-19.

Compute the total income and tax liability of Mr. Ganesh for the assessment year 2025-26 assuming that he wants to pay tax under section 115BAC.

**Solution: Computation of total income of Mr. Ganesh for A.Y. 2025-26**

	Particulars	Rs.	Rs.	Rs.
<b>I.</b>	<b>Income from business or profession</b>			
	Net Profit			
	<b>Add: Items debited but not allowable/item not credited but taxable while computing business income</b>		53,74,500	
	• <b>Undervaluation of stock</b> [(Rs. 15,58,000 - Rs. 14,50,000) x 10/90]	1,20,000		
	• <b>Employer's contribution to NPS in excess of 14% of salary</b> - Employer's contribution to the extent of 14% of salary i.e., basic salary plus dearness allowance forming part of salary would be allowed as deduction. Thus, excess contribution i.e. Rs. 16,000 [Rs. 1,00,000, being 20% of Rs. 5,00,000 less Rs. 84,000 being 14% of Rs. 6,00,000 (Rs. 5,00,000 + 20% of Rs. 5,00,000)] has to be added back.	16,000		
	• <b>VRS expenditure</b> - 1/5th of expenditure on voluntary retirement scheme is allowable over a period of five years u/s 35DDA. Since whole amount of expenditure is debited to Profit and Loss A/c, 4/5th has to be added back [Rs. 3,40,000 x 4/5].	2,72,000		
	• <b>Interest on loan</b> taken for purchase of electric car used for personal purpose not allowable as deduction while computing business income as being expense of personal nature. Thus, Rs. 1,80,000 [Rs. 12,00,000 x 15%] has to be added back, since the same forms part of interest on loan debited to profit and loss account.	1,80,000		
	• <b>Loss on sale of asset of scientific research</b> debited in Profit & Loss account [Not allowed]	2,00,000		
	• <b>Sale proceeds of asset acquired for conducting scientific research taxable</b> as business income under section 41(3) in the year of sale to the extent of lower of amount of sale proceeds i.e., Rs. 4,00,000 or the amount of deduction allowed u/s 35 i.e., Rs. 6,00,000	4,00,000		
	• <b>Contribution to scientific research association approved u/s 35</b> [Not allowable under section 35(1)(ii) as per default tax regime]	1,75,000		
	• <b>Depreciation as per books of A/c</b>	6,17,000	19,80,000	
			73,54,500	

<p><i>Less:</i> Depreciation as per Income-tax Rules Depreciation on Motor car purchased for supply of finished goods [Rs. 3,00,000 x 15%]</p> <p><b><i>Less: Items of income credited to profit and loss account but not taxable or taxable under any other head of income</i></b></p> <ul style="list-style-type: none"> <li>• <b>Bad debt recovered</b> [The excess of amount recovered i.e., Rs. 3,00,000 over the amount due after bad debt allowance i.e., Rs. 2,00,000 will be taxable as business income u/s 41(4). Since the entire Rs. 3 lakhs is credited to the profit and loss account, Rs. 2 lakhs has to be reduced]</li> <li>• <b>Winning from lottery</b> [Taxable under the head “Income from other sources”]</li> </ul> <p><b><u>Income from other sources</u></b> Winning from lottery [Rs. 31,500 x 100/70] <b>Gross Total Income</b> <b>Less: Deduction under Chapter VI-A</b> Deduction under section 80EEB [Not allowable under default tax regime] <b>Total Income</b></p>	4,50,000		
	45,000	4,95,000	
	2,00,000	68,59,500	
	31,500		
		2,31,500	
			66,28,000
			45,000
			66,73,000
			Nil
			<b>66,73,000</b>

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

Particulars	Rs.	Rs.
Tax on winning from lottery @30% of Rs. 45,000		13,500
Tax on total income (excluding winning from lottery) of Rs. 66,28,000		
Upto Rs. 3,00,000	Nil	
Rs. 3,00,001 – Rs. 7,00,000[@5% of Rs. 4 lakhs]	20,000	
Rs. 7,00,001 – Rs. 10,00,000[@10% of Rs. 3 lakhs]	30,000	
Rs. 10,00,001- Rs. 12,00,000 [@15% of Rs. 2 lakhs]	30,000	
Rs. 12,00,001- Rs. 15,00,000 [@20% of Rs. 3 lakhs]	60,000	
Rs. 15,00,001- Rs. 66,28,000 [@30% of Rs. 51,28,000]	15,38,400	16,78,400
		16,91,900
Add: Surcharge @10% [Since total income exceeds Rs. 50 lakhs but does not exceed Rs. 1 crore]		1,69,190
		18,61,090
Add: Health and education cess@4%		74,444
<b>Tax liability</b>		<b>19,35,534</b>
<b>Tax liability (rounded off)</b>		<b>19,35,530</b>

#### Question 17

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 installments. 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?

#### Solution

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

#### Question 18 [ICAI Study Mat, RTP May 22, July 21, Nov 23]

Mr. A is a proprietor of Akash Enterprises, having 2 units. He transferred on 1.4.2024 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lakhs. The fair market value of capital assets of unit 1 on 1.4.2024 is ₹ 30 lakhs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2024 is as under:

Liabilities	Total (₹)	Assets	Unit 1(₹)	Unit2 (₹)	Total (₹)
Own Capital	15,00,000	Land	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for land 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
<b>Total</b>	<b>21,50,000</b>	<b>Total</b>	<b>17,50,000</b>	<b>4,00,000</b>	<b>21,50,000</b>

#### Other information:

- Revaluation reserve is created by revising upward the value of the land of Unit 1.
- No individual value of any asset is considered in the transfer deed.
- Other assets of Unit 1 include patents acquired on 1.7.2022 for ₹ 50,000 on which no depreciation has been charged.
- The value of machinery represents the written down value as per the Incometax Act, 1961.

**Compute the capital gain for the assessment year 2025-26.**

#### Solution: Computation of capital gains on slump sale of Unit 1

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

#### Notes:

##### 1. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	₹	₹
Land (excluding ₹ 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (See Note 2 below)		28,125
Other assets (₹ 1,50,000 – ₹ 50,000)		1,00,000
<b>Total assets</b>		<b>14,28,125</b>



Less: Creditors (25% of ₹ 1,50,000)	37,500	
Bank Loan (70% of ₹ 2,00,000)	1,40,000	1,77,500
<b>Net worth</b>		<b>12,50,625</b>

## 2. Written down value of patents as on 1.4.2024

Value of patents:	₹
Cost as on 1.7.2022	50,000
Less: Depreciation @ 25% for Financial Year 2022-23	12,500
<b>Balance as on 1.4.2023</b>	<b>37,500</b>
Less: Depreciation for Financial Year 2023-24	9,375
<b>Balance as on 1.4.2024</b>	<b>28,125</b>

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**.

### Question 19

Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax. Company allotted bonus shares in the ratio of 1:1 on 01.12.2023. He has also received dividend of ₹ 10 per share on 01.05.2024. He has sold all the shares on 01.10.2024 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%.

Compute his total income and tax liability for A.Y. 2025-26 if Mr. Mithun pays tax under default tax regime, assuming that he is having other income of ₹ 8,00,000. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

### Solution

#### Computation of total income & tax liability of Mr. Mithun for A.Y. 2025-26

Particulars	₹
<b>Long term capital gains on sale of original shares</b>	
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) (Refer Note 1)	2,00,000
Long term capital gains	1,96,000
<b>Short term capital gains on sale of bonus shares</b>	
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 as such shares are allotted after 1.04.2001]	NIL
Short term capital gains [Since bonus shares are held for less than 12 months before sale]	3,96,000
<b>Income from other sources</b>	
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
<b>Total Income</b>	<b>13,94,000</b>
<b>Tax Liability</b>	
<u>Tax on STCG u/s 11A</u>	
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
<b>Tax on other income of ₹ 8,02,000</b>	
₹ 3,00,000 to ₹ 7,00,000 @5%      20,000	
₹ 7,00,000 to ₹ 8,02,000 @10%      10,200	30,200
	<b>1,18,275</b>
Add: Health and education cess @4%	4,731
<b>Tax liability</b>	<b>1,23,006</b>
<b>Tax liability (rounded off)</b>	<b>1,23,010</b>

**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.*

**Question 20 [ICAI Study Mat, MTP 1 May 19 – 7 Marks]**

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2024. She started her real estate business on 21st March, 2024 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs. She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2025. She sold 10 flats at ₹ 30 lakhs per flat in March, 2025. The remaining 5 flats were held in stock as on 31st March, 2025. She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2025 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2025.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for A.Y. 2025-26 indicating clearly the reasons for treatment for each item. [Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2023-24: 348; F.Y. 2024-25: 363].

**Solution: Computation of capital gains and business income of Harshita for A.Y. 2025-26**

Particulars	₹
<b>Business Income</b>	
Sale price of flats [10 × ₹ 30 lakhs]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [₹ 210 lacs × 2/3]	1,40,00,000
Cost of construction of flats [10 × ₹ 10 lakhs]	1,00,00,000
<b>Business income chargeable to tax for A.Y.2025-26</b>	<b>60,00,000</b>
<b>Capital Gains</b>	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [₹ 35,00,000 × 348/113]	1,07,78,761
	<b>1,02,21,239</b>
Proportionate capital gains arising during A.Y. 2025-26 [₹ 1,02,21,239 × 2/3]	68,14,159
Less: Exemption under section 54EC	50,00,000
<b>Capital gains chargeable to tax for A.Y.2025-26</b>	<b>18,14,159</b>

**Notes:**

- (1) The **conversion** of a **capital asset** into **stock-in-trade** is treated as a **transfer** under section 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., P.Y.2023-24, in this case).
- (2) As per section 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) The **indexation benefit** for computing indexed cost of acquisition would, however, be **available only up to the year of conversion** of capital asset into stock-in-trade (i.e., P.Y.2023-24) and **not up to the year of sale** of stock-in-trade (i.e., P.Y.2024-25).
- (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 P.Y.2024-25, only **proportionate capital gains** (i.e., 2/3rd) would be chargeable to tax in the A.Y.2025-26.
- (5) **On sale** of such stock-in-trade, **business income** would arise. The business income chargeable to tax would be the **difference between** the price at which the **stock-in-trade is sold** and the **fair market value** on the **date of conversion** of the capital asset into stock-in-trade.
- (6) In case of **conversion** of capital asset into stock-in-trade and subsequent sale of stock-in-trade, **the period of 6 months** is to be **reckoned from the date of sale** of stock-in-trade for the purpose of **exemption under section 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 under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be ₹ 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.

Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHAI during the P.Y. 2024-25 and investment of ₹ 50 lakhs has been made in bonds of RECL during the P.Y. 2025-26, both within the stipulated six month period, the **maximum deduction allowable** for A.Y. 2025-26, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2024-25, is **only ₹ 50 lakhs**.

**Question 21 [ICAI Study Mat, MTP 1 May 23, MTP Nov 18]**

Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty @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, 2024, 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, 2025. 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, 2024 was ₹ 39,00,000 and on 20th February, 2025 was ₹ 41,00,000.

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

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

**Solution: Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2025-26**

Particulars	Amount (₹)	Amount (₹)
<ul style="list-style-type: none"> <li>Actual sale consideration</li> <li>Valuation as per Stamp duty Authority on the date of agreement (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 section 50C. However, where the <b>date of agreement is different from the date of registration</b>, stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of <b>account payee cheque/bank draft or by way of ECS through bank account</b> or such other electronic mode as may be prescribed on or before the <b>date of agreement</b>. 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)</li> </ul>	30,50,000 39,00,000	
Deemed Full value of consideration [Since stamp duty value on the date of agreement <b>exceeds 110% of the actual consideration, stamp duty value</b> would be deemed as <b>Full Value of Consideration</b> ]		39,00,000
Less: Expenses on transfer (Brokerage @1% of ₹ 30,50,000)		30,500
<b>Net sale consideration</b>		<b>38,69,500</b>
Less: Cost of acquisition (Note 1)	9,59,000	
Less: Cost of improvement	3,90,000	13,49,000
<b>Long term capital gain</b>		<b>25,20,500</b>

**Computation of tax liability u/s 112**

Particulars	Amount(₹)
On LTCG of ₹ 25,20,500 x 12.5%	3,15,063
Add: Health and Education cess @4%	12,603
	3,27,666
On LTCG with indexation benefit	
<b>Net Sale consideration</b>	<b>38,69,500</b>
Less: Indexed cost of acquisition (₹ 9,59,000 x 363/100)	34,81,170
Less: Indexed cost of Improvement [₹ 3,90,000 x 363/254]	5,57,362
<b>Long-term capital loss</b>	<b>(1,69,032)</b>

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

Notes:

(1) **Computation of cost of acquisition**

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition, 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	10,70,000
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000)	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
<b>Cost of acquisition</b>		<b>9,59,000</b>

- (2) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The **advance retained by the assessee** will go to **reduce the cost of acquisition**. Accordingly, cost of acquisition after reducing the advance money forfeited would be ₹ 9,59,000 [i.e. ₹ 10,70,000 – ₹ 1,11,000 (being the advance money forfeited during the P.Y. 2008-09)]. However, **where the advance money is forfeited** during the previous year **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 16-17.

**Question 22 [MTP 1 Nov 23, May 19 – 7 Marks]**

Mr. Riyaan owned a residential house in Noida. It was acquired on 09.09.2013 for Rs. 30,00,000. He sold it for Rs. 1,57,00,000 on 07.01.2022. Mr. Riyaan utilized the sale proceeds of the above property to acquire a residential house in Panchkula for Rs. 2,05,00,000 on 20.07.2022. The said house property was sold on 21.07.24 and he purchased another residential house in Delhi for Rs. 2,57,00,000 on 02.03.2025. The property at Panchkula was sold for Rs. 3,25,00,000.

Calculate capital gains chargeable to tax for the assessment year 2022-23 and 2025-26. All workings should form part of your answer:

Cost inflation index for various financial years are as under:

2013-14	-	220
2021-22	-	317
2022-23	-	331
2024-25	-	363

**Solution: Computation of capital gains chargeable to tax for A.Y. 2022-23**

Particulars	Rs.
Full value of consideration received on sale of residential house in Noida	1,57,00,000
Less: Indexed cost of acquisition [Rs. 30,00,000 x 317/220]	43,22,727
<b>Long-term capital gain</b>	<b>1,13,77,273</b>
Less: Exemption under section 54	
Purchase of new residential house property at Panchkula for Rs. 2,05,00,000 on 20.7.2022 i.e., within two years from the date of transfer of residential house in Noida; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gain	1,13,77,273
<b>Taxable long term capital gain</b>	<b>Nil</b>



### Computation of capital gains chargeable to tax for A.Y. 2025-26

Particulars	Rs.
Full value of consideration received on sale of residential house at Panchkula	3,25,00,000
Less: Indexed cost of acquisition [As per section 54, if the new residential house purchased (i.e., on 20.7.2022, in this case) is transferred within 3 years of its purchase (i.e., on 21.07.24 in this case), and the cost of acquisition of the new house (i.e., Rs. 2,05,00,000) is higher than the long-term capital gain (i.e., Rs. 1,13,77,273,) then, the cost of acquisition of such new residential house shall be reduced by long term capital gain exempted earlier, while computing capital gains on sale of the new residential house] [Rs. 91,22,727 (Rs. 2,05,00,000 – Rs. 1,13,77,273) x 363/331]	1,00,04,682
<b>Long-term capital gain [Since the residential house is held for more than 24 months]</b>	<b>2,24,95,318</b>
Less: Exemption under section 54 Purchase of new residential house property in Delhi for Rs. 2,57,00,000 on 2.3.2025 i.e., within two years from 31.05.2024, being the date of transfer of residential house at Panchkula; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gains	2,24,95,318
<b>Taxable long term capital gain</b>	<b>Nil</b>

#### Question 23 [Sept 24 – 4 Marks]

Mr. Raj a resident individual, aged 69 years sold an urban agricultural land for Rs. 75,00,000 to Mr. Vipul on December 15, 2024 when the stamp duty value of agricultural land was Rs. 95 lakhs. However, the “agreement to sell” the agricultural land was entered on July 15, 2024 and Mr. Vipul gave Rs. 4 lakhs as advance through IMPS.

The stamp duty value at the time of agreement was Rs. 85 lakhs. Mr. Raj paid 1% of sale consideration as commission to a broker. The land was purchased by him on May 15, 2002 for Rs.

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, 2025 for Rs. 40 lakhs and this land was sold by him on March 12, 2025 for Rs. 45 lakhs and he invested the entire sale proceeds in fixed deposits with a nationalized bank on the same day.

Compute capital gain for assessment year 2025-26 if Mr. Raj exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Cost Inflation Index for: F.Y. 2002-03 = 105; F.Y. 2024-25 - 363.

#### Solution: Computation of Capital Gains of Mr. Raj for A.Y.2025-26

Particulars	Rs.
<b><u>Capital gain on sale of urban agricultural land</u></b>	
Actual sale consideration	75,00,000
Stamp duty value as on date of agreement i.e., on 15.7.2024 [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., Rs. 75 lakhs]	75,000
<b>Net Sales Consideration</b>	<b>84,25,000</b>
Less: Cost of acquisition	10,85,000



<b>Less: Exemption u/s 54B</b> – In respect of rural agricultural land purchased on 01.01.25. 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] <b>Long term capital gain</b>  <u><b>Capital gain on sale of rural agricultural land</b></u> As per section 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.	73,40,000
	40,00,000
	<b>33,40,000</b>

**Note [Alternative answer]**

Mr. Raj transferred urban agricultural land on 15.12.2024 and purchased rural agricultural land on 1.1.2025 which is sold on 12.3.2025. Since the rural agricultural land is sold within the same previous year in which original asset was transferred i.e., P.Y. 2024-25, a view can be taken that the exemption under section 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 Rs. 73,40,000.

**Question 24 [RTP May 2025]**

Ms. Priya has always been financially aware and strategic with her investments. In January 2022, she saw an opportunity in gold and purchased gold jewellery worth Rs. 3,25,000, believing it would be a safe investment for the future. In October 2024, gold prices increased and she decided to sell her jewellery on 31.10.2024 for Rs. 4,75,000.

She also sold her house property in Delhi on 01.12.2024 for Rs. 80 lakhs. The stamp duty value of property at the time of transfer was Rs. 90 lakhs. She purchased this property on 15.07.1998 for Rs.

8.80 lakhs. The FMV of the property as on 1st April, 2001 was Rs. 10.8 lakhs and Stamp duty value on the said date was Rs. 10 lakhs. She had incurred brokerage and other expenses @1% on purchase price at that time.

Compute the capital gain tax to be paid by Ms. Priya for A.Y. 2025-26 assuming her other income exceeds the basic exemption limit. CII – F.Y. 2001-02: 100; F.Y. 2021-22: 317; F.Y. 2024-25:363

**Solution: Computation of capital gain tax paid by Ms. Priya for A.Y. 2025-26**

Particulars	Rs.	Rs.
<b>On sale of jewellery</b>		
Sale consideration	4,75,000	
Less: Cost of acquisition (As transfer is on or after 23.07.2024, the indexation benefit would not be available)	3,25,000	
Long term capital gains [Since jewellery is sold on or after 23.7.2024 and held for more than 24 months]		1,50,000

<b>On sale of house property</b> Full Value of Consideration [Stamp duty value of Rs. 90 lakhs, since stamp duty value of Rs. 90 lakhs exceed actual consideration of Rs. 80 lakhs by more than 10%]  Less: Cost of acquisition [Rs. 10,00,000] (As transfer is on or after 23.07.2024, the indexation benefit would not be available)  <b>Cost of acquisition</b> Higher of - <ul style="list-style-type: none"> <li>Actual cost Rs. 8,80,000 + Rs. 8,800 = Rs. 8,88,800 and</li> <li>Lower of Fair Market Value (FMV) as on 1.4.2001 of Rs. 10.8 lakhs and stamp duty value of Rs. 10 lakhs.</li> </ul> <b>Capital Gain chargeable to tax</b> <u>Tax on capital gains</u> Tax on LTCG on sale of jewellery [Rs. 1,50,000 x 12.50%] Tax @12.5% on LTCG on sale of house property [As the asset is a long term capital asset, being land or building acquired before 23.07.2024 and transferred on or after 23.07.2024 by resident individual, the tax shall be computed with indexation @20% and without indexation @12.5%, whichever is beneficial to the assessee.]  <u><b>Tax @20% with indexation</b></u> Sale consideration Rs. 90,00,000 Less: Indexed cost of acquisition Rs. 10,00,000 x 363/100 = Rs. 36,30,000 LTCG = Rs. 53,70,000 Tax @20% = Rs. 53,70,000 x 20% = Rs. 10,74,000  <u><b>Tax @12.5% without indexation</b></u> Tax @12.5% = Rs. 80,00,000 x 12.5% = <b>Rs. 10,00,000</b>  Add: Surcharge @10% [Since total income exceeds Rs. 50 lakhs but does not exceed Rs. 1 crore]  Add: HEC@4% <b>Tax on capital gain</b>	90,00,000	
	10,00,000	80,00,000
		<b>81,50,000</b>
	18,750 <b>10,00,000</b>	
		<b>10,18,750</b> 1,01,875
		11,20,625 44,825
		<b>11,65,450</b>

### Question 25

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2024-25 from his friend Mr. B, -

- (1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2024.
- (2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2024.
- (3) A plot of land at Faridabad on 1st July, 2024, 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, 2023, 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, 2024. Further, on 1st November, 2024, 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, 2024 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, 2025, 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 A.Y. 2025-26.

**Solution: Computation of “Income from other sources” of Mr. A for the A.Y. 2025-26**

	Particulars	₹
(1)	Cash gift is taxable under section 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 under section 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 under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	3,00,000
	<b>Income from Other Sources</b>	<b>9,35,000</b>

**Computation of “Capital Gains” of Mr. A for the A.Y.2025-26**

Particulars	₹
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
<b>Short-term capital gains</b>	<b>2,00,000</b>

**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.

**Question 26 [ICAI Study Mat, MTP 2 May 22, MTP 2 Nov 18– 7 Marks]**

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

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

## Solution

### Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
<p>In the hands of Hari, the provisions of <b>section 43CA</b> would be attracted, since the building represents his stock-in-trade and he has transferred the same for a <b>consideration less than the stamp duty value</b>; and the <b>stamp duty value exceeds 110% of consideration</b>.</p> <p>Under section 43CA, the <b>option to adopt the stamp duty value</b> on the <b>date of agreement</b> can be exercised <b>only if whole or part</b> of the consideration has been <b>received on or before the date of agreement</b> by way of account payee cheque or draft or by use of <b>ECS</b> through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement.</p> <p>In this case, since the down payment of ₹ 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.</p> <p>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</p>	<p>Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of <b>section 56(2)(x)</b> would be attracted in the hands of Mr. Rajesh who has <b>received immovable property</b>, being a capital asset, <b>for inadequate consideration</b> and the <b>difference</b> between the consideration and stamp duty value <b>exceeds ₹ 9,00,000</b>, being the <b>higher of ₹ 50,000 and 10% of consideration</b>.</p> <p>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 under section 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 credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.</p>

### Case 2: Tax implications if Mr. Hari is a share broker

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
<p>In case Mr. Hari is a <b>share broker</b> and <b>not a property dealer</b>, the <b>building</b> would represent his <b>capital asset</b> and <b>not stock-in-trade</b>. In such a case, the provisions of <b>section 50C</b> would be attracted in the hands of Mr. Hari, since building is transferred for a <b>consideration less than the stamp duty value</b>; and the <b>stamp duty value exceeds 110% of consideration</b>. Thus, ₹ 75 lakh, being the <b>difference</b> 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 <b>short-term capital gains</b>.</p>	<p>There would be <b>no difference in the taxability</b> in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker. Therefore, the provisions of section 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.</p>

<p>It may be noted that under section 50C, the <b>option to adopt</b> the stamp duty value on the date of agreement can be exercised <b>only if whole or part</b> of the consideration has been <b>received</b> on or <b>before the date of agreement</b> by way of <b>account payee cheque</b> or <b>draft</b> or by use of <b>ECS</b> through a <b>bank account</b> or through <b>credit card, debit card, net banking, IMPS</b> (Immediate payment Service), <b>UPI</b> (Unified Payment Interface), <b>RTGS</b> (Real Time Gross Settlement), <b>NEFT</b> (National Electronic Funds Transfer), and <b>BHIM</b> (Bharat Interface for Money) Aadhaar Pay on or before the date of agreement.</p> <p>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.</p>	<p>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 <b>taxable under section 56(2)(x)</b> 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 credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhaar Pay.</p>
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#### Question 27 [RTP Nov 18]

Mr. Pranav has 15% shareholding in TRP(P) Ltd. (engaged in trading business of toys) and has also 50% share in Pranav & Sons, a partnership firm. The accumulated profit of TRP(P) Ltd. is Rs. 30 lakh. Pranav & Sons had taken a loan of Rs. 35 lakh from TRP(P) Ltd. Examine whether the above loan can be treated as dividend as per the provisions of the Income-tax Act, 1961.

#### Solution

- (a) **Section 2(22)(e)** provides that any **payment by a company**, not being a company in which 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**, to the **extent** the company possesses **accumulated profits**.

In the present case, the loan given by TRP(P) Ltd. to Pranav & Sons, a partnership firm would be deemed as dividend, since Mr. Pranav is the beneficial owner of 15% shareholding in TRP(P) Ltd. and also has substantial interest in Pranav & 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 TRP(P) Ltd. possesses accumulated profits. Therefore, out of the loan of Rs. 35 lakhs given to Pranav & Sons, only Rs. 30 lakhs, i.e., to the extent of accumulated profit of TRP(P) Ltd., would be deemed as dividend.

#### Question 28 [ICAI Study Mat, Jan 21]

Examine the TDS implications under section 194A in the cases mentioned hereunder–

- On 1.10.2024, Mr. Harish made a six-month fixed deposit of ₹ 10 lakh@9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2025.
- On 1.6.2024, Mr. Ganesh made three nine months fixed deposits of ₹ 3 lakh each, carrying interest@9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2025.



- (iii) On 1.10.2024, 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 31.3.2025.

### Solution

- (i) ABC Co-operative Bank has to deduct tax at source@10% on the interest of ₹ 45,000 ( $9\% \times ₹ 10 \text{ lakh} \times \frac{1}{2}$ ) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, ₹ 4,500.
- (ii) XYZ Bank has to deduct tax at source@10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [ $3,00,000 \times 3 \times 9\% \times 9/12$ ], which exceeds the threshold limit of ₹ 40,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 60,750 exceeds the threshold limit of ₹ 40,000, tax has to be deducted@10% u/s 194A.
- (iii) No tax has to be deducted under section 194A by PQR Bank on the interest of ₹ 28,000 falling due on recurring deposit on 31.3.2025 to Mr. Rajesh, since such interest does not exceed the threshold limit of ₹ 40,000.

### Question 29 [ICAI Study Mat, Similar in MTP 2 May 24]

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. 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 F.Y.2024-25
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2023-24	Contract Payment for repair of residential house Payment of commission to Mr. Vallish for business purposes	₹ 5 lakhs ₹ 80,000 in November 2024
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2023-24.	Contract Payment for reconstruction of residential house (made during the period January-March, 2025)	₹ 20 lakhs in January, 2025, ₹ 15 lakhs in Feb 2025 and ₹ 20 lakhs in March 2025.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2025	₹ 51 lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2024 for reconstruction of residential house	₹ 48 lakhs

### Solution



	Particulars of the payer	Nature of payment	Aggregate of payments in the F.Y.2024-25	Whether TDS provisions are attracted?
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2023-24	Contract Payment for repair of residential house	₹ 5 lakhs	No; TDS under section 194C is not attracted since the payment is for personal purpose. TDS under section 194M is not attracted as aggregate of contract payment to the payee in the P.Y.2024-25 does not exceed ₹ 50 lakh.
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000	Yes, u/s 194H @2%, since the payment exceeds ₹ 15,000, and Mr. Ganesh's turnover exceeds ₹ 1 crore in the P.Y.2023-24.
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2023-24	Contract Payment for reconstruction of residential house	₹ 55 lakhs	Yes, u/s 194M @2%, since the aggregate of payments (i.e., ₹ 55 lakhs) exceed ₹ 50 lakhs. Since, his turnover does not exceed 1 crore in the P.Y.2023-24, TDS provisions under section 194C are not attracted in respect of payments made in P.Y. 2024-25.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house	₹ 51 lakhs	Yes, u/s 194M @2%, since the payment of ₹ 51 lakhs made in March 2025 exceeds the threshold of ₹ 50 lakhs. Since Mr. Satish is a salaried individual, the provisions of section 194H are not applicable in this case.
4.	Mr. Dheeraj, a pensioner	Contract payment for reconstruction of residential house	₹ 48 lakhs	TDS provisions under section 194C are not attracted since Mr. Dheeraj is a pensioner. TDS provisions under section 194M are also not applicable in this case, since the payment of ₹ 48 lakhs does not exceed the threshold of ₹ 50 lakhs.

**Question 30 [ICAI Module, Similar Point in RTP Jan 25, MTP 1 May 23, MTP 1 May 22]**

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2023-24 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2024-25 was ₹ 95 lakh (₹ 20 lakh on 1.6.2024, ₹ 25 lakh on 12.8.2024, ₹ 22 lakh on 23.11.2024 and ₹ 28 lakh on 25.3.2025). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2023-24 was ₹ 15 crores.

- (1) Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
- (2) Would your answer be different if Mr. Gupta's turnover for F.Y.2023-24 was ₹ 8 crores, all other facts remaining the same?
- (3) Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required?

### Solution

- (1) Since Mr. Gupta's turnover for F.Y.2023-24 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the P.Y.2024-25, 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 1.6.2024 and 12.8.2024, 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 23.11.2024 [₹ 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 25.3.2025.

*Note – In this case, since both section 194Q and 206C(1H) applies, tax has to be deducted u/s 194Q.*

- (2) If Mr. Gupta's turnover for the F.Y.2023-24 was only ₹ 8 crores, TDS provisions under section 194Q would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds ₹ 10 crores in the F.Y.2023- 24 and his receipts from Mr. Gupta exceed ₹ 50 lakhs.

No tax is to be collected u/s 206C(1H) on 1.6.2024 and 12.8.2024, since the aggregate receipts 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 collected u/s 206C(1H) on 23.11.2024 (₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit). Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be collected u/s 206C(1H) on 25.3.2025.

- (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 23.11.2024 and 25.3.2025, respectively.

In case (2), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect tax@1% instead of 0.1%. Accordingly, tax of ₹ 17,000 (i.e., 1% of ₹ 17 lakhs) and ₹ 28,000 (1% of ₹ 28 lakhs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2024 and 25.3.2025, respectively.

### Question 31 [Nov 23 and Similar Questions in Sept 24, May 24]

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2025-26. (State applicable provision and give brief reasons for your answer, wherever applicable)

- (1) XYZ, a resident partnership firm is in retail business buying fabric material regularly from ABC, a resident proprietorship firm. Details of transactions during P.Y. 2024-25 are as given:

Particulars	Date of Payment	Amt (Rs.)
Advance payment	1.4.2024	40,00,000
Payment for supplies	2.7.2024	20,00,000
Advance payment	4.8.2024	12,00,000

XYZ achieved gross turnover of Rs. 12 crore from the business during the financial year 2023-24 and the gross business turnover for financial year 2024-25 turns out to be Rs. 9 crores. Gross

business turnover of ABC for the financial year 2023-24 was Rs. 6 crores. Will your answer be same, if the gross turnover of XYZ during the financial year 2023-24 includes Rs. 4 crore towards supply of material for charitable purposes?

- (2) Mr. Kumar, a resident senior citizen, aged 86 years, is a retired State Govt. employee. He gets pension of Rs. 72,000 p.m. He has his saving account with Bank of Baroda, a bank notified by the Central Govt. u/s 194P, has received the interest on saving account Rs. 15,000 during the P.Y. 2024-25. His pension is also credited in this account. In the same bank he has deposited Rs. 10 Lakh in a Term Deposit @7% simple interest on 01.07.2025. He has no other income. He has not opted section 115BAC. Discuss requirement of filing of income tax return also.

### Solution

- (1) Tax is required to be deducted at source under section 194Q by XYZ, being a buyer, since its **turnover in the immediately preceding financial year i.e., F.Y. 2023-24 exceeds Rs. 10 crores** and it has purchased goods exceeding Rs. 50 lakhs in the F.Y. 2024-25. TDS u/s 194Q would be **0.1% of the sum exceeding Rs. 50 lakhs** and the same has to be deducted at the time of payment or credit of such sum to the account of resident seller, whichever is earlier. Therefore, in the present case, XYZ, a resident partnership, is required to deduct tax at source –
- On 2.7.2024 of Rs. 1,000, being @0.1% on Rs. 10 lakhs exceeding Rs. 50 lakhs (Rs. 40,00,000 on 1.4.2024 + Rs. 20,00,000 on 2.7.2024).
  - On 4.8.2024 of Rs. 1,200, being @0.1% Rs. 12 lakhs.

No, in such case, the amount of turnover of XYZ **would not exceed Rs. 10 crores** in F.Y. 2023-24, since Rs. 4 crores towards supply of material for **charitable purposes, being a non-business activity, would not be considered for the purpose of turnover**. Accordingly, XYZ is not required to deduct tax at source under section 194Q.

- (2) Bank of Baroda, being a **specified bank** notified by the Central Government u/s 194P is required to deduct tax at source at the rates in force on the total income of Mr. Kumar, being a specified senior citizen (75 years or more) computed as follows:

### Computation of total income of Mr. Kumar not opting for section 115BAC and tax liability for A.Y.2025-26

	Particulars	Rs.	Rs.
<b>I</b>	<b>Salaries</b>		
	Pension (Rs. 72,000 x 12)	8,64,000	
	Less: Standard deduction u/s 16(ia)	50,000	8,14,000
<b>II</b>	<b>Income from Other Sources</b>		
	Interest on savings account	15,000	
	Interest on fixed deposit (Rs. 10 lakh x 7% x 9/12)	52,500	
			67,500
	<b>Gross total income</b>		<b>8,81,500</b>
	Less: Deductions under Chapter VI-A Under section 80TTB		
	Interest on fixed deposit and savings account restricted to Rs. 50,000, since Mr. Kumar is a resident Indian of the age of 60 years or more	50,000	50,000
	<b>Total Income</b>		<b>8,31,500</b>
	Computation of tax liability for A.Y. 2024-26		
	Tax on Rs. 8,31,500 [20% on income exceeding Rs. 5 lakhs, being the basic exemption limit, since Mr. Kumar is of the age of 80 years or more]		66,300

Add: Health and Education Cess@4%	2,652
Tax liability	68,952
<b>Tax liability (Rounded off)</b>	<b>68,950</b>

Accordingly, **Bank of Baroda is required to deduct tax at source** of Rs. 68,950 for the P.Y. 2024-25. In such case, Mr. Kumar is **not required to file his return of income** for A.Y. 2025-26.

***Note** – The question mentions that Mr. Kumar has deposited Rs. 10 lakhs in a Term Deposit in the same bank but does not specify the duration of the term deposit. The above solution is given assuming that term deposit is not for 5 years. However, alternate assumption that such **term deposit is for 5 years** is also possible. In such a case, Mr. Kumar would be eligible for deduction under section 80C of Rs. 1,50,000 for deposit in 5 years term deposit. In that case, deduction under Chapter VI-A would be Rs. 2,00,000, total income would be Rs. 6,81,500 and tax liability (rounded off) would be Rs. 37,750.*

### Question 32 [RTP May 25]

Examine the applicability and amount of Tax deduction at source (TDS) or Tax collection at source (TCS) as per the Income-tax Act, 1961 for the A.Y 2025-26 in the following situations:

- Mr. Subhash is a salaried individual pays rent of Rs. 52,000 per month to Mr. Raj from April 2024. Mr. Subhash vacated the premises on 31st August, 2024. What if he vacates the premises on 31st October, 2024.
- ABC Traders, a partnership firm, is engaged in the wholesale business of tendu leaves. Its turnover for the P.Y. 2023-24 was Rs. 9 crores. During the financial year 2024-25, it sold tendu leaves worth Rs. 12 lakhs to XYZ Ltd. XYZ Ltd. does not provide its PAN to ABC Trader.

### Solution

- Since Mr. Subhash is a salaried individual and pays rent exceeding Rs. 50,000 per month in the F.Y. 2024-25, he is liable to deduct tax at source u/s 194-IB @5% till 30.9.2024 and thereafter @2%. If Mr. Subhash vacated the premises on 31st August, 2024, tax has to be deducted from rent payable for August, 2024. Tax deductible would be Rs. 13,000 [Rs. 52,000 x 5 x 5%]. If Mr. Subhash vacated the premises on 31st October, 2024, tax has to be deducted from rent payable for October, 2024. Tax deductible would be Rs. 7,280 [Rs. 52,000 x 7 x 2%].
- Under section 206C(1), seller of certain goods, inter alia, tendu leaves is required to collect tax from the buyers @5%. Seller u/s 206C(1) includes firm. In case of non-furnishing of PAN, tax to be collectible at the higher of twice the specified rate i.e., 10% or @5%. In the present case, ABC Traders is required to collect tax at source u/s 206C(1) @10% on sale of tendu leaves of Rs. 12 lakhs to XYZ Ltd. at the time of debit or receipt, whichever is earlier.

### Question 33

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

### Solution

Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.

In this case, Mr. Vaibhav received a gift of ₹ 5,00,000 on 1.4.2024 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2025-26 is computed as under:

Particulars	Mr. Vaibhav's capital contribution (₹)	Capital contribution out of gift from Mrs. Vaishaly (₹)	Total (₹)
Capital as on 1.4.2024	3,00,000 (5,00,000 – 2,00,000)	5,00,000	8,00,000
Profit for P.Y.2024-25 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2024 (3:5)	1,50,000 $\left(4,00,000 \times \frac{3}{8}\right)$	2,50,000 $\left(4,00,000 \times \frac{5}{8}\right)$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2025-26 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 section 56(2)(x) would not be attracted in the hands of Mr. Vaibhav, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his wife.

### Question 34

Compute the gross total income of Mr. A & Mrs. A from the following information assuming both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A):

	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 30.09.2024 from friend of Mrs. A	2,500

Brief working is sufficient. Detailed computation under various heads of income is not required.

### Solution

As per the provisions of section 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 section 64(1A) is as follows:

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

Particulars	₹	₹
Income from profession		3,90,000
Income of minor son B from company deposit	15,000	
Less: Exemption under section 10(32)	1,500	13,500
Income of minor daughter C		
From special talent – not to be clubbed	-	
Interest from bank	3,000	
Gift of ₹ 2,500 received from a non-relative is not taxable under section 56(2)(x) being less than the aggregate limit of ₹ 50,000	Nil	
	3,000	
Less : Exemption under section 10(32)	1,500	1,500
<b>Gross Total Income</b>		<b>4,05,000</b>

**Question 35 [ICAI Study Mat, MTP 1 May 20]**

Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14-6-2024. On 12-7-2024, 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 01-8-2024 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother.

**Solution**

In the given case, Mr. Vasudevan **gifted a sum of ₹ 6 lakhs to his brother's wife** on 14.06.2024 and **simultaneously, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife** on 12.07.2024. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. These transfers are in the nature of **cross transfers**. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

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

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 section 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.

**Question 36 [ICAI Study Mat, Similar Concepts in MTP 2 Nov 18, RTP Nov 20, MTP 2 Nov 22, MTP 1 Nov 19, Nov 18, MTP 1 Nov 18, MTP 1 May 19, RTP Nov 18, MTP 1 Nov 21]**

During the previous year 2024-25, the following transactions occurred in respect of Mr. 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% p.a. from 1-4-2024 to 31-3-2025 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- 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.
- Mr. A gifted a flat to Mrs. A on April 1, 2024. During the previous year 2024-25, Mrs. A's "Income from house property" (computed) was ₹ 52,000 from such flat.
- 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.
- 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 a 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 under section 115BAC(1A).

**Solution**

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

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 under section 16(ia)		50,000	50,000	
Income from House Property [See Note (3) below]		70,000	1,90,000	
Income from other sources		52,000	-	-
Interest on Mr. A's fixed deposit with Bank of India (₹ 5,00,000×9%) [See Note (1) below]	45,000		-	-
Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [See Note (2) below]	25,000	70,000	-	-
<b>Income before including income of minor son under section 64(1A)</b>		<b>1,92,000</b>	<b>1,90,000</b>	-
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [See Note (4) below]		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below]		-	-	20,000
<b>Total Income</b>		<b>2,10,500</b>	<b>1,90,000</b>	<b>20,000</b>

**Notes:**

- (1) As per section 60, in case there is a **transfer of income without transfer of asset** from which such income is derived, such income shall be treated as **income of the transferor**. Therefore, the fixed deposit interest of ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
- (2) As per section 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 section 27(i), an **individual who transfers any house property to his or her spouse otherwise than for adequate consideration** or in connection with an **agreement to live apart**, shall be **deemed to be the owner of the house property so transferred**. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.

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

- (4) As per section 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 section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.

Therefore, the income of ₹ 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 under section 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 section 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.*

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.

**Question 37 [May 23, Similar Concepts in RTP May 23, Nov 22, ICAI Study Mat Q5]**

Mr. Chaman who is 50 years old and his wife Mrs. Chaman who is 48 years old furnish the following information (all the amount of incomes/gains/losses are computed as per the provisions of Income-tax Act):

- (i) Mr. Chaman's salary income - Rs. 11,00,000
- (ii) Mrs. Chaman's income from Kathak performances - Rs. 2,50,000. She is a professional Kathak dancer and pursue dancing as her profession.
- (iii) Mrs. Chaman earned long-term capital gains of Rs. 5,50,000 from sale of shares.
- (iv) Mrs. Chaman gifted Rs. 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2024, Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of Rs. 5,10,000
- (v) Miss Naina, their minor daughter, earned Rs. 3,56,000 by performing in various quiz competitions held online during the year 2024-25. She kept that amount in savings bank account and earned interest of Rs. 15,000 during the year 2024-25.
- (vi) Master Neelabh, their minor son earned Rs. 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned u/s 80U. The medical certificate shows a disability of upto 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the Assessment Year 2025-26. Ignore section 115BAC pertaining to alternative tax regime.

**Solution: Computation of total income of Mr. Chaman, Mrs. Chaman and their minor children for the A.Y.2025-26**

Particulars	Mr. Chaman	Mrs. Chaman	Naina, minor daughter	Neelabh, minor son
	Rs.	Rs.	Rs.	Rs.
<b>Income under the head "Salaries"</b>				
Salaries (computed)	11,00,000			
Profits and gains from business or profession				
Income from Kathak performances		2,50,000		
<b>Capital Gains</b>				
Long term capital gains from sale of shares		5,50,000		
Less: Set off of short-term capital loss from long term capital gain [Short term capital loss to the extent of Rs. 2 lakhs would be included in the income of Mrs. Chaman, since the shares are purchased by Mr. Chaman from the amount of Rs. 2 lakhs gifted by Mrs. Chaman out of her Stridhan. Clubbing provisions would be attracted even if it is a loss and not income] [Refer Note 1 and 2 below]		(2,00,000)		
The balance short-term capital loss of Rs. 3,10,000 has to be carried forward by Mr. Chaman, since it cannot be set-off against salary income.		3,50,000		
Income [before considering income of minor son and minor daughter]	11,00,000	6,00,000		

Income of Naina, minor daughter, from performances in various quiz competitions would not be included in the hands of either parent, since such income arises from her own skills/talent.			<b>3,56,000</b>	
However, interest of Rs. 15,000 on saving bank account [after providing for deduction of Rs. 1,500, being exempt under section 10(32)] is to be included in the hands of Mr. Chaman, since his income is higher than that of his wife [Rs. 15,000 - Rs. 1,500]	13,500			
Income of Neelabh, minor son suffering from disability u/s 80U, from fixed deposits would not be included in the income of parent but would be taxable in his hands.				35,000
<b>Gross Total Income</b>	<b>11,13,500</b>	<b>6,00,000</b>	<b>3,56,000</b>	<b>35,000</b>
Less: Deductions under Chapter VI-A				
- Under section 80TTA In respect of interest on saving bank account to the extent of	10,000			
- Under section 80U Flat deduction of Rs. 75,000 to a person with disability. However, deduction would be restricted to gross total income				35,000
<b>Total Income</b>	<b>11,03,500</b>	<b>6,00,000</b>	<b>3,56,000</b>	<b>Nil</b>

**Note –**

*The question mentions that Mrs. Chaman gifted Rs. 2 lakh to Mr. Chaman out of her Stridhan on 1.4.2024 and that Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of Rs. 5,10,000. It is not possible to invest Rs. 2 lakhs and incur short-term capital loss of Rs. 5.10 lakhs. Accordingly, in the above solution, it has been assumed that the remaining*

*Rs. 3,10,000 is invested by Mr. Chaman and hence the same would be a short-term capital loss to be carried forward by him.*

*Due to the use of the words “invested the entire amount in the stock market” in the question, it is possible to take a view that the entire capital loss of Rs. 5,10,000 has to be set off against long-term capital gains of Rs. 5,50,000 in the hands of Mrs. Chaman. In which case the total income of Mrs. Chaman would be Rs. 2,90,000 instead of Rs. 6,00,000. Also, there would be no short-term capital loss in the hands of Mr. Chaman.*

**Question 38**

Mr. B, a resident individual, furnishes the following particulars for the P.Y.2024-25:

Particulars	₹
Income from salary (computed)	45,000
Income from house property	(24,000)
Income from non-speculative business	(22,000)



Income from speculative business	(4,000)
Short-term capital losses	(25,000)
Long-term capital gains taxable u/s 112	19,000

What is the total income chargeable to tax for the A.Y.2025-26, assuming that he pays tax under section 115BAC?

### Solution

#### Total income of Mr. B for the A.Y. 2025-26

Particulars	Amount (₹)	Amount (₹)
Income from salaries		45,000
<b>Income from house property</b>		
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	
<b>Profits and gains of business and profession</b>		
Business loss to be carried forward [Note (i)]	(22,000)	
Speculative loss to be carried forward [Note (ii)]	(4,000)	
<b>Capital Gains</b>		
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 (iii)]	(19,000)	
Balance short term capital loss of ₹ 6,000 to be carried forward [Note (iii)]	Nil	
<b>Taxable income</b>		<b>45,000</b>

### Notes:

- 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.*
- 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.*
- 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.*

### Question 39

Mr. Soohan submits the following details of his income for the A.Y.2025-26:

Particulars	₹
Income from salary (computed)	3,00,000
Loss from let out house property (-)	40,000
Income from sugar business	50,000
Loss from iron ore business for P.Y. 2019-20 (discontinued in P.Y. 2020-21)	(-) 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 under section 111A (-)	10,000
Bank interest on Fixed deposit	5,000

Calculate gross total income and losses to be carried forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution: Computation of Gross Total Income of Mr. Soohan for the A.Y.2025-26**

Particulars	₹	₹
<b>Salaries</b>		
Income from salary	3,00,000	
Less: Loss from house property set-off against salary income u/s 71	(40,000)	2,60,000
<b>Profits and gains of business or profession</b>		
Income from sugar business	50,000	
Less: Brought forward loss of ₹ 1,20,000 from iron ore business set-off as per section 72(1) to the extent of ₹ 50,000	(50,000)	Nil
Balance business loss of ₹ 70,000 of P.Y.2019-20 to be carried forward to A.Y.2026-27		
<b>Capital gains</b>		
Long term capital gain	40,000	
Less: Short term capital loss 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		
<b>Income from other sources</b>		
Dividend (fully taxable in the hands of shareholders)	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank FD interest	5,000	66,000
<b>Gross Total Income</b>		<b>3,26,000</b>
<b>Losses to be carried forward to A.Y.2026-27</b>		
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 under section 10(1).

**Question 40**

Mr. A furnishes you the following information for the year ended 31.03.2025:

(i)	Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year)	3,20,000
(ii)	Income from retail trade of garments (Computed as per books) (Sales turnover ₹ 1,35,70,000) Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y.2025-26. Assume 10% of the turnover during the P.Y.2024-25 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.	7,50,000
(iii)	He has brought forward depreciation relating to A.Y. 2023-24	1,00,000

Compute taxable income of Mr. A and his tax liability for the A.Y. 2025-26 with reasons for your computation, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution: Computation of total income and tax liability of Mr. A for the A.Y. 2025-26**

Particulars	₹
Income from retail trade – as per books (See Note 1 below)	7,50,000
Income from plying of vehicles – as per books (See Note 2 below)	3,20,000
	10,70,000
Less : Set off of b/f depreciation relating to A.Y. 2023-24	1,00,000
<b>Total income</b>	<b>9,70,000</b>
Tax liability	1,06,500
Add: Health and Education cess@4%	4,260
<b>Total tax liability</b>	<b>1,10,760</b>

**Note:**

1. **Income from retail trade:** *Presumptive business income* under *section 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 under section 44AD, the assessee can adopt the income as per books.*

However, *if he does not declare profits as per presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore (the enhanced limit of ₹ 10 crore would not be available, since more than 5% of the turnover is received in cash). Also, his case would be falling under section 44AD(4) and hence, tax audit is mandatory.*

It may further be noted that *he cannot declare income under presumptive provisions under section 44AD for next five assessment years, if he does not declare profits as per presumptive provisions under section 44AD this year.*

2. **Income from plying of light goods vehicles:** *Income calculated under section 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 section 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 section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.*

It is to be further noted that in both the above cases, if income is declared under presumptive provisions, *all deductions under sections 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 income is declared as per presumptive provisions, his total income would be as under:**

Particulars	₹
Income from retail trade under section 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
<b>Total income</b>	<b>12,91,340</b>
Tax thereon	1,99,902
Add : Health and Education cess @4%	7,996
<b>Total tax liability</b>	<b>2,07,898</b>
<b>Total tax liability (rounded off)</b>	<b>2,07,900</b>

**Question 41 [MTP 1 May 24, MTP 2 Dec 24, MTP 2 May 24, similar in RTP Nov 20]**

Mr. Sonu, aged 30 years, submits the information of following transaction/income during the P.Y. 2024-25:

- (i) Mr. Sonu owns two house properties in Delhi. The details in respect of these properties are as under -

	House 1 Self-occupied	House 2 Let-out
Rent received per month	Not applicable	Rs. 50,000
Municipal taxes paid	Rs. 7,500	Nil
Interest on loan (taken for purchase of property)	Rs. 2,50,000	Rs. 3,00,000
Principal repayment of loan (taken from HDFC bank)	Rs. 2,00,000	Rs. 3,00,000

- (ii) Mr. Sonu had another house in Delhi. During financial year 2018-19, he had transferred the said house to Ms. Varsha, daughter of his brother without any consideration. House would go back to Mr. Sonu after the life time of Ms. Varsha. The transfer was made with a condition that 15% of rental income from such house shall be paid to Mrs. Sonu. Rent received by Ms. Varsha during the previous year 2024-25 from such house property is Rs. 6,50,000. Mr. and Mrs. Sonu forms a partnership firm with equal share in profits. Mr. Sonu transferred a fixed deposit of Rs. 50 lakhs to such firm. Firm had no income or expense other than the interest of Rs. 6,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Sonu at the end of the year.
- (iii) Mr. Sonu holds preference shares in M/s A Pvt. Ltd. He instructed the company to pay dividends to Ms. Chandni, daughter of his servant. The transfer is irrevocable for the life time of Chandni. Dividend received by Ms. Chandni during the previous year 2024-25 is Rs. 10,00,000.
- (iv) Mr. Sonu has a short term capital loss of Rs. 16,000 from sale of property and long term capital gain of Rs. 15,000 from sale of property.
- (v) Other income of Mr. Sonu includes
- Interest from saving bank account of Rs. 2,00,000
  - Cash gift of Rs. 75,000 received from daughter of his sister on his birthday.
  - Income from betting of Rs. 34,000
  - Income from card games of Rs. 46,000
  - Loss on maintenance of race horses of Rs. 14,600

Compute the total income of Mr. Sonu for the Assessment Year 2025-26 and the losses to be carried forward assuming that he does not opt to be taxed under section 115BAC.

**Solution: Computation of Total Income of Mr. Sonu for A.Y. 2025-26**

Particulars	Amount (Rs.)	Amount (Rs.)
<b>Income from house property</b>		
House 1 [Self-occupied]		
Net annual value	-	
Less: Interest on loan [upto Rs.2,00,000]	2,00,000	(2,00,000)
House 2 [Let out]		
Gross annual value <sup>1</sup> [Rs.50,000 x 12]	6,00,000	
Less: Municipal taxes	-	
Net annual value	6,00,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,80,000	
(b) Interest on loan	3,00,000	1,20,000

House in Delhi [Since Mr. Sonu receives direct or indirect benefit from income arising to his brother's daughter, Ms. Varsha, from the transfer of house to her without consideration, such income is to be <b>included in the total income of Mr. Sonu as per proviso to section 62(1)</b> , even though the transfer may not be revocable during lifetime of Ms. Varsha]		
<b>Gross Annual Value</b>	-	<b>6,50,000</b>
Less: Municipal taxes	-	
Net Annual Value	6,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,95,000	
(b) Interest on loan	-	4,55,000
		<b>3,75,000</b>
<b>Profits and gains from business or profession</b>		
Share of profit from firm [Exempt u/s 10(2A)] Exempt income cannot be clubbed	-	
<b>Capital Gains</b>		
Long term capital gain from sale of property	15,000	
Less: Short-term capital loss can be set-off against both short- term capital gains and long-term capital gains. Short term capital loss of Rs. 16,000 set off against long-term capital gains to the extent of Rs.15,000. Balance short term capital loss of Rs. 1,000 to be carry forward to A.Y.2026-27	15,000	-
<b>Income from other sources</b>		
• Dividend on preference shares [Taxable in the hands of Mr. Sonu as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	10,00,000	
• Interest from saving bank account	2,00,000	
• Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding Rs. 50,000 is received from his niece, who is not a relative]	75,000	
• Income from betting [No loss is allowed to be set off against such income]	34,000	
• Income from card games [No loss is allowed to be set off against such income]	46,000	13,55,000
<b>Gross Total Income</b>		<b>17,30,000</b>
Less: Deduction under Chapter VI-A		
Deduction under section 80C [Principal repayment of loan Rs. 5 lakh, restricted to Rs.1,50,000]	1,50,000	
Deduction under section 80TTA [Interest from savings bank account]	10,000	1,60,000
<b>Total Income</b>		<b>15,70,000</b>

#### Losses to be carried forward to A.Y. 2026-27

Particulars	Amount (Rs.)
Short term capital loss [Rs. 16,000 – Rs. 15,000]	1,000
Loss on maintenance of race horses	14,600
[Loss incurred on maintenance of race horses <b>cannot be set-off against income from any source other than the activity of owning and maintaining race horses.</b> Hence, such loss has to be carried forward to A.Y.2026-27]	

#### Question 42 [RTP Jan 25 ]

Mr. Mayank, a resident individual, furnished the following information in respect of income earned and losses incurred by him for the F.Y. 2024-25



Particulars	Amount (Rs.)
Income from Salary (Computed)	27,40,000
Long term capital loss on sale of shares of Reliance Ltd. STT has been paid both at the time of acquisition and sale	(1,25,000)
Income from let out property in Kanpur	5,50,000
Loss from let out property in Delhi	(3,75,000)
Interest on self-acquired property in Mumbai	(1,50,000)
Net winnings from online games (Net of TDS)	35,000
Profit and gains from manufacturing business (after deducting normal depreciation of Rs. 2,00,000 and additional depreciation of Rs. 50,000)	36,86,000

The other details of losses and unabsorbed depreciation pertaining to A.Y. 2024-25 are as follows:

Particulars	Amount
Business loss from manufacturing business	(5,35,000)
Unabsorbed normal depreciation	(2,10,000)
Loss from the activity of owning and maintaining the race horses	(1,50,000)
Loss from let out property in Delhi	(2,10,000)

Mr. Mayank filed his return of income for A.Y. 2024-25 on 28.7.2024 and opted for section 115BAC. Compute the Gross total income of Mr. Mayank for the A.Y. 2025-26 and the amount of loss, if any, that can be carried forward if he wants to continue with the provisions under section 115BAC.

**Solution: Computation of gross total income of Mr. Mayank for A.Y. 2025-26**

Particulars	Amount (Rs.)	Amount (Rs.)
<b>Income from Salary (Computed)</b>		<b>27,40,000</b>
<b>Income from house property</b>		
Income from let out property in Kanpur	5,50,000	
Less: Set off of loss from let out property in Delhi	(3,75,000)	
Less: Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Mayank is paying tax under section 115BAC]	-	
Less: Loss from let out property in Delhi of A.Y. 2024-25 cannot be set off against income from house property of A.Y. 2025-26 since Mr. Mayank has paid tax under section 115BAC during the A.Y. 2024-25 and no deduction in respect of loss of house property of that year will be allowed in any subsequent year.	-	
		1,75,000
<b>Profits and gains from business or profession</b>		
Profits from manufacturing business	36,86,000	
Add: Additional depreciation not allowable in case of section 115BAC	50,000	
	37,36,000	
Less: Brought forward business loss of A.Y. 2024-25	(5,35,000)	
Less: Unabsorbed normal depreciation	(2,10,000)	
		29,91,000
<b>Capital Gains</b>		
Long term capital loss on sale of shares of Reliance Ltd. on which STT has been paid can be set off only against long term capital gains. Hence, it has to be carried forward	(1,25,000)	-
<b>Income from Other Sources</b>		
Net winnings from online games [Rs. 35,000/70%]		50,000

<b>Gross Total Income</b>	<b>59,56,000</b>
<b>Losses to be carried forward to A.Y. 2026-27</b>	
Particulars	Amount (Rs.)
Brought forward loss from the activity of owning and maintaining the race horses of A.Y. 2024-25 can be set off only against the income from the activity of owning and maintaining race horses. Hence, it has to be carried forward.	1,50,000
Long term capital loss on sale of shares of Reliance Ltd. on which STT has been paid	1,25,000

### Question 43

Compute the eligible deduction under section 80C for A.Y.2025-26 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2024-25, the details of which are given hereunder, if 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 2024-25 (₹)
(i)	30/3/2012	Self	9,00,000	48,000
(ii)	1/5/2018	Spouse	1,50,000	20,000
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000

### Solution

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2024-25 (₹)	Deduction u/s 80C for A.Y.2025-26 (₹)	Remark (restricted to % of sum assured) (₹)
(i)	30/3/2012	Self	9,00,000	48,000	48,000	20%
(ii)	1/5/2018	Spouse	1,50,000	20,000	15,000	10%
(iii)	1/6/2021	Handicapped son (Sec 80U disability)	4,00,000	80,000	60,000	15%
	<b>Total</b>				<b>1,23,000</b>	

### Question 44

Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the P.Y. 2024-25 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 dependent 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 under section 80D for the A.Y. 2025-26 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution: Deduction allowable under section 80D for the A.Y.2025-26**

	Particulars	Actual Payment ₹	Maximum deduction allowable ₹
<b>A.</b>	<b>Premium paid and medical expenditure incurred for self and spouse</b>		
(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
		<b>26,600</b>	<b>25,000</b>
<b>B.</b>	<b>Premium paid or medical expenditure incurred for father, who is a senior citizen</b>		
(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
		<b>51,000</b>	<b>50,000</b>
	<b>Total deduction under section 80D (₹ 25,000 + ₹ 50,000)</b>		<b>75,000</b>

**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 (i.e., ₹ 1,400 + ₹ 3,000), which is within the maximum permissible limit of ₹ 5,000.

**Question 45**

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2025-26 –

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 15 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 A.Y.2025-26 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 provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2025.

### Solution

	Particulars	₹
	<b>Mr. A</b>	
(i)	Interest deduction for A.Y.2025-26 Deduction allowable while computing income under the head “Income from house property” Deduction u/s 24(b) ₹ 3,87,000 [₹ 43,00,000 × 9%] <b>Restricted to</b>	<b>2,00,000</b>
(ii)	Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEA ₹ 1,87,000 (₹ 3,87,000 – ₹ 2,00,000) <b>Restricted to</b>	<b>1,50,000</b>
	<b>Mr. B</b>	
(i)	Interest deduction for A.Y.2025-26 Deduction allowable while computing income under the head “Income from house property” Deduction u/s 24(b) ₹ 4,05,000 [₹ 45,00,000 × 9%] <b>Restricted to</b>	<b>2,00,000</b>
(ii)	Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEA is not permissible since: (i) loan is taken from NBFC (ii) stamp duty value exceeds ₹ 45 lakh. <b>Deduction under section 80EEA would not be permissible due to either violation listed above.</b>	Nil
	<b>Mr. C</b>	
	<b>Deduction under Chapter VI-A from Gross Total Income</b> Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs × 10% = ₹ 2,00,000, restricted to ₹ 1,50,000, being the maximum permissible deduction]	1,50,000
	<b>Mr. D</b>	
	<b>Deduction under Chapter VI-A from Gross Total Income</b>	
	<b>Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.</b>	Nil

### Question 46

[ICAI Study Mat, Similar in Nov 23, RTP Nov 19, MTP 1 Nov 18, similar in MTP 1 Nov 24, MTP 1 Jul 24, MTP 2 Nov 20, RTP May 18]

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:

- Premium paid to insure the life of her major daughter (policy taken on 1.4.2018) (Assured value ₹ 1,80,000) – ₹ 20,000.
- Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.
- Donation to a public charitable institution ₹ 50,000 by way of cheque.
- LIC Pension Fund – ₹ 60,000.
- Donation to National Children’s Fund - ₹ 25,000 by way of cheque
- 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 A.Y. 2025-26 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution: Computation of Total Income of Mr. Shiva for A.Y. 2025-26**

Particulars	₹	₹
Gross Total Income		7,75,000
Less: Deduction under section 80C		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,18,000	
Deduction under section 80CCC in respect of LIC pension fund	60,000	
	1,78,000	
<b>As per section 80CCE, deduction under section 80C &amp; 80CCC is restricted to</b>		<b>1,50,000</b>
Deduction under section 80D		
Medical Insurance premium in respect of self and spouse	26,000	
<b>Restricted to</b>		<b>25,000</b>
Deduction under section 80G (See Working Note below)		87,500
<b>Total income</b>		<b>5,12,500</b>

**Working Note: Computation of deduction under section 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 (See Note below)	10,000
				<b>87,500</b>

**Note –**

*Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 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 under section 80G.*

*Therefore, the deduction under section 80G in respect of donation to public charitable trust would be ₹ 10,000, which is 50% of ₹ 20,000.*



**Question 47 [ICAI Study Mat, RTP Nov 18]**

Mr. A has commenced the business of manufacture of computers on 1.4.2024. He employed 350 new employees during the P.Y. 2024-25, the details of whom are as follows –

	No. of employees	Date of employment	Regular/Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2024	Regular	24,000
(ii)	125	1.5.2024	Regular	26,000
(iii)	50	1.8.2024	Casual	24,500
(iv)	100	1.9.2024	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2025-26, if the 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 1.4.2024?

**Solution**

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2025-26 and he has employed “**additional employees**” during the P.Y. 2024-25.

**If Mr. A is engaged in the business of manufacture of computers**

Additional employee cost = ₹ 24,000 × 12 × 75 [See Working Note below] = ₹ 2,16,00,000

Deduction under section 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 1.8.2024 who do not participate in recognized provident fund	50	
Regular employees employed on 1.5.2024, since their total monthly emoluments exceed ₹ 25,000	125	
Regular employees employed on 1.9.2024 since they have been employed for less than 240 days in the P.Y.2024-25.	100	
		275
<b>Number of “additional employees”</b>		<b>75</b>

**Notes –**

- Since casual employees **do not participate in recognized provident fund, they do not qualify as additional employees**. Further, 125 regular employees employed on 1.5.2024 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 100 regular employees employed on 1.9.2024 do not qualify as additional employees for the P.Y.2024-25, since they are employed for **less than 240 days in that year**. Therefore, only 75 employees employed on 1.4.2024 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2024-25 is deemed to be the additional employee cost.
- As regards 100 regular employees employed on 1.9.2024, they would be treated as additional employees for previous year 2025-26, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, **30% of additional employee cost** in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2026-27.

**Question 48 [MTP 1 May 18, Similar in MTP 2 Oct 22, RTP May 20, RTP Nov 21]**

Mr. Rudra has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2024-25.

Particulars	Mr. Rudra (₹)	Unit in DTA (₹)
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 30.9.2025 is ₹ 3,00,00,000. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2025-26 if both the units were set up and start manufacturing from 22-05-2016.

**Solution: Computation of deduction u/s 10AA of the Income-tax Act, 1961**

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

Since Mr. Rudra has exercised the **option of shifting out of the default tax regime** provided under section 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 section 44AB and files return of income on or before due date u/s 139(1).

Since A.Y. 2025-26 is the **9th assessment year** from A.Y. 2017-18, relevant to the previous year 2016-17, 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 section 10AA are fulfilled.

$$\begin{aligned}
 & \text{Export turnover of Unit in SEZ} \\
 & = \text{Profits of Unit in SEZ} \times \frac{\text{Total turnover of Unit in SEZ}}{\text{Export turnover of Unit in SEZ}} \times 50\% \\
 & = 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\% = ₹ 22.50 \text{ lakhs}
 \end{aligned}$$

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. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
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

**Question 49 [PP May 24]**

Mr. Rajesh is a working partner in M/s Sunflower Associates, a partnership firm. Mr. Rajesh has contributed Rs. 15 lakhs as capital in the firm. Partnership deed authorises payment of interest to partners @ 13% and also payment of remuneration to partners @20,000 per month. Whole of the remuneration is allowable as deduction to M/s Sunflower Associates. Mr. Rajesh has set up a unit in SEZ in May, 2017. The total turnover, export turnover and net profit for the year ended 31.3.2025 were Rs. 120 lakhs, Rs. 45 lakhs and Rs. 7.5 lakhs respectively. Out of the export turnover of Rs. 45 lakhs, only Rs. 40 lakhs has been received in convertible foreign exchange by 30.9.2025. During the P.Y. 2024-25, Mr. Rajesh has commenced a business of warehousing facility for storage of edible oil. The net profit of this business as per profit & loss account is Rs. 7,50,000. The following items are debited to Profit & Loss Account:

- (i) Personal drawings Rs. 70,000
- (ii) Advance income-tax paid Rs. 1,00,000
- (iii) Purchase of warehouse building of Rs. 10 lakhs on 10.6.2024 for the purpose of storage of edible oil.

The following items are credited to Profit & Loss account:

- (i) Interest on saving bank account with post office Rs. 15,000
- (ii) Interest on fixed deposit with SBI Rs. 20,000
- (iii) Dividend from Indian companies (Gross) Rs. 32,000

He has paid the premium of Rs. 60,000 on life insurance policy in the name of her married daughter. The policy was taken on 1.10.2018 and the sum assured being Rs. 5,00,000. Compute the total income and tax payable by Mr. Rajesh for the A.Y. 2025-26 under default tax regime and normal provisions of the Act.

**Solution: Computation of total income of Mr. Rajesh for the A.Y. 2024-25 under default tax regime under section 115BAC**

Particulars	Amount (in Rs.)	
<b>Profits and gains of business and profession</b>		
Income from firm M/s Sunflower Associates		
Interest on capital@13% p.a. on Rs. 15 lakhs, restricted to 12%, which is the maximum deduction allowable in the hands of the firm	1,80,000	
Salary to Mr. Rajesh as a working partner, which is allowable as deduction in the hands of firm (Rs. 20,000 x 12)	2,40,000	4,20,000
<b>Profit from SEZ unit</b>		
Net profit from SEZ unit		7,50,000
Income from warehousing facility for storage of edible oil		
Net profit as per profit and loss account	7,50,000	
Less: Income credited to profit and loss account but taxable under the head 'Income from Other Sources'		
Interest on savings bank A/c with post office	15,000	
Interest on fixed deposit with SBI	20,000	
Dividend from Indian companies (Gross)	32,000	
	6,83,000	
Add: Payments not allowable as deduction		
Advance income-tax paid disallowed u/s 40(a)(ii)	1,00,000	
Personal drawings disallowed u/s 37	70,000	
Purchase of building	10,00,000	
	18,53,000	
Less: Depreciation on building [Rs. 10,00,000 x 10%]	1,00,000	17,53,000

<b>Income from Other Sources</b>			
Interest on savings bank A/c with post office	15,000		
Less: Exempt under section 10(15)	3,500	11,500	
Interest on fixed deposit with SBI		20,000	
Dividend from Indian companies (Gross)		32,000	63,500
<b>Gross Total Income/ Total Income</b>			<b>29,86,500</b>
[No deduction under section 80C, 80TTA and 10AA would be allowable]			

**Computation of tax payable under default tax regime for A.Y. 2024-25**

	Rs.	Rs.
Tax on total income of Rs. 29,86,500		
On first Rs. 3,00,000	Nil	
Rs. 3,00,001 – Rs. 7,00,000 [@5% of Rs. 4 lakhs]	20,000	
Rs. 7,00,001 – Rs. 10,00,000 [@10% of Rs. 3 lakhs]	30,000	
Rs. 10,00,001 – Rs. 12,00,000 [@15% of Rs. 2 lakhs]	30,000	
Rs. 12,00,001 – Rs. 15,00,000 [@20% of Rs. 3 lakhs]	60,000	
Rs. 15,00,001 - Rs. 29,86,500 [@30% of Rs. 14,86,500]	4,45,950	5,85,950
Add: Health and Education cess @4%		23,438
		6,09,388
Less: Advance income-tax paid		1,00,000
<b>Tax payable</b>		<b>5,09,388</b>
<b>Tax Payable (Rounded off)</b>		<b>5,09,390</b>

**Computation of total income of Mr. Rajesh for AY 2025-26 under normal provisions**

Particulars	Amount (in Rs.)	
<b>Gross Total Income as per section 115BAC</b>	<b>29,86,500</b>	
Less: Deduction under section 10AA [Rs. 7,50,000 x 40,00,000/ Rs. 1,20,00,000 x 50%, being seventh year of operation]	1,25,000	28,61,500
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Life insurance premium [maximum 10% of sum assured]	50,000	
Deduction under section 80TTA		
Interest on saving bank account with post office, restricted to	10,000	60,000
<b>Total Income</b>		<b>28,01,500</b>

**Computation of tax payable by Mr. Rajesh for AY 2025-26 under the regular provisions**

Particulars	Rs.	Rs.
Tax on total income of Rs. 28,01,500		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 [@5% of Rs. 2.50 lakhs]	12,500	
Rs. 5,00,001 – Rs. 10,00,000 [@20% of Rs. 5 lakhs]	1,00,000	
Rs. 10,00,001 - Rs. 28,01,500 [@30% of Rs. 18,01,500]	5,40,450	6,52,950
Add: Health and education cess@4%		26,118
<b>Total tax liability</b>		<b>6,79,068</b>
Less: Advance income-tax paid		1,00,000
<b>Tax payable</b>		<b>5,79,068</b>
<b>Tax payable (rounded off)</b>		<b>5,79,070</b>

**Computation of adjusted total income and AMT of Mr. Rajesh for A.Y. 2025-26**

Particulars	Rs.	Rs.
Total Income (computed above as per regular provisions of income tax)		28,01,500
Add: Deduction under section 10AA		1,25,000
<b>Adjusted Total Income</b>		<b>29,26,500</b>
Alternative Minimum Tax@18.5%		5,41,403
Add: Health and education cess@4%		21,656
Total tax liability		5,63,059
Less: Advance income-tax paid		1,00,000
<b>Tax payable</b>		<b>4,63,059</b>
<b>Tax payable (rounded off)</b>		<b>4,63,060</b>

Since alternate minimum tax payable is less than the regular income-tax payable, tax payable under normal provisions of the Act is Rs. 5,79,070.

**Question 50 [RTP Nov 20]**

Mr. Suraj aged 50 years, a resident individual, engaged in a wholesale business of health products. He is also a partner in XYZ & Co., a partnership firm. The following details are made available for the year ended 31.3.2025:

Sl. No.	Particulars	Rs.	Rs.
(i)	Interest on capital received from XYZ & Co., at 15% [in accordance with the partnership deed]		1,50,000
(ii)	Share of profit from the firm		35,000
(iii)	Salary as working partner (fully allowed in the hands of the firm)		1,00,000
(iv)	Interest from bank on fixed deposit (Net of TDS)		40,500
(v)	Interest on saving bank account		12,300
(vi)	Income-tax refund received relating to assessment year 2024-25 including interest of Rs. 2,300		34,500
(vii)	Net profit from wholesale business		5,60,000
	Amounts debited include the following:		
	- Depreciation as per books	34,000	
	- Motor car expenses	40,000	
	- Municipal taxes for the shop	7,000	
	(For two half years; payment for one half year made on 12.7.2025 and for the other on 31.12.2025)		
	Salary to manager by way of a single cash payment	21,000	
(viii)	The WDV of the assets (as on 1.4.2024) used in above wholesale business is as under:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	
(ix)	Motor car acquired on 31.12.2024 (20% used for personal use)	6,80,000	
(x)	He owned a house property in Mumbai which was sold in January, 2019. He received arrears of rent in respect of the said property in October, 2024.		1,15,000
(x)	LIP paid for independent son	60,000	
(xi)	PPF of his wife	70,000	
(xii)	Health insurance premium paid towards a policy covering her mother aged 75 by way of cheque. She is not dependant on him.	35,000	
(xiii)	Contribution toward Prime Minister National Relief Fund	50,000	

You are required to compute the total income of the Mr. Suraj for the assessment year 2025-26



and the closing WDV of each block of assets. He wants to Opt out of 115BAC.

**Solution: Computation of total income of Mr. Suraj for the A.Y.2025-26**

Particulars	Rs.	Rs.
<b>Income from house property</b>		
Arrears of rent (taxable under section 25A even if Mr. Suraj is not the owner of the house property in the P.Y.2024 -25)	1,15,000	
Less: Deduction@30%	34,500	<b>80,500</b>
Income chargeable under this head		
<b>Profits and gains of business or profession</b>		
Income from wholesale business		
Net profit as per books	5,60,000	
Add: Amount debited to P & L A/c, not allowable as deduction		
• Depreciation as per books	34,000	
• Disallowance of municipal taxes paid for the second half- year under section 43B, since the same was paid after the due date of filing of return (Rs. 7,000/2)	3,500	
• Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds Rs. 10,000	21,000	
• 20% of car expenses for personal use	8,000	
	6,26,500	
Less: Depreciation allowable (Note 1)	1,96,800	
	4,29,700	
<b>Income from firm</b>		
Share of profit from the firm is exempt under section 10(2A)	-	
Interest on capital from partnership firm (Note 2)	1,20,000	
Salary as working partner fully taxable	1,00,000	2,20,000
		6,49,700
<b>Income from other sources</b>		
Interest on bank fixed deposit (Gross)	45,000	
Interest on saving bank account	12,300	
Interest on income-tax refund	2,300	
		59,600
<b>Gross total income</b>		<b>7,89,800</b>
Less: Deduction under Chapter VIA (Note 3)		2,25,000
<b>Total Income</b>		<b>5,64,800</b>

**Notes:**

**1) Depreciation allowable under the Income-tax Rules, 1962**

		Opening WDV	Rate		Depre- ciation	Closing WDV
Block 1	Computers	2,40,000	40%		96,000	1,44,000
	Computer printer	1,50,000	40%		60,000	90,000
Block 2	Motor Car	6,80,000	15%	51,000 [50% of 15% is allowable, since it is put to use for less than 180 days] 10,200	40,800	6,39,200
	Less: 20% disallowance for personal use				1,96,800	8,73,200

- 2) Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Since interest is paid in accordance with partnership deed, maximum interest allowable as deduction in the hands of the firm is 12% p.a. Therefore, interest @12% p.a. amounting to Rs. 1,20,000 would be treated as the business income of Mr. Suraj.

3) Deduction under Chapter VI-A

Particulars	Rs.	Rs.
<b>Under section 80C</b>		
LIP for independent son	60,000	
PPF paid in wife's name	70,000	
	1,30,000	
Since the maximum deduction under section 80C and 80CCE is Rs. 1,50,000, the entire sum of Rs. 1,30,000 would be allowed as deduction		1,30,000
<b>Under section 80D</b>		
Health insurance premium taken for mother is fully allowable as deduction, even though she is not dependant on him. Since she is senior citizen whole of amount is allowable as deduction as it is within overall limit of Rs. 50,000		35,000
<b>Under section 80G</b>		
Contribution towards PM National Relief Fund eligible for 100% deduction without any qualifying limit		50,000
<b>Under section 80TTA</b>		
Interest on saving bank account, restricted to		10,000
<b>Total deduction</b>		<b>2,25,000</b>

**Question 51 [PP May 23 – 14 Marks]**

Mr. Bhasin, a resident individual, aged 52 years, provides management consultancy services to various corporate and non-corporate clients. His Income & Expenditure A/c for the year ended 31st March, 2025 is as under:

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Employees' Remuneration	15,00,000	By Gross Receipts from Profession (last year Rs. 75,00,000) (No TDS was deducted from any of the receipts)	60,60,000
To Office & Administrative Expenses	5,00,000	By Interest on Savings Bank Account	25,000
To Rates and Taxes	15,000	By Winnings from Lottery (Net of cost of lottery tickets of Rs. 500)	99,500
To Interest Expenses	80,000	By Rent Received	2,40,000
To Office Rent	2,40,000		
To Insurance Premium	72,000		
To Professional Fees	2,00,000		
To Depreciation on Computers	1,20,000		
To Excess of Income over Expenditure	36,97,500		
	<b>64,24,500</b>		<b>64,24,500</b>

The following details relates to F.Y. 2024-25:

- a) Employees' Remuneration includes a sum of Rs. 3,00,000 paid to his wife, Mrs. Beena who is working as a manager in his office. She does not have any technical or professional qualification or experience required for the job. The payment of salary was as per market rates in comparison to similar work profile.
- b) Mr. Bhasin owns a big house with 2 independent units. Unit - 1 (with 50% floor area) has been let out for residential purposes at a monthly rent of Rs. 20,000 for the entire year. Unit - 2 (with the balance 50% of the floor area) is used by Mr. Bhasin as his residence- cum-office. Other particulars of the house are:
  - Municipal Valuation - Rs. 3,60,000 p.a.
  - Fair Rent - Rs. 4,20,000 p.a.
  - Standard Rent under Rent Control Act -Rs. 4,00,000 p.a.
- c) Rates and taxes include a sum of Rs. 10,000 paid as municipal taxes of the house.
- d) Interest expenses represent interest on capital borrowed from a nationalised bank for the construction of the house. The construction was completed in F.Y.2012-13. Neither the loan nor the interest was paid till the due date of filing the return of income.
- e) Based on the actual rent received for Unit-1, Mr. Bhasin has debited Rs. 2,40,000 as notional rent for Unit-2 which is used for his profession.
- f) The expense on insurance premium of Rs. 72,000 represents lump-sum health insurance premium paid by Mr. Bhasin for 3 years effective from 1<sup>st</sup> July, 2024 to 30th June, 2027 for himself, his spouse and two dependent children. The said insurance premium was paid through account payee cheque.
- g) The expenses on professional fees paid includes a sum of Rs. 1,00,000 paid to Mr. Raunak, an Indian resident on which no tax was deducted at source.
- h) There was only one block containing computers which came into existence only on 2nd April, 2024 when new laptops (for Rs. 1,60,000), printers and scanners (for Rs. 40,000) were purchased. He charged depreciation @ 60% in the entire cost of Rs. 2,00,000 and debited the amount to Income & Expenditure A/c.
- i) Mr. Bhasin has also taken a loan of Rs. 5,00,000 from a nationalised bank for higher education of his son. During F.Y.2024-25, he repaid principal of Rs. 75,000 along with interest of Rs. 40,000. This amount is not reflected in Income and Expenditure Account.

You are required to compute the total income under proper heads of income of Mr. Bhasin for A.Y. 2025-26 under old provisions of Income-tax Act 1961, assuming that he has not opted to pay tax under section 115BAC. Also calculate the total tax payable by him.

**Solution: Computation of total income and tax payable by Mr. Bhasin for A.Y. 2025-26**

	Particulars	Rs.	Rs.	Rs.
<b>I</b>	<b>Income from Salaries</b>			
	Salary of Mrs. Beena [Remuneration paid by Mr. Bhasin to his wife Mrs. Beena who is employed as a manager in his office would be included in his hands, since Mrs. Beena does not have any technical or professional qualification or experience required for the job]		3,00,000	
	Less: Standard deduction u/s 16(ia)		50,000	<b>2,50,000</b>
<b>II</b>	<b>Income from house property</b>			
	Let out portion (Unit 1 – 50% area)			

III	Gross Annual Value [Higher of expected rent of Rs. 2,00,000 and actual rent of Rs. 2,40,000 (Rs. 20,000 x 12)]	2,40,000		
	[Expected rent is higher of municipal value of Rs. 1,80,000 (3,60,000 x 50%) and fair rent of Rs. 2,10,000 (Rs. 4,20,000 x 50%), restricted to standard rent of Rs. 2,00,000 (Rs. 4,00,000 x 50%)]			
	Less: Municipal taxes paid for let out portion (Rs. 10,000 x 50%)	5,000		
	Net Annual Value (NAV)	2,35,000		
	Less: Deduction under section 24			
	(a) 30% of NAV	70,500		
	(b) Interest on capital borrowed for construction of house relating to let out portion (80,000 x 50%) (allowed on accrual basis)	40,000		
	Income from let out portion		1,24,500	
	Self-occupied (Unit 2 – 25%) [Since Unit 2 representing 50% of the floor area is used for residence as well as business purpose, it is assumed that it is equally used for residence and business purpose]			
	Gross Annual Value			Nil
	<b>Less: Municipal taxes [not allowed for self-occupied property]</b>			Nil
	Net Annual Value			Nil
	Less: Deduction under section 24(b)			
	Interest on loan for construction of house, Rs. 80,000 x 50% x 1/2 (allowable on accrual basis)			20,000
	Loss from self-occupied portion			(20,000)
	<b>[Loss from self-occupied portion can be set off against income from let out portion]</b>			<b>1,04,500</b>
	<b>Profits and gains from business and profession</b>			
	Excess of income over expenditure			36,97,500
	Add: Expenses debited to Income & Expenditure A/c but not allowable as deduction			
	Remuneration paid to his wife Mrs. Beena [As per section 40A(2) remuneration paid to Mrs. Beena is allowed, since it is as per market rates]			-
	Municipal taxes attributable to let out and self-occupied portions not allowable [Rs. 10,000 x 75%]			7,500
	Interest on capital borrowed for construction of house attributable to let out and self-occupied portion not allowable [Rs. 80,000 x 75%]			60,000
	Interest on capital borrowed from bank for construction of house attributable to business portion i.e., 25% of Rs. 80,000 [not allowable, since it is not			20,000

	paid on or before due date of filing return of income by virtue of section 43B]		
	Notional rent for Unit 2 used for business or profession [not allowable under section 30, since Mr. Bhasin himself is the owner of the property]		2,40,000
	Insurance premium [Personal expenditure not allowable]		72,000
	Professional fees to Mr. Raunak without deducting TDS [Rs. 1,00,000 x 30%] [Mr. Bhasin is required to deduct TDS on professional fees payment to Mr. Raunak since his gross receipts from profession exceeds Rs. 50 lakhs during the P.Y. 2023-24. 30% of the sum paid to Mr. Raunak, resident without deducting tax to be disallowed in P.Y. 2024-25]	30,000	
	Depreciation as per books	1,20,000	5,49,500
			42,47,000
	Less: Income credited to Income & Expenditure A/c but not taxable as business income		
	Interest on savings bank account [taxable under the head "Income from other sources"]	25,000	
	Winnings from lottery [taxable under the head "Income from other sources"]	99,500	
	Rent received [taxable under the head "Income from house property"]	2,40,000	3,64,500
			38,82,500
	Less: Depreciation allowable [2,00,000 (Rs. 1,60,000, being new laptops + Rs. 40,000, being printers) x 40%, i.e., 64,000+16,000 as it was put to use for more than 180 days in the P.Y. 2024-25. Printers and scanners for Rs. 40,000 are eligible for higher depreciation of 40%]		80,000
			38,02,500
<b>IV</b>	<b>Income from Other Sources</b>		
	Interest on savings bank account	25,000	
	Winnings from Lottery [No expenditure or allowance is allowed from lottery income]	1,00,000	
			1,25,000
	<b>Gross Total Income</b>		<b>42,82,000</b>
	Less: Deduction under Chapter VI-A		
	<b>Deduction under section 80D</b>		
	Medical insurance premium [Rs. 72,000 x 1/4, being the previous years in which insurance would be in force] [allowable for self, spouse and dependent children]	18,000	
	<b>Deduction under section 80E</b>		
	Interest on loan taken from a nationalised bank for higher education of son	40,000	
	<b>Deduction under section 80TTA</b>		
	Interest on saving bank account to the extent of 10,000	10,000	
			68,000
	<b>Total Income</b>		<b>42,14,000</b>
	<b>Tax Payable</b>		
	On lottery income [30% of Rs. 1,00,000]	30,000	



On other income of Rs. 41,14,000			
Upto Rs. 2,50,000	Nil		
Rs. 2,50,000 @5% [Rs. 2,50,000 – Rs. 5,00,000]	12,500		
Rs. 5,00,000 @20% [Rs. 5,00,000 – Rs. 10,00,000]	1,00,000		
Rs. 31,14,000 @30% [Rs. 10,00,000 – Rs. 41,14,000]	9,34,200	10,46,700	
			10,76,700
Add : HEC@4%			43,068
Tax liability			11,19,768
Less: TDS on lottery winnings @30% u/s 194B			30,000
<b>Tax payable</b>			<b>10,89,768</b>
<b>Tax payable (rounded off)</b>			<b>10,89,770</b>

**Question 52 [PP May 24 – 15 Marks]**

Mr. Sahil, resident Indian aged 40 years, a Manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025.

**Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025**

Particulars	Rs.	Particulars	Rs.
To Opening Stock	71,000	By Sales	43,50,000
To Purchase of Raw Materials	17,20,500	By Closing Stock	2,00,000
To Manufacturing Wages & Expenses	5,80,500		
To Gross Profit	21,78,000		
<b>Total</b>	<b>45,50,000</b>	<b>Total</b>	<b>45,50,000</b>
To Administrative Charges	2,90,000	By Gross Profit	21,78,000
To SGST Penalty Paid (It is not compensatory nature)	7,000	By Dividend From Domestic Companies	15,000
To GST Paid	1,10,000	By Winning from Lotteries (Net of TDS) (TDS 4,500)	10,500
To General Expenses	55,000	By Profit on Sale of Shares	45,000
To Miscellaneous Expenses	1,50,500		
To Loss on Sale of Shares	20,000		
To Interest to Bank (on Machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	13,56,000		
<b>Total</b>	<b>22,48,500</b>	<b>Total</b>	<b>22,48,500</b>

Following are the further information relating to Financial Year 2024-2025:

- Administrative Charges include Rs. 46,000 paid as commission to brother of Assessee. The Commission amount at the market rate in Rs. 36,000.
- The assessee paid Rs. 33,000 in cash to a Transport Carrier on 26.12.2024. This amount is included in Manufacturing Expenses. (Assume that the provisions relating to TDS are not applicable on this payment.)
- A Sum of Rs. 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in books of account.
- Bank Term Loan Interest actually paid upto 31.03.2025 was Rs. 20,000 and the balance was paid in November 2025.

- (v) Miscellaneous Expenses include Rs. 10,000 contributed to Prime Minister's Relief Fund.
- (vi) Loss on Sale of Shares represents shares sold within a period of 6 months from the date of purchase.
- (vii) Profit on Sale of Shares represents shares held for 2 years & Securities Transaction Tax was paid on it.
- (viii) Housing Loan Principal repaid during the year was Rs. 50,000 and it relates to residential property occupied by him. Interest on Housing Loan was Rs. 2,60,000. Housing Loan was taken from Canara Bank. (Value of house property is Rs. 45 Lakhs, loan value Rs. 25 Lakhs and sanction date 31.03.2017).

**Note:** These amounts were not dealt with in the Profit and Loss Account given above. (Assume this housing loan is eligible for 80EE deduction).

- (ix) Depreciation allowable under the Act to be computed on the basis of following information:

<b>Plant &amp; Machinery (Depreciation Rate @15%)</b>	<b>Rs.</b>
Opening WDV (as on 01.04.2024)	12,00,000
Additions During the year (Used for more than 180 Days)	2,00,000
Total Additions during the year	4,00,000
<i>Note: Ignore Additional Depreciation u/s 32(1)(iia)</i>	

Compute the total income and tax liability of Mr. Sahil for the A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under Section 115BAC(1A).

### Solution

#### Computation of total income and tax liability of Mr. Sahil for A.Y. 2025-26

	<b>Particulars</b>	<b>Rs.</b>	<b>Rs.</b>
I	Income from house property		
	Annual value of self-occupied property	Nil	
	Less: Deduction under section 24(b)		
	Interest on housing loan of Rs. 2,60,000 restricted to Rs. 2,00,000	2,00,000	
		(2,00,000)	
II	Profits and gains of business or profession		
	Net Profit	13,56,000	
	Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other head		
	• Commission paid to brother [Commission paid to a related person/relative to the extent it is excessive to market rate is disallowed under section 40A(2)]	10,000	
	• Cash payment to a Transport Carrier [Not disallowed under section 40A(3) since the limit for one time cash payment is Rs. 35,000 in respect of payment to transport operators]	Nil	
	• Interest to bank on term loan [Interest paid to bank after the due date of filing of return under section 139(1) is disallowed as per section 43B]	40,000	
	• Contribution to Prime Minister's Relief Fund [Not allowable since the same is not incurred wholly and exclusively for business purpose]	10,000	
	• SGST Penalty paid [SGST penalty paid is not compensatory in nature and therefore, not allowable]	7,000	
	• Loss on sale of shares	20,000	
	• Depreciation as per books of account	2,00,000	
		16,43,000	

	Less: Incomes credited to profit and loss account but not taxable as business income		
	- Dividend from Domestic Companies	15,000	
	- Winnings from lotteries	10,500	
	- Profit on sale of shares	45,000	
		15,72,500	
	Less: Depreciation allowable as per Income- tax Rules, 1962		
	• On Plant & Machinery [@15% on Rs. 14,00,000, being opening WDV of Rs. 12 lakhs and additions put to use for more than 180 days of Rs. 2 lakhs + @7.5% on Rs. 2,00,000, being additions put to use for less than 180 days]	2,25,000	
	<b>Business Income</b>	<b>13,47,500</b>	
	Less: Set off of loss from house property as per section 71(3A)	2,00,000	
		11,47,500	
	Add: Salary paid to staff not recorded in the books [Assuming the expenditure is in the nature of unexplained expenditure, the same is deemed to be income as per section 69C of Mr. Sahil. No deduction would be allowed in respect of such expenditure.]	48,000	11,95,500
	<i>Alternatively, it is possible to assume that the salary not recorded in the books of account was an erroneous omission and the assessee has offered satisfactory explanation about the source of such expenditure. In such a case, it would not be considered as deemed income and the same would be allowed as deduction.</i>		
	<b>Presumptive Income</b>		
	[8% of sales i.e. Rs. 43,50,000 x 8% assuming entire amount of sales are not received by A/c payee cheque or A/c payee draft or ECS or other electronic prescribed modes]	3,48,000	
	<i><b>Note:</b> If it is assumed that the entire sales are received by A/c payee cheque or A/c payee draft or ECS or other electronic prescribed modes on or before due date of filing return of income, the presumptive rate would be 6%.</i>		
	<i>[As per section 44AD, in case of Mr. Sahil, being an eligible assessee, a sum equal to Rs. 3,48,000 (8% of total turnover i.e., Rs. 43,50,000) or as the case may be, a sum higher than the aforesaid sum claimed to have been earned by him would be deemed to be the business income. In this case, since Mr. Sahil has maintained books of account, he can claim the higher sum actually earned Rs. 13,47,500 as his income from business.]</i>		
	<i>(See Note below the solution for alternate answer)</i>		
	<b>III Capital Gain</b>		
	Long term capital gains taxable u/s 112A [Since shares are held for 2 years and STT has been paid]	45,000	
	Less: Set off of short term capital loss as per section 70(2)	20,000	25,000
<b>IV</b>	<b>Income from Other Sources</b>		
	Dividend from Domestic Companies	15,000	
	Winning from lotteries (Rs. 10,500 + Rs. 4,500)	15,000	
			30,000
	<b>Gross Total Income</b>		<b>12,50,500</b>

Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Principal repayment of housing loan	50,000	
Deduction under section 80EE		
Interest on housing loan of Rs. 60,000 [Rs. 2,60,000 – Rs. 2,00,000, allowed u/s 24(b)] allowable u/s 80EE upto Rs. 50,000	50,000	
Deduction under section 80G		
Contribution to Prime Minister's Relief Fund	10,000	1,10,000
<b>Total Income</b>		<b>11,40,500</b>
<b><u>Tax Liability</u></b>		
Tax on LTCG of Rs. 25,000 u/s 112A [Exempt upto Rs. 1.25 lakh]		Nil
Tax on winning from lotteries of Rs. 15,000 @30%		4,500
Tax on unexplained expenditure of Rs. 48,000 @60%		28,800
Tax on balance income of Rs. 10,52,500 at slab rate		
Upto Rs. 2,50,000	Nil	
From Rs. 2,50,001 to Rs. 5,00,000 @5%	12,500	
From Rs. 5,00,001 to Rs. 10,00,000 @20%	1,00,000	
From Rs. 10,00,001 to Rs. 10,52,500 @30%	15,750	1,28,250
		1,61,550
Add: Surcharge @25% on tax on unexplained expenditure of Rs. 28,800		7,200
		1,68,750
Add: Health and education cess @4%		6,750
Tax Liability		1,75,500

***Note** – Alternatively, if Mr. Sahil claims his business income as Rs. 3,48,000 i.e., 8% of total turnover under section 44AD, his total income and tax liability would undergo a change. Note - If it is assumed that the entire sales are received by A/c payee cheque or A/c payee draft or ECS or other electronic prescribed modes on or before due date of filing return of income, the presumptive rate would be 6%.*

**Question 53 [ICAI Study Mat, MTP 2 May 24, July 21, Jan 21, Similar Question in MTP 2 Nov 22, May 23, May 24]**

Paras aged 55 years is a resident of India. During the F.Y. 2024-25, 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?

**Solution**

An individual is required to furnish a return of income under section 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. ₹ 3,00,000 under default tax regime u/s 115BAC(1A) and ₹ 2,50,000 if exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (for A.Y. 2025-26).

### Computation of total income of Mr. Paras for A.Y. 2025-26

Particulars	₹
Income from other sources	
Interest earned from Non-resident (External) Account ₹ 2,88,000 [Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
Less: Deduction under Chapter VI-A (not available under the default tax regime under section 115BAC)	-
<b>Total Income</b>	<b>33,000</b>

In case he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction of ₹ 3,000 under section 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 A.Y.2025-26, before giving effect 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 A.Y.2025-26.

#### 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 to, inter alia, 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 ₹ 3,00,000 or ₹ 2,50,000**, as the case may be. Consequently, he would be required to file return of income for A.Y.2025-26.*

*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 under section 139(1), even if his income is less than the basic exemption limit.*

#### Question 54

State with reasons whether you agree or disagree with the following statements:

- Return of income of Limited Liability Partnership (LLP) could be verified by any partner.
- Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2025 whether or not declaring presumptive income under section 44AD, is 31st October, 2025.

#### Solution

##### (a) Disagree

The return of income of LLP should be verified by a designated partner.

Any other partner can verify the Return of Income of LLP only in the following cases:-

- where for any unavoidable reason such designated partner is not able to verify the return, or,
- where there is no designated partner.



**(b) Disagree**

In case Mr. A offers his business income as per the presumptive taxation provisions of section 44AD (₹ 11.60 lakhs or more), then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2025, shall be 31st July, 2025.

In case, Mr. A wants to declare business income lower than ₹ 11.60 lakhs, he has to get his accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore, in which case, the due date for filing return would be 31st October, 2025.

**Question 55 [Sept 24 - 4 Marks]**

Rani, an Indian resident aged 34 years did not file her return of income for the A.Y. 2022-23, 2023-24 and 2024-25. She gives the following information regarding each of the A.Ys.

**A.Y. 2022-23**

- (i) Tax payable on the total income of Rani - Rs. 14,50,000
- (ii) TDS deducted - Rs. 5,00,000

**A.Y. 2023-24**

- (i) Tax payable on the total income of Rani - Rs. 5,60,000
- (ii) TDS deducted - Rs. 10,00,000

**A.Y. 2024-25**

- (i) Tax payable on the total income of Rani - Rs. 6,30,000
- (ii) TDS deducted - Rs. 2,00,000
- (iii) Interest payable u/s 234A, 234B and 234C - Rs. 90,000 (calculated till 31st May 2025)
- (iv) Self-assessment tax paid - Rs. 1,00,000

She approaches you to file updated return under section 139(8A) on 16.5.2025. You are required to prepare a suggestion to be given to her in this respect. Your suggestion should include the financial aspect also (like payment of tax) briefly outlining the relevant provisions of the Income-tax Act.

**Solution**

An **updated return** can be furnished for the previous year relevant to the assessment year at any time **within 24 months from the end of the relevant assessment year**. Accordingly, the following are the suggestions to Rani with respect to updated return on 16.5.2025 for A.Y. 2022-23, 2023-24 and 2024-25:

**A.Y. 2022-23**

Since the period of 24 months from the end of A.Y. 2022-23 expired on 31.3.2025 updated return cannot be furnished on 16.5.2025 for A.Y. 2022-23.

**A.Y. 2023-24**

For **A.Y. 2023-24**, updated return can be furnished up to **31.3.2026**. Thus, updated return can be furnished on 16.5.2025. Since updated return would be furnished **after** the expiry of **12 months but before 24 months** from the end of 31.3.2024, **additional income tax would be payable @50% of aggregate of tax** (after taking into consideration tax deducted at source) and interest payable. Accordingly, Rani is required to pay additional income-tax in addition to the tax payable of Rs. 5,60,000, interest and late fee of Rs. 5,000.

**Alternate answer:**

*The main solution has been worked out in line with the provisions of section 140B taking **tax payable as the net figure of tax after adjusting TDS**. However, since the term “**tax payable**” used*

in the ITR form for updated return is *before the adjustment of TDS, TCS, Advance tax, interest payable etc.*, it is possible to take a *view that the amount of tax payable* of Rs. 5,60,000 is *before adjusting* TDS of Rs. 10,00,000. In such case, since the refund of Rs. 4,40,000 would arise, updated return cannot be furnished for A.Y. 2023-24.

#### **A.Y. 2024-25**

For **A.Y. 2024-25**, updated return can be furnished up to **31.3.2027**. Thus, updated return can be furnished on 16.5.2025. Since updated return would be furnished *before the expiry of 12 months* from the end of 31.3.2025, *additional income tax* would be payable *@25% of aggregate of tax* (after taking into consideration tax deducted at source and self-assessment tax paid) and *interest payable*. Accordingly, Rani is required to pay additional income-tax of Rs. 1,80,000 i.e., 25% of Rs. 7,20,000 (Rs. 6,30,000 + Rs. 90,000) in addition to tax payable of Rs. 6,30,000, interest payable of Rs. 90,000 and late fees of Rs. 5,000.

#### **Alternate answer:**

The main solution has been worked out in line with the provisions of *section 140B* taking tax payable as the net figure of tax *after adjusting TDS and self-assessment tax paid*. However, since the term “*tax payable*” used in the ITR form for updated return is *before the adjustment of TDS, TCS, Advance tax, interest payable etc.*, it is possible to take a *view that the amount of tax payable* of Rs. 6,30,000 is *before adjusting* TDS of Rs. 2,00,000 and self-assessment tax paid of Rs. 1,00,000. In such case, Rani is required to pay additional income-tax of Rs. 1,05,000 i.e., 25% of Rs. 4,20,000 [Rs. 3,30,000 (Rs. 6,30,000 – Rs. 2,00,000 – Rs. 1,00,000) + Rs. 90,000] in addition to tax payable of Rs. 3,30,000, interest payable of Rs. 90,000 and late fees of Rs. 5,000.

#### **Question 56 [MTP 2 May 24, July 21- 4 Marks]**

In the following cases relating to P.Y.2024-25, 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 A.Y.2025-26 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 Rs. 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 under section 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 Rs. 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels.

#### **Solution**

- (i) A HUF whose total income without giving effect to, inter alia, section 54EC, exceeds the basic exemption limit of Rs. 2,50,000, is required to file a return of its income on or before the due date under section 139(1). In this case, since the *total income without giving effect to exemption* u/s 54EC is Rs. 12 lakhs, *exceeds the basic exemption limit*, the HUF is *required to file* its return of income for A.Y. 2025-26 on or before the due date under section 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 previous year 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 previous year, 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 A.Y. 2025-26 on account of owning a car for personal purposes in Germany.

***Note** – “Asset” for the purpose of the fourth proviso to section 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 section 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 Rs. 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 Rs. 1,20,000 in the P.Y.2024-25 towards consumption of electricity, he has to file his return of income for A.Y. 2025-26 on or before the due date under section 139(1).

#### **Question 57 [Suggested May 25] – 6 Marks**

Mr. Sandeep, manager in CTL Pvt. Ltd. at Mumbai, furnishes following information for the year ended 31st March, 2025:

Basic salary is ₹ 55,000 per month and entitled to a commission of ₹ 2,500 per month. A company owned accommodation is provided to him in Mumbai. Furniture costing ₹ 2,40,000 was also provided.

He took a personal loan of ₹ 3,00,000 on 1st September, 2024 on which the interest @7.75% per annum was charged by the company. The entire loan is still outstanding. SBI rate of interest on 1<sup>st</sup> April, 2024 is 12.75%.

Mr. Sandeep is the owner of a house property in Kolkata which he constructed during the financial year 2016-17. The property consists of four identical units.

He occupied one unit for his residence and three units were let out at a rent of ₹ 20,000 per month per unit. The municipal value is ₹ 9,00,000 and the municipal tax was paid @ 20% of municipal value. Fair rent and standard rent are ₹ 7,50,000 and ₹ 8,50,000, respectively. One of the let out units was vacant for six months during the year. Interest on loan taken for construction of the house is ₹ 2,00,000.

Compute total income of Mr. Sandeep for the A.Y. 2025-26 assuming he has opted out default tax regime u/s 115BAC(1A).

**Solution:**

**Computation of total income of Mr. Sandeep for A.Y. 2025-26  
as per the optional tax regime**

	Particulars	₹	₹	₹
<b>I</b>	<b>Income from Salaries</b>			
	Basic Salary [₹ 55,000 × 12]		6,60,000	
	Commission [₹ 2,500 × 12]		30,000	
	<b>Value of Rent-free accommodation</b>			
	10% of salary [₹ 6,60,000 + ₹ 30,000]	69,000		
	Add: Value of furniture [₹ 2,40,000 × 10% p.a.]	<u>24,000</u>	93,000	
	<b>Value of perquisite for interest on personal loan</b>			
	Interest on loan as per SBI rate [₹ 3,00,000 × 12.75% × 7/12]	22,312.50		
	Less: Interest charged by the company [₹ 3,00,000 × 7.75% × 7/12]	<u>13,562.50</u>	8,750	
	<b>Gross Salary</b>		7,91,750	
<b>II</b>	Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		<u>50,000</u>	
	<b>Net salary</b>			7,41,750
	<b>Income from house property</b>			
	<b>Let out portion [three units]</b>			
	Municipal value [₹ 9,00,000 × ¾]	6,75,000		
	Fair Rent [₹ 7,50,000 × ¾]	5,62,500		
	Higher of Municipal value or fair rent	6,75,000		
	Standard Rent [₹ 8,50,000 × ¾]	6,37,500		
	Expected Rent [Higher of Municipal value or fair rent but restricted to standard rent]	6,37,500		
	Actual rent received/receivable [₹ 20,000 × 12 × 3 – ₹ 20,000 × 6]	6,00,000		
	Actual rent of ₹ 6,00,000 is lower than the expected rent of ₹ 6,37,500 owing to vacancy since, had the property not been vacant the actual rent would have been ₹ 7,20,000. Therefore, the actual rent is Gross Annual Value.			
	<b>Gross Annual Value</b>		6,00,000	
	Less: Municipal taxes (₹ 6,75,000 × 20%)		<u>1,35,000</u>	
	<b>Net Annual Value</b>		4,65,000	
	Less: Deduction under section 24			
	- 30% of net annual value	1,39,500		
	- Interest on loan [₹ 2,00,000 × ¾]	<u>1,50,000</u>	2,89,500	
			1,75,500	
	<b>Self-occupied portion [One Unit]</b>			
	Annual Value	Nil		
	Less: Deduction u/s 24			
	Interest on loan for construction [₹ 2,00,000 × ¼]	<u>50,000</u>	(50,000)	
				1,25,500
	<b>Gross Total Income/ Total Income</b>			<b>8,67,250</b>

**Question 58 [MTP 1 May 25] – 15 Marks**

Mr. Brajesh has set up a unit in SEZ in May, 2017. The total turnover, export turnover and net profit for the year ended 31.3.2025 were ₹ 120 lakhs, ₹ 45 lakhs and ₹ 7.50 lakhs respectively. Out of the

export turnover of ₹ 45 lakhs, only ₹ 40 lakhs has been received in convertible foreign exchange by 30.9.2025.

During the P.Y. 2024-25, Mr. Brajesh has commenced a business of warehousing facility for storage of food grain. The net profit of this business as per profit & loss account is ₹ 8,50,000. The following items are debited to Profit & Loss Account:

- (i) Personal drawings ₹ 70,000
- (ii) Advance income-tax paid ₹ 1,00,000
- (iii) Purchase of warehouse building of ₹ 10 lakhs on 10.6.2024 for the purpose of storage of food grain.

The following items are credited to Profit & Loss account:

- (i) Interest on saving bank account with post office ₹ 15,000
- (ii) Interest on fixed deposit with SBI ₹ 20,000
- (iii) Dividend from Indian companies (Gross) ₹ 32,000

Mr. Brajesh is also a working partner in M/s Neelkamal Associates, a partnership firm. Mr. Brajesh has contributed ₹ 15 lakhs as capital in the firm. Further, Partnership deed authorises payment of interest to partners @ 13% and also payment of remuneration to partners @ ₹ 20,000 per month. Whole of the remuneration is allowable as deduction to M/s Neelkamal Associates.

Mr. Brajesh has also paid the premium of ₹ 60,000 on life insurance policy in the name of her married daughter. The policy was taken on 1.10.2018 and the sum assured being ₹ 5,00,000.

Compute the total income and tax payable by Mr. Brajesh for the A.Y. 2025-26 under default tax regime and normal provisions of the Act.

**Solution:**

**Computation of total income of Mr. Brajesh for the A.Y. 2025-26 under default tax regime under section 115BAC**

	Particulars	Amount (in ₹)	
<b>I</b>	<b>Profits and gains of business and profession</b>		
	<b>Profit from SEZ unit</b>		
	Net profit from SEZ unit		7,50,000
	<b>Income from warehousing facility for storage of food grain</b>		
	Net profit as per profit and loss account	8,50,000	
	<b>Less: Income credited to profit and loss account but taxable under the head 'Income from Other Sources'</b>		
	Interest on savings bank A/c with post office	15,000	
	Interest on fixed deposit with SBI	20,000	
	Dividend from Indian companies (Gross)	32,000	
		7,83,000	
	<b>Add: Payments not allowable as deduction</b>		
	Advance income-tax paid disallowed u/s 40(a)(ii)	1,00,000	
	Personal drawings disallowed u/s 37	70,000	
	Purchase of building	10,00,000	
		19,53,000	
	<b>Less: Depreciation on building [₹ 10,00,000 × 10%]</b>	<u>1,00,000</u>	18,53,000
	<b>Income from firm M/s Neelkamal Associates</b>		
	Interest on capital@13% p.a. on ₹ 15 lakhs, restricted to 12%, which is the maximum deduction allowable in the hands of the firm	1,80,000	
	Salary to Mr. Brajesh as a working partner, which is allowable as deduction in the hands of firm (₹ 20,000 x 12)	<u>2,40,000</u>	4,20,000



<b>II</b>	<b>Income from Other Sources</b>			
	Interest on savings bank A/c with post office	15,000		
	<i>Less:</i> Exempt under section 10(15)	<u>3,500</u>	11,500	
	Interest on fixed deposit with SBI		20,000	
	Dividend from Indian companies (Gross)		32,000	63,500
	<b>Gross Total Income/Total Income</b>			30,86,500
	[No deduction under section 80C, 80TTA and 10AA would be allowable]			

**Computation of tax payable under default tax regime for A.Y. 2025-26**

	₹	₹
<b>Tax on total income of ₹ 30,86,500</b>		
On first ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [ <i>@</i> 5% of ₹ 4 lakhs]	20,000	
₹ 7,00,001 – ₹ 10,00,000 [ <i>@</i> 10% of ₹ 3 lakhs]	30,000	
₹ 10,00,001 – ₹ 12,00,000 [ <i>@</i> 15% of ₹ 2 lakhs]	30,000	
₹ 12,00,001 – ₹ 15,00,000 [ <i>@</i> 20% of ₹ 3 lakhs]	60,000	
₹ 15,00,001 - ₹ 30,86,500 [ <i>@</i> 30% of ₹ 15,86,500]	<u>4,75,950</u>	6,15,950
<i>Add:</i> Health and Education cess <i>@</i> 4%		24,638
		6,40,588
<i>Less:</i> Advance income-tax paid		1,00,000
<b>Tax payable</b>		5,40,588
<b>Tax Payable (Rounded off)</b>		5,40,590

**Computation of total income of Mr. Brajesh for the A.Y. 2025-26  
under normal provisions of the Act**

Particulars	Amount (in ₹)	
<b>Gross Total Income as per section 115BAC</b>	30,86,500	
<b><i>Less:</i> Deduction under section 10AA</b> [₹ 7,50,000 × 40,00,000/ ₹ 1,20,00,000 × 50%, being eighth year of operation]	<u>1,25,000</u>	29,61,500
<b><i>Less:</i> Deduction under section 35AD</b>	10,00,000	
<i>Add:</i> Depreciation on building	1,00,000	9,00,000
		<b>20,61,500</b>
<b><i>Less:</i> Deduction under Chapter VI-A</b>		
<u>Deduction under section 80C</u>		
Life insurance premium [maximum 10% of sum assured]	50,000	
<u>Deduction under section 80TTA</u>		
Interest on saving bank account with post office, restricted to	10,000	60,000
<b>Total Income</b>		<b>20,01,500</b>

**Computation of tax payable by Mr. Brajesh for A.Y. 2025-26  
under the regular provisions of the Act**

Particulars	₹	₹
<b>Tax on total income of ₹ 20,01,500</b>		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [ <i>@</i> 5% of ₹ 2.50 lakhs]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [ <i>@</i> 20% of ₹ 5 lakhs]	1,00,000	
₹ 10,00,001 - ₹ 20,01,500 [ <i>@</i> 30% of ₹ 10,01,500]	<u>3,00,450</u>	4,12,950
<i>Add:</i> Health and education cess <i>@</i> 4%		16,518
<b>Total tax liability</b>		<b>4,29,468</b>
<i>Less:</i> Advance income-tax paid		1,00,000
<b>Tax payable</b>		<b>3,29,468</b>
<b>Tax payable (rounded off)</b>		<b>3,29,470</b>

**Computation of adjusted total income and AMT of Mr. Brajesh for A.Y. 2025-26**

Particulars	₹	₹
<b>Total Income (computed above as per regular provisions of income tax)</b>		<b>20,01,500</b>
Add: Deduction under section 10AA	1,25,000	
Add: Deduction under section 35AD	10,00,000	
Less: Depreciation on building	(1,00,000)	10,25,000
<b>Adjusted Total Income</b>		<b>30,26,500</b>
Alternative Minimum Tax@18.5%		5,59,903
Add: Health and education cess@4%		22,396
<b>Total tax liability</b>		<b>5,82,299</b>
Less: Advance income-tax paid		1,00,000
<b>Tax payable</b>		<b>4,82,299</b>
<b>Tax payable (rounded off)</b>		<b>4,82,300</b>

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 cess@4%. Therefore, tax liability as per section 115JC is ₹ 4,82,300.

**Question 59 [MTP 1 May 25] – 6 Marks**

Mrs. Smita, an Indian citizen, is in employment with an overseas company located in UAE. She is not liable to tax in UAE. During the P.Y. 2024-25, she comes to India for 121 days. She was in India for 50 days, 100 days, 76 days and 145 days in the financial years 2020-21, 2021-22, 2022-23 and 2023-24, respectively. Her annual income for the previous year 2024-25 is as follows:

	Particulars	Amount (₹)
(i)	Salary accrued or arisen in UAE	15,00,000
(ii)	Income accrued and arisen in India	2,00,000
(iii)	Income deemed to be accrued and arisen in India	7,00,000
(iv)	Income arising and received in UAE, from a business set up in India	5,00,000
(v)	Life Insurance premium paid by cheque in India	1,00,000

Mrs. Smita wants to pay tax under default tax regime under section 115BAC. From the information given above, you are required to determine the residential status and total income of Mrs. Smita for the A.Y. 2025-26.

**Solution:**

Mrs. Smita is an Indian citizen and in employment in UAE. She comes on a visit to India during the P.Y. 2024-25 for 121 days. Her stay in India in the four immediately preceding previous years i.e., in P.Y. 2020-21 to P.Y. 2023-24 is 371 days (50 + 100 + 76 + 145 days).

Her total income, other than the income from foreign sources, during the P.Y. 2024-25 would be –

Particulars	Amount (₹)
Salary accrued or arisen in UAE (income from a foreign source, hence, to be excluded)	-
Income accrued and arisen in India	2,00,000
Income deemed to be accrued and arisen in India	7,00,000
Income arising in UAE, from a business set up in India (to be included since the business is controlled from India, even though such income accrues and is received outside India)	5,00,000
	14,00,000
Less: Deduction u/s 80C (Not available under default tax regime)	-
<b>Total income (excluding income from foreign sources)</b>	<b>14,00,000</b>

Mrs. Smita, an Indian citizen, having total income other than income from foreign sources not exceeding ₹ 15 lakhs and visiting India during the P.Y 2024-25, would be a resident in India for the

A.Y.2025-26, if she has stayed in India for 182 days or more during the P.Y. 2024-25.

Since she has stayed only for 121 days in India during the P.Y. 2024-25, she is a non a resident for the A.Y. 2025-26 as per section 6(1).

She is not a deemed resident in India under section 6(1A) for A.Y. 2025-26 though she is not liable to tax in UAE, since her total income other than income from foreign sources does not exceeds ₹ 15 lakhs. Her total income during the P.Y. 2024-25 would be –

Particulars	Amount (₹)
Salary accrued or arisen in UAE (income from a foreign source, hence, to be excluded)	-
Income accrued and arisen in India	2,00,000
Income deemed to be accrued and arisen in India	7,00,000
Income arising in UAE, from a business set up in India (not taxable)	-
<b>Gross Total Income</b>	<b>9,00,000</b>
Less: Deduction u/s 80C (Not available under default tax regime)	Nil
<b>Total income</b>	<b>9,00,000</b>

#### Question 60 [MTP 2 May 25] – 15 Marks

Mr. Vivek is an advocate and furnishes you the receipts and payments account for the financial year 2024-25.

#### Receipts and Payments Account

Receipts	₹	Payments	₹
Opening Balance (01.04.2024)	80,000	Staff salary and bonus to clerks	17,50,000
Cash & Bank			
Fee from legal services	49,60,000	Other general and administrative expenses	22,00,000
Motor car loan from HDFC @12% p.a. interest	5,00,000	Office rent	1,48,000
Sale receipts of 5,275 listed equity shares (sold on 31st March 2025)	5,95,000	Life Insurance Premium (Sum Assured ₹ 5,00,000)	49,000
		Motor car (Acquired in January 2025 by way of NEFT)	9,50,000
		Books bought by way of A/c payee cheque in the month of May, June and September 2024 (annual publications)	80,000
		Computer acquired on 1.11.2024 for professional use (payment made by A/c payee cheque)	52,000
		Domestic drawings	6,23,000
		Motor car maintenance	72,000
		Public Provident Fund subscription	1,50,000
		Closing balances (31.03.2025)	61,000
		Cash & Bank	
	<b>61,35,000</b>		<b>61,35,000</b>

#### Other information:

- Listed equity shares on which STT was paid were acquired in August 2016 for ₹ 1,21,800. The fair market value of such shares as on 31st January 2018 was ₹ 80 per share.
- Motor car was put to use for both official and personal purposes. 1/3rd of the motor car is for personal purpose. No interest on car loan was paid during the previous year 2024-25.

(iii) Mr. Vivek purchased a flat in Jhansi for ₹ 35,00,000 in July 2016 cost of which was partly financed by a loan from Punjab National Housing Finance Limited of ₹ 25,00,000, his own-savings ₹ 1,00,000 and a deposit from Repco Bank for ₹ 9,00,000. The flat was given to Repco Bank on lease for 10 years @ ₹ 35,000 per month. Further, Mr. Vivek has paid the following expenses in respect to the flat during the P.Y. 2024-25:

- (a) Municipal taxes ₹ 8,200 per annum  
(b) House insurance ₹ 11,000

As per interest certificate issued by Punjab National Housing Finance Limited for the financial year 2024-25, he paid ₹ 1,80,000 towards principal and ₹ 2,01,500 as interest.

- (iv) He earned ₹ 1,20,000 in share speculation business and lost ₹ 1,80,000 in commodity speculation business.  
(v) Mr. Vivek received a gift of ₹ 21,000 each from four of his family friends.  
(vi) He contributed ₹ 1,21,000 to PM Cares Fund by way of bank draft.  
(vii) He donated to a registered political party ₹ 3,50,000 by way of cheque.  
(viii) He follows cash system of accounting.  
(ix) Cost Inflation Index: F.Y. 2016-17–264; F.Y. 2017-18–272; F.Y. 2024-25–363

You are required to compute the total income and tax liability of Mr. Vivek for the A.Y. 2025-26 assuming he opts out of the default tax regime under section 115BAC.

**Solution:**

**Computation of total income and tax liability of Mr. Vivek for A.Y. 2025-26**

Particulars	₹	₹	₹
<b>Income from house property</b>			
Gross annual value <sup>1</sup> (₹ 35,000 × 12)		4,20,000	
Less: Municipal taxes paid by Mr. Vivek		8,200	
Net annual value		4,11,800	
Less: Deductions under section 24			
(a) 30% of Net Annual Value		1,23,540	
(b) Interest on house borrowing (allowed in full in case of let out property)		2,01,500	
			86,760
<b>Profits and gains of business or profession</b>			
<b>Income from profession</b>			
Fees from legal services		49,60,000	
Less: Expenses allowable as deduction			
- Staff salary and bonus	17,50,000		
- Other general and administrative expenses	22,00,000		
- Office rent	1,48,000		
- Motor car maintenance (₹ 72,000 × 2/3)	48,000		
- Car loan interest – not allowable, since Mr. Vivek follows cash system of accounting and no interest is paid during the previous year)	-	41,46,000	
		8,14,000	
Less: Depreciation u/s 32			
- Motor car ₹ 9,50,000 × 15% × 50% × 2/3, being put to use for less than 180 days	47,500		
- Books being annual publications [₹ 80,000 × 40%]	32,000		
- Computer @40% of ₹ 52,000 × 50%, since the same is put to use for less than 180 days	10,400	89,900	

For the P.Y. 2024-25, the gross receipts of Mr. Vivek is ₹ 49,60,000. Since, it does not exceed ₹ 50,00,000, he is eligible to pay tax under presumptive tax scheme under section 44ADA. In such case, his professional income would be ₹ 24,80,000, being 50% of ₹ 49,60,000. It is more beneficial for Mr. Vivek to declare profit of ₹ 7,24,100 as per books of accounts which is lower than the profits computed on presumptive basis under section 44ADA. However, for declaring lower profits, he has to maintain books of account under section 44AA and get the same audited under section 44AB		7,24,100	
<b>Income from share speculation business</b> Less: Loss from commodity speculation business set off against income from share speculation business. Balance loss of ₹ 60,000 from commodity speculation business to be carried forward to A.Y. 2026-27	1,20,000		
<b>Capital Gains</b> Long-term capital gains on sale of 5,275 listed shares Sale consideration Less: Cost of acquisition is higher of - Cost of acquisition - Lower of ₹ 4,22,000 (₹ 80 x 5,275), being fair market value as on 31.1.2018 and ₹ 5,95,000, being full value of consideration on transfer	1,20,000	Nil	7,24,100
<b>Income from other sources</b> Cash Gift of ₹ 84,000 i.e., ₹ 21,000 x 4, received from his four friends is taxable u/s 56(2)(x), since aggregate amount of cash gifts exceeds ₹ 50,000	1,21,800 4,22,000	5,95,000 4,22,000	1,73,000
<b>Gross Total Income</b> <b>Less: Deductions under Chapter VI-A</b> <b>Section 80C</b> Life insurance premium Repayment of housing loan PPF subscription  Restricted to ₹ 1,50,000 <b>Section 80G</b> Contribution to PM Cares Fund (100% of ₹ 1,21,000) by way of bank draft <b>Section 80GGC</b> Donation to registered political party made by way of cheque	49,000 1,80,000 1,50,000 3,79,000		84,000
			<b>10,67,860</b>
		1,50,000	
		1,21,000	
		3,50,000	
			6,21,000
<b>Total Income</b>			<b>4,46,860</b>
<b>Tax liability</b> Tax @12.5% under section 112A on long-term capital gains exceeding ₹ 1,25,000 i.e. on ₹ 48,000 Tax @5% on ₹ 23,860 [₹ 2,73,860 (total income excluding LTCG u/s 112A) - ₹ 2,50,000, being basic exemption limit]			6,000
			1,193
			7,193



Less: Rebate u/s 87A [Since the total income does not exceed ₹ 5 lakhs, rebate u/s 87A would be available. Rebate u/s 87A is not available on tax on LTCG taxable u/s 112A]			1,193
			6,000
Add: Health and Education cess@4%			240
<b>Tax liability</b>			<b>6,240</b>

**Note: Rent receivable has been taken as the gross annual value in the absence of other information.**

### Question 61 [MTP 1 Sept. 25] – 15 Marks

Mr. Subhash, a manufacturer and distributor of fertilizers and other agricultural products, aged 61 years, provides the following information for the A.Y. 2025-26:

Trading and Profit and Loss Account of Mr. Subhash

Particulars	Amount in ₹	Particulars	Amount in ₹
To Opening Stock	24,21,000	By Sales	3,12,50,100
To Purchases	2,28,00,500	By Closing stock	26,00,100
To Direct expenses	4,12,040		
To Freight inward	2,92,000		
To Gross Profit c/d	79,24,660		
	<b>3,38,50,200</b>		<b>3,38,50,200</b>
To Salaries and wages	17,12,000	By Gross Profit b/d	79,24,660
To General expenses	3,65,000	By Dividend income from Indian companies (Gross)	17,20,000
To Rates and taxes	2,20,000	By Interest received on FDs (Net of tax)	1,08,000
To Interest paid on late payment of GST	2,845	By Rent received	7,20,000
To Income-tax paid for F.Y. 2023-24	3,45,000	By Income-tax refund	18,000
To Interest paid to NBFC	1,20,000		
To Depreciation	1,82,000		
To Net Profit	75,43,815		
	<b>1,04,90,660</b>		<b>1,04,90,660</b>

### Additional information:

- The turnover of Mr. Subhash for the financial year ending 31st March 2024 was ₹ 3.08 crores.
- Closing stock of P.Y. 2024-25 was undervalued by ₹ 25,000.
- Rates and taxes include ₹ 5,000 paid towards late filing of his Income-tax return for Assessment Year 2024-25 under section 234F of Income-tax Act, 1961.
- Salaries include ₹ 15,000 paid on single day by way of cash to his accountant.
- Interest paid on loan of ₹ 10,00,000 taken from a Non-Banking Finance company. Out of the loan, amount of ₹ 2 lakhs was used for personal purpose and the balance was used for business purpose. No TDS was deducted while payment of interest.
- Mr. Subhash paid ₹ 45,000 by cheque during the year towards a health insurance premium for himself, his spouse, and his children.
- General expenses include an amount of ₹ 20,000 paid by cheque towards an advertisement published in a souvenir released by a local political party.
- He received an income-tax refund during the year, which includes ₹ 2,000 towards interest.

- (i) Depreciation charged is as per Income-tax Rules, 1962, however, it does not include depreciation on a new machinery purchased and put to use on 23rd September, 2024 for manufacturing activity. The cost of the vehicle is ₹ 3,10,000.
- (j) Advance Tax paid during the year is ₹ 15 lakhs.

You are required to compute the tax liability of Mr. Subhash for the A.Y. 2025-26 under both the regimes.

**Solution:**

**Computation of Total Income of Mr. Subhash for the A.Y. 2025-26  
under default tax regime**

Particulars	₹	₹	₹
<b>Income from house property</b>			
Annual value (Rent received has been taken as annual value, due to absence of information relating to expected rent in the question)		7,20,000	
<i>Less:</i> Deduction u/s 24(a) 30% of Annual Value		2,16,000	5,04,000
<b>Profits and gains of business or profession</b>			
Net profit as per profit and loss account		75,43,815	
<b>Add: Expenses/Payments debited to profit and loss account but not allowed</b>			
- Fee for late filing of income-tax return for A.Y. 2024-25 – disallowed under section 37	5,000		
- Salary paid to an accountant in cash exceeding ₹ 10,000 – disallowed under section 40A(3)	15,000		
- Interest paid to NBFC on loan which is used for personal purposes (₹ 1,20,000 × 2,00,000/10,00,000) – not allowed as per section 37	24,000		
- Interest paid to NBFC on which tax is not deducted attracts disallowance @30% of ₹ 96,000 [Since Mr. Subhash's turnover for the immediately preceding previous year i.e., P.Y. 2023-24 exceeds ₹ 1 crore, he is required to deduct tax at source. Disallowance@30% of interest is attracted for non- deduction of tax at source]	28,800		
- Advertisement expenses towards an advertisement in a souvenir published by local political party [Disallowed under section 37(2B)]	20,000		
- Income-tax paid for F.Y. 2023-24	3,45,000		
- Interest paid on late payment of GST - allowed, since it is not for infraction of law but is compensatory in nature.	-	4,37,800	
<b>Add: Undervaluation of Closing stock</b>		25,000	
		80,06,615	
<b>Less: Income chargeable under other heads and income not chargeable to tax but credited to profit and loss account</b>			
- Dividend income from Indian companies	17,20,000		
- Interest on FDs (Net of taxes) (Taxable under the head "Income from other sources")	1,08,000		

- Rent received (Taxable under the head “Income from house property”)	7,20,000		
- Income-tax refund	18,000	25,66,000	
		54,40,615	
<b>Less:</b> Depreciation on machinery purchased and put to use on 23.9.2024 [₹ 3,10,000 × 15%] [Additional depreciation not available under default tax regime]		46,500	53,94,115
<b>Income from Other Sources</b>			
Dividend income		17,20,000	
Interest on fixed deposits (₹ 1,08,000 × 100/90)		1,20,000	
Interest on income-tax refund		2,000	18,42,000
<b>Gross Total Income</b>			<b>77,40,115</b>
<b>Less: Deduction under Chapter VI-A</b>			
Section 80D [Not available under default tax regime]			-
Section 80GGC [Not available under default tax regime]			-
<b>Total Income</b>			<b>77,40,115</b>
<b>Total Income (Rounded off)</b>			<b>77,40,120</b>

**Computation of tax liability of Mr. Subhash for the A.Y.2025-26  
under default tax regime**

Particulars		₹
Upto ₹3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [i.e., ₹ 4,00,000@5%]	20,000	
₹ 7,00,001 – ₹ 10,00,000 [i.e., ₹ 3,00,000@10%]	30,000	
₹10,00,001 – ₹ 12,00,000 [i.e., ₹ 2,00,000@15%]	30,000	
₹12,00,001 – ₹ 15,00,000 [i.e., ₹ 3,00,000@20%]	60,000	
₹ 15,00,001 above [i.e., 62,40,120 @30%]	18,72,036	20,12,036
<i>Add:</i> Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		2,01,204
		22,13,240
<i>Add:</i> Health and Education cess@4%		88,530
<b>Tax Liability</b>		<b>23,01,770</b>

**Computation of Total Income of Mr. Subhash for the A.Y. 2025-26  
under optional tax regime**

Particulars	₹	₹	₹
<b>Gross Total Income as per default tax regime</b>			<b>77,40,115</b>
<b>Less:</b> Additional depreciation on machinery [₹ 3,10,000 × 20%]			<u>62,000</u>
<b>Gross Total Income under optional tax regime</b>			76,78,115
<b>Less: Deduction under Chapter VI-A</b>			
<b>Section 80D</b>			
Health insurance premium of ₹ 45,000 paid for self, spouse and his children allowable as deduction since Mr. Subhash is a senior citizen		45,000	
<b>Section 80GGC</b>			
Expenditure towards advertisement in a souvenir published by local political party not allowable as deduction		-	45,000
<b>Total Income</b>			<b>76,33,115</b>
<b>Total Income (rounded off)</b>			<b>76,33,120</b>

**Computation of tax liability of Mr. Subhash for the A.Y.2025-26  
under optional tax regime**

Particulars		₹
Upto ₹3,00,000	Nil	
₹ 3,00,001 – ₹ 5,00,000 [i.e., ₹ 2,00,000@5%]	10,000	
₹ 5,00,001 – ₹ 10,00,000 [i.e., ₹ 5,00,000@20%]	1,00,000	
₹ 10,00,001 above [i.e., ₹ 66,33,120 @30%]	19,89,936	20,99,936
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		2,09,994
		23,09,930
Add: Health and Education cess@4%		92,397
<b>Tax Liability</b>		<b>24,02,327</b>
<b>Tax Liability (Rounded off)</b>		<b>24,02,330</b>

**Question 62 [MTP 1 Sept. 25] – 6 Marks**

Mr. Arjun and Mr. Rohit started constructing independent residential houses on plot of land situated in Delhi. Each house comprises a ground floor and a first floor, having a built-up area of 1,800 sq. ft each. Mr. Arjun commenced construction on 1st April 2022 and completed it on 1st April 2024. He occupied the entire house for his personal residence from the date of completion.

Mr. Rohit also commenced construction on 1st April 2022 and completed it on 30th September 2024. He occupied the ground floor from 1st October 2024 for his own residence and let out the first floor at a monthly rent of ₹ 20,000 for the period from 1st October 2024 to 31st December 2024. The tenant vacated the premises on 31st December 2024 and Mr. Rohit occupied the entire house from 1st January 2025 onwards.

The following additional information is provided:

- The fair rent and municipal value of each floor (ground and first) is ₹ 1,00,000 and ₹ 72,000 per annum, respectively.
- Municipal taxes paid: ₹ 8,000 each by Mr. Arjun and Mr. Rohit.
- Repair and maintenance expenses: ₹ 28,000 by Mr. Arjun and ₹ 30,000 by Mr. Rohit.
- Housing loans:
  - Mr. Arjun availed a loan of ₹ 15,00,000 @12% p.a. on 01-04-2022.
  - Mr. Rohit availed a loan of ₹ 10,00,000 @10% p.a. on 01-07-2022.
  - No principal repayment was made by either till 31-03-2025.

You are required to compute the income from house property of Mr. Arjun and Mr. Rohit for the A.Y. 2025-26, assuming both Mr. Arjun and Mr. Rohit opt out of the default tax regime.

**Solution:**

**Computation of income from house property of Mr. Arjun for A.Y. 2025-26  
under normal provision of the Act**

Particulars	₹	₹
Annual value is nil (since house is self-occupied)		Nil
Less: Deduction under section 24(b)		
Interest on borrowed capital ₹ 15,00,000 @ 12%	1,80,000	
Pre-construction interest [Interest from 1.4.2022 to 31.3.2024 in 5 equal installments] [₹ 3,60,000/5]	72,000	
	2,52,000	
As per second proviso to section 24(b), interest deduction restricted to		2,00,000
<b>Loss under the head “Income from house property” of Mr. Arjun</b>		<b>(2,00,000)</b>

**Computation of income from house property of Mr. Rohit for A.Y. 2025-26  
under normal provision of the Act**

Particulars	Ground floor (Self occupied) ₹	First floor ₹
Gross annual value (See Note below)	Nil	60,000
Less: Municipal taxes (for first floor)		4,000
(A) Net annual value	Nil	56,000
Less: Deduction under section 24		
(a) 30% of net annual value		16,800
(b) Interest on borrowed capital		
Current year interest		
₹10,00,000 × 10% = ₹1,00,000	50,000	50,000
Pre-construction interest		
₹ 10,00,000 × 10% × 21/12 = ₹ 1,75,000		
₹ 1,75,000 allowed in 5 equal installments		
₹ 1,75,000/5 = ₹35,000 per annum	17,500	17,500
(B) Total deduction under section 24	67,500	84,300
Income from house property (A)-(B)	(67,500)	(28,300)
<b>Loss under the head “Income from house property” of Mr. Rohit (both ground floor and first floor)</b>	<b>(95,800)</b>	

**Note:** Computation of Gross Annual Value (GAV) of first floor of Rohit’s house.

The Expected Rent is the higher of fair rent and municipal value. This should be considered for 6 months since the construction of property was completed only on 30.9.2024.

Expected rent = ₹ 50,000 being higher of -

Fair rent =  $1,00,000 \times 6 / 12 = ₹ 50,000$

Municipal value =  $72,000 \times 6/12 = ₹ 36,000$

Actual rent = ₹ 60,000 (₹ 20,000 p.m. for 3 months from October to December, 2024)

Gross Annual Value = ₹ 60,000 (being higher of Expected Rent of ₹ 50,000 and actual rent of ₹ 60,000)

**Question 63 [MTP 2 Sept. 25] – 6 Marks**

Ms. Priya, a person of Indian origin and a citizen of Canada, got married to Mr. Aaron, an Indian citizen residing in Canada, on 24th January 2024. She came to India on 25th March 2024 and left for Canada on 10th July 2024. She returned to India with her husband on 24th February 2025 to spend some time with her parents-in-law for 30 days and thereafter returned to Canada. She stayed in India for a total of 400 days during the 4 years preceding the P.Y. 2024-25.

During the previous year 2024-25, Priya, while in India, received the following gifts from her husband’s relatives and friends:

- From husband’s parents ₹ 1,51,000
- From husband’s sister ₹ 21,000
- From very close friends of her husband ₹ 16,00,000

Determine Priya’s residential status for Assessment Year 2025-26 and compute her total income and tax liability for that year, assuming she does not opt out of the default tax regime.

**Solution:**

Under section 6(1), an individual, being a person of Indian origin or an Indian citizen, who comes on a visit to India and he is having total income other than income from foreign sources exceeding ₹ 15 lakhs during the previous year, such individual is said to be resident in India, if he stays in India during the relevant previous year for 120 days or more and for 365 days or more during the 4 years



immediately preceding the relevant previous year. As per section 6(6), such individual whose stay in India is for 120 days or more but less than 182 days in the relevant previous year would be resident but not ordinarily resident.

Ms. Priya is a person of Indian origin who has come on a visit to India during the previous year 2024-25. Her total income other than income from foreign sources for the A.Y. 2025-26 is as below:

**Computation of total income other than income from  
foreign sources of Priya for the A.Y. 2025-26**

Particulars	₹
<b>Income from other sources</b>	
<b>Cash gifts received from non-relatives</b> is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceeds ₹ 50,000.	
- ₹ 1,51,000 received from parents of husband would be exempt, since husband's parents fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.	Nil
- ₹ 21,000 received from sister-in-law is exempt, since sister of husband falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil
- Gift received from close friends of her husband of ₹ 16,00,000 is taxable under section 56(2)(x) since the amount of cash gifts exceeds ₹ 50,000.	16,00,000
<b>Total Income other than income from foreign sources</b>	<b>16,00,000</b>

Since her total income other than income from foreign sources exceed ₹ 15,00,000, she would be considered a resident of India if she stays in India during the P.Y. 2024-25 for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year.

Her stay in India during the previous year 2024-25 is as under:

P.Y. 2024-25

01.04.2024 to 10.07.2024 - 101 days

24.02.2025 to 25.03.2025 - 30 days

**Total** **131 days**

Since she stayed in India for 131 days during the P.Y. 2024-25 and for 400 days during the 4 years immediately preceding the P.Y. 2024-25, she would be a resident but not ordinarily resident in India for the P.Y. 2024-25.

In such case, her total income would be ₹ 16 lakhs and tax liability would be computed in the following manner:

**Computation of tax liability of Priya for the A.Y. 2025-26  
under default tax regime under section 115BAC**

Particulars	₹
Tax on total income of ₹ 16,00,000	
Upto ₹ 3,00,000	Nil
₹ 3,00,001 – ₹ 7,00,000 @5%	20,000
₹ 7,00,001 – ₹ 10,00,000 @10%	30,000
₹ 10,00,001 – ₹ 12,00,000 @15%	30,000
₹ 12,00,001 – ₹ 15,00,000 @20%	60,000
₹ 15,00,001 – ₹ 16,00,000 @ 30%	<u>30,000</u>
Add: Health and Education cess@4%	6,800
<b>Tax liability</b>	<b>1,76,800</b>

**Question 64 [MTP 2 Sept. 25] – 5 Marks**

Mr. Rajeev is working as a General Manager at Zenith Pvt. Ltd. in Mumbai. He has shared the following information for the financial year 2024-25:

- Basic salary of ₹ 56,000 per month.
- Medical treatment facility received in the company's own hospital – ₹ 9,000
- On his work anniversary, he received a gift voucher worth ₹ 4,500 from the company.
- A four-seater dining table was provided to Mr. Rajeev at his residence. This was purchased by the company on 1.5.2022 for ₹ 90,000 and sold to Mr. Rajeev on 1.8.2024 for ₹ 50,000.
- Personal expenses of ₹ 10,000 made using the company credit card were paid by the company. No part of the amount was recovered from Mr. Rajeev.
- A Maruti Suzuki car which was purchased by the company on 16.7.2021 for ₹ 2,50,000 was sold to Mr. Rajeev on 14.7.2024 for ₹ 80,000.

Other income received by the assessee during the previous year 2024-25:

	Particulars	₹
(a)	Interest on Fixed Deposits with a company	5,000
(b)	Income from specified mutual fund	3,000
(c)	Interest on bank fixed deposits of a minor married daughter	3,000

Compute the gross total income of Mr. Rajeev for the Assessment year 2025-26 assuming he opts out of the default tax regime under section 115BAC. Mr. Rajesh's wife is a housewife.

**Solution:**

**Computation of gross total income of Mr. Rajeev for the A.Y. 2025-26 under normal provisions of the Act**

	Particulars	₹	₹
<b>I</b>	<b>Salaries</b>		
	Salary [₹ 56,000 × 12]	6,72,000	
	Medical facility [in the hospital maintained by the company is exempt]	-	
	Gift given on the occasion of work anniversary ₹ 4,500 is exempt, since its value is less than ₹ 5,000	-	
	Perquisite on use of dining table for 4 months [₹ 90,000 × 10 / 100 × 4 / 12]	3,000	
	<b>Perquisite on sale of dining table</b>		
	Cost	90,000	
	Less: Depreciation on straight line method @ 10% for 2 years	18,000	
	Written Down Value	72,000	
	Less: Amount paid by the assessee	50,000	22,000
	Purchase through credit card [covered by section 17(2)(viii) read with Rule 3(7)]		10,000
	<b>Perquisite on sale of car</b>		
	Original cost of car	2,50,000	
	Less: Depreciation from 16.7.2021 to 15.7.2022 @ 20%	50,000	
		2,00,000	
	Less: Depreciation from 16.7.2022 to 15.7.2023 @ 20%	40,000	
	Value as on 14.07.2024 – being the date of sale to employee	1,60,000	

	Less: Amount received from the assessee on 14.07.2024	80,000	80,000	
	<b>Gross Salary</b>		<b>7,87,000</b>	
	Less: Standard deduction under section 16(ia)		50,000	
	<b>Taxable Salary</b>			7,37,000
<b>II</b>	<b>Income from Other Sources</b>			
	Interest on fixed deposit with a company		5,000	
	Income from specified mutual fund		3,000	
	Interest on Fixed Deposit received by minor daughter (₹ 3,000 - ₹ 1500)		1,500	9,500
	<b>Gross Total Income</b>			<b>7,46,500</b>

#### Question 65 [RTP Jan. 26]

Ms. Ashima, aged 45 years, has been the HR manager for the past 15 years in Shipra Ltd. She gives you the following particulars for F.Y. 2024-25:

Basic Salary ₹ 70,000 p.m.

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

Bonus ₹ 21,000 p.m.

Ms. Ashima contributes 18% of basic salary as contribution to RPF. Her employer contributes the same amount to her RPF account.

The company pays medical insurance premium of ₹ 20,000 to effect insurance on the health of Ms. Ashima.

She received arrears of salary of ₹ 3,35,000. The details of arrears of salary are as follows:

Previous year	Total Income (₹)	Arrears now received (₹)
2021 – 2022	9,50,000	1,20,000
2022 – 2023	10,90,000	1,10,000
2023 – 2024	12,10,000	1,05,000

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

For A.Y. 2022-23 and A.Y. 2024-25, Ms. Ashima has paid tax as per section 115BAC. However, for A.Y. 2023-24, she has paid tax under normal provisions of the Act.

#### Note: Rates of Tax

The rates of tax under normal provisions of the Act for A.Y. 2022-23,

A.Y. 2023-24 and A.Y. 2024-25 are same as for A.Y. 2025-26. The rates of tax as per section 115BAC for different years are as follows:

Assessment Year	Slab rates of income-tax	
	Slabs	Rate
2022-23	Upto ₹ 2,50,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	5%
	₹ 5,00,001 - ₹ 7,50,000	10%
	₹ 7,50,001 - ₹ 10,00,000	15%
	₹ 10,00,001 - ₹ 12,50,000	20%
	₹ 12,50,001 - ₹ 15,00,000	25%
	Above ₹ 15,00,000	30%
2023-24	Upto ₹ 2,50,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	5%
	₹ 5,00,001 - ₹ 7,50,000	10%

	₹ 7,50,001 - ₹ 10,00,000	15%
	₹ 10,00,001 - ₹ 12,50,000	20%
	₹ 12,50,001 - ₹ 15,00,000	25%
	Above ₹ 15,00,000	30%
2024-25	Upto ₹ 3,00,000	Nil
	₹ 3,00,001 - ₹ 6,00,000	5%
	₹ 6,00,001 - ₹ 9,00,000	10%
	₹ 9,00,001 - ₹ 12,00,000	15%
	₹ 12,00,001 - ₹ 15,00,000	20%
	Above ₹ 15,00,000	30%

**Solution:**

**Computation of total income of Ms. Ashima for A.Y.2025-26  
under normal provisions of the Act**

Particulars	₹
Basic Salary [₹ 70,000 × 12]	8,40,000
Arrears of salary	3,35,000
Dearness allowance [₹ 24,000 × 12]	2,88,000
Bonus [₹ 21,000 × 12]	2,52,000
Employer's contribution to recognized provident fund in excess of 12% of salary = 18% × [₹ 70,000 × 12] – 12% × {[₹ 70,000 + ₹ 7,200 (being 30% of ₹ 24,000)] × 12} = ₹ 1,51,200 – ₹ 1,11,168 [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]	40,032
Medical insurance premium of ₹ 20,000 paid by the employer to effect insurance on the health of an employee is an exempt perquisite	-
<b>Gross salary</b>	<b>17,55,032</b>
<b>Less:</b> Standard deduction under section 16(ia)	<u>50,000</u>
<b>Salary chargeable to tax/ Gross Total Income</b>	<b>17,05,032</b>
<b>Less: Deduction under section 80C</b>	
Own contribution of ₹ 151,200 to RPF but restricted to ₹ 1,50,000	<u>1,50,000</u>
<b>Total Income</b>	<b>15,55,032</b>
<b>Total Income (Rounded off)</b>	<b>15,55,030</b>

**Computation of tax payable by Ms. Ashima for the A.Y.2025-26 under  
normal provisions of the Act**

Particulars	Incl. arrears of salary (₹)	Excl. arrears of salary (₹)
Total Income	15,55,030	15,55,030
<b>Less:</b> Arrears of salary	-	3,35,000
Total Income	15,55,030	12,20,030
Income-tax thereon	2,79,009	1,78,509
<b>Add:</b> Health and education cess @4%	11,160	7,140
<b>Tax payable</b>	<b>2,90,169</b>	<b>1,85,649</b>

**Computation of tax payable on arrears of salary if charged to tax in the respective AYs**

Particulars	A.Y. 2022-23		A.Y. 2023-24		A.Y. 2024-25	
	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)
Taxable salary	9,50,000	9,50,000	10,90,000	10,90,000	12,10,000	12,10,000

Add: Arrears of salary	1,20,000	-	1,10,000	-	1,05,000	-
<b>Taxable salary</b>	<b>10,70,000</b>	<b>9,50,000</b>	<b>12,00,000</b>	<b>10,90,000</b>	<b>13,15,000</b>	<b>12,10,000</b>
Tax on the above	89,000	67,500	1,72,500	1,39,500	1,13,000	92,000
Add: HEC@ 4%	3,560	2,700	6,900	5,580	4,520	3,680
<b>Tax payable</b>	<b>92,560</b>	<b>70,200</b>	<b>1,79,400</b>	<b>1,45,080</b>	<b>1,17,520</b>	<b>95,680</b>

#### Computation of relief under section 89

	Particulars	₹	₹
i	Tax payable in A.Y.2025-26 on arrears:		
	Tax on income including arrears	2,90,169	
	Less: Tax on income excluding arrears	1,85,649	1,04,520
ii	Tax payable in respective years on arrears:		
	Tax on income including arrears (₹ 92,560 + ₹ 1,79,400 + ₹ 1,17,520)	3,89,480	
	Less: Tax on income excluding arrears (₹ 70,200 + ₹ 1,45,080 + ₹ 95,680)	3,10,960	78,520
	Relief under section 89 - difference between tax on arrears in A.Y. 2025-26 and tax on arrears in the respective years		26,000

#### Tax payable for A.Y.2025-26 after relief under section 89

Particulars	₹
Income-tax payable on total income including arrears of salary	2,90,169
Less: Relief under section 89 as computed above	26,000
Tax payable after claiming relief	<b>2,64,169</b>
<b>Tax payable (Rounded off)</b>	<b>2,64,170</b>

#### Question 66 [RTP Jan. 26]

Mr. K is a 48-year-old resident individual. The details of income earned for the P.Y. 2024-25 from diversified businesses and investment portfolio are as under:

- He runs two businesses:
  - A manufacturing business with profit of ₹ 10,00,000.
  - A speculative business with loss of ₹ 7,00,000.
- He incurred a loss of ₹ 2,15,000 from a let-out property and also earned an income of ₹ 50,000 from the activity of owning and maintaining race horses. For earning this income, he incurred an expense of ₹ 5,000.
- He has earned short-term capital gains of ₹ 50,000 from equity shares sold on 10.05.2024 on which STT was paid, and long-term capital loss of ₹ 75,000 from other assets sold on 15.10.2024.
- Mr. K took divorce from his wife in April 2024 and the custody of their minor son is given to Mrs. K. Following the divorce, he transferred ownership of house property to his wife. During the financial year, the property generated rental income of ₹ 5,00,000.
- Mr. K deposits cash of ₹ 50,000 every month into the bank account of his minor son. During the P.Y. 2024-25, interest income of ₹ 25,000 is generated in his son's bank account.
- He has also contributed a sum of ₹ 2 lakh to an electoral trust and incurred expenditure of ₹ 30,000 on advertisement in a brochure of a political party.



- (vi) He authored an investment portfolio book and received royalty income of ₹ 4,10,000 during the P.Y. 2024-25 from a publisher in Germany. The royalty is calculated at 16% of book sales value. He incurred ₹ 60,000 as expenditure for earning this income. Out of the total royalty, ₹ 2,90,000 was remitted to India by 31st August 2025, and the balance remained in abroad till 30.9.2025.

Compute the total income of Mr. K assuming that he exercises the option of shifting out of the default tax regime. Assume Mr. K's total income, excluding the minor's income, is higher than that of his wife.

**Solution:**

**Computation of total income of Mr. K for the A.Y.2025-26  
under normal provision of the Act**

Particulars		₹	₹
<b>I</b>	<b>House Property</b> Rental Income of ₹ 5 lakhs shall be taxable in the hands of Mrs. K since it is a case of transfer of house property to his spouse in connection with an agreement to live apart. In such case, the transferee shall be the owner of the house property and rental income will be taxed in the hands of transferee. Set off of loss from house property to be restricted to ₹ 2 lakhs by virtue of section 71(3A). Balance loss of ₹ 15,000 has to be carried forward to A.Y. 2026-27		-
<b>II</b>	<b>Income from business</b> Income from manufacturing business Loss from speculation business As per section 73(1), loss from speculation business can be set off only against profit from any other speculation business. Therefore, loss from speculation business of ₹ 7,00,000 has to be carried forward to A.Y. 2026-27 Less: Set off of loss from house property to the extent of ₹ 2 lakhs	10,00,000 -     <u>2,00,000</u>	      8,00,000
<b>III</b>	<b>Capital Gains</b> Short-term capital gain u/s 111A Long term capital loss As per section 74(1), long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 75,000 has to be carried forward to A.Y. 2026-27	50,000  <u>-</u>	  50,000
<b>IV</b>	<b>Income from Other Sources</b> Royalty Income [₹ 4,10,000 - ₹ 60,000] Interest income from son's bank account [Income of the minor will be included in the income of Mrs. K as Mrs. K is maintaining the child.] Income from the activity of owning and maintaining race horses Less: Expenses incurred to earn this income	3,50,000 -  50,000 5,000	    3,95,000
<b>Gross Total Income</b>			<b>12,45,000</b>
Less: <b>Deduction under section 80GGC</b> Contribution to an electoral trust is allowed as deduction assuming it is paid otherwise than in cash. Expenditure of ₹ 30,000 incurred on advertisement in a brochure of political party is not eligible for deduction under section 80GGC		2,00,000	
<b>Deduction under section 80QQB</b> (Refer working note below)		2,30,000	4,30,000
<b>Total Income</b>			<b>8,15,000</b>

## Working Note

### Deduction allowable under section 80QQB for the A.Y.2025-26

Particulars	₹
Royalty ₹ 4,10,000 x 15/16 = ₹ 3,84,375	
Restricted to	
Amount brought into India in convertible foreign exchange within the prescribed time	2,90,000
Less: Expenses already allowed as deduction while computing royalty income	60,000
<b>Deduction u/s 80QQB</b>	<b>2,30,000</b>

### Question 67 [RTP Jan. 26]

Examine the applicability and determine the amount of tax deduction at source as per the Income-tax Act, 1961 for the A.Y. 2025-26 in the following situations:

- ABC Ltd., having its registered office in Noida, organized its annual company function at its Gurgaon office. For this purpose, the company engaged Beta Pvt. Ltd. to arrange road transport for its employees from Noida to Gurgaon and back, for which a payment of ₹ 25,000 has to be made. Further, ABC Ltd. also entered into a separate contract with Beta Pvt. Ltd. for providing catering services at the function, for ₹ 90,000.
- Vijay Health Solutions Ltd., a Third-Party Administrator (TPA), makes payments to various hospitals across India towards settling cashless medical insurance claims on behalf of insurance companies. During the financial year 2024-25, the total payment made by Vijay Health Solutions Ltd. to LifeCare Hospital for cashless claims is ₹ 12,00,000.

#### Solution:

- Any person responsible for paying any sum i.e. ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during a financial year to a resident contractor for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and the contractee, tax has to be deducted at source u/s 194C at the time of payment of such sum or at the time of credit of such sum to the account of the contractor, whichever is earlier.

In the present case, ABC Ltd. has entered into separate contracts with Beta Pvt. Ltd. for arranging road transport and providing catering services, for ₹ 25,000 and ₹ 90,000, respectively. Both 'carriage of passengers' and 'catering' are expressly covered as "work" under section 194C. Even though the services are different, the aggregate payment to the contractor during the financial year is considered for the threshold limit.

Hence, TDS@2% is applicable on ₹ 1,15,000, being the aggregate amount paid to Beta Pvt. Ltd. The amount of tax to be deducted by ABC Ltd. would be ₹ 2,300.

- The payment by TPAs was made on behalf of insurance companies to hospitals for settlement of medical/insurance claims etc. under cashless claims which was on account of services rendered by hospitals to various patients. These services are primarily medical services and are liable to deduct tax at source under section 194J on all such payments to hospitals etc. as clarified by CBDT through Circular No. 8/2009 dated 24.11.2009.

In the present case, Vijay Health Solutions Ltd. is required to deduct tax u/s 194J @10% on payment of ₹ 12 lakhs. The amount of tax to be deducted by Vijay Health Solutions Ltd. would be ₹ 1,20,000.

### Question 68 [RTP Jan. 26]

Mr. Vaibhav, a resident individual aged 46 years, engaged in the business of plywood and sculptures, maintains his books of account under section 44AB. He follows the mercantile system of accounting

and regularly files his return of income. The profit and loss account for the year ended on 31.3.2025 shows a net profit of ₹ 51,42,000 after debiting/ crediting the following:

- (i) During the year, Mr. Vaibhav had taken professional services from a lawyer in relation to a business dispute. The legal fees was amounted to ₹ 1,00,000. Tax has been deducted on time but did not deposit it with the government within the due date. The TDS was later on deposited on 15th November 2025.
- (ii) Vaibhav had renovated his office by engaging in the services of his brother, as the existing office premises had become very old and required refurbishment. The total payment made for the renovation amounted to ₹ 2,50,000 which is reasonable to the extent of ₹ 1,50,000.
- (iii) He purchased goods worth ₹ 30,000 from Vishnu & Co., a micro enterprise, on March 01, 2025. According to the written agreement between them, the payment was to be made by 05th April 2025. However, he made payment to Vishnu & Co on 15th April 2025.
- (iv) Depreciation as per profit and loss account is ₹ 13,66,000.

**Additional Information:**

- (a) As per restructuring agreement with the bank, the bank has converted unpaid interest of ₹ 6,00,000 into a new loan account repayable in 20 equal annual installments. The first installment was paid in March 2025.

Vaibhav claimed the entire interest amount of ₹ 6,00,000 as an expense while computing his business income.

- (b) Depreciation as per Income-tax Rules, 1962 is ₹ 12,00,000.
- (c) He contributed ₹ 50,000 towards Tier I account of NPS during the year. Further, he has invested in five-year term deposit of ₹ 1.5 lakhs.
- (d) He employed 90 new employees during the P.Y. 2024-25, the details of whom are as follows:

No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (₹)
20	1.4.2024	Regular	24,000
25	1.5.2024	Casual	24,500
30	1.8.2024	Regular	26,000
15	1.9.2024	Casual	23,500

The regular employees participate in recognized provident fund while the casual employees do not.

- (e) Mr. Vaibhav had sculptures in the form of capital assets acquired in January 2015, for ₹ 1,80,000. Later on, in F.Y. 2023-24, he started sculpture business and converted these capital assets into stock-in-trade for his business. Fair market value at the time of conversion was ₹ 3,50,000. Subsequently, he sold the stock-in-trade on June 10, 2024, for ₹ 5,00,000. No entry has been made in books for conversion and sale of converted sculptures.

You are required to compute the total income and tax liability of Mr. Vaibhav for the A.Y. 2025-26 if he opts out of the default tax regime.

CII for F.Y. 2014-15: 240; F.Y. 2023-24: 348; F.Y. 2024-25: 363

**Solution:**

**Computation of total income of Mr. Vaibhav for A.Y. 2025-26  
under normal provisions of the Act**

Particulars		₹	₹	₹
<b>I</b>	<b>Income from business or profession</b>			
	Net profit as per profit and loss account		51,42,000	
	<b>Add: Items of expenditure not allowable while computing business income</b>			
	- Depreciation as per books of accounts	13,66,000		

II	- Payment for professional services [Since the tax was deducted on time, but such tax has not been paid on or before the due date specified in section 139(1), ₹ 30,000 [₹ 1,00,000 × 30%] has to be disallowed in F.Y. 2024-25 under section 40(a)(ia) and has to be added back]	30,000		
	- Payment for renovation of office [Unreasonable payment made to brother for renovating his office has to be added back as per section 40A(2)]	1,00,000		
	- Payment to M/s Vishnu & Co, a micro enterprise, for purchase of raw material [Not Allowable as per section 43B(h) since payment was made to a micro enterprise and the same was not within the time specified in the written agreement]	30,000		
	- Conversion of interest into loan [Conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted into loan shall be allowed as deduction only in the year in which the converted loan is actually paid.] Accordingly, only ₹ 30,000 shall be allowed as deduction in P.Y. 2024-25 [₹ 6 lakhs/20 installments]	5,70,000		
	- Payment received from sale of stock-in-trade converted from capital assets [Sale consideration - FMV as on date of conversion]	1,50,000	22,46,000	
	Less: Depreciation as income- tax Rules, 1962		73,88,000 12,00,000	61,88,000
	<b>II Capital Gains</b> Sale consideration Less: Indexed cost of acquisition [₹ 1,80,000 × 348/ 240]		3,50,000 2,61,000	
	Long term capital gains [Indexation benefit is available since the property is transferred before 23.7.2024]			89,000
	<b>Gross Total Income</b> Less: Deduction under Chapter VI-A <b>Deduction under section 80C</b> - Investment in five-year deposit		1,50,000	<b>62,77,000</b>
	<b>Deduction under section 80CCD(1B)</b> - Contribution in NPS		50,000	
	<b>Deduction under section 80JJAA (See working note below)</b>		17,28,000	19,28,000
	<b>Total Income</b>			<b>43,49,000</b>

**Computation of tax liability of Mr. Vaibhav for A.Y. 2025-26  
under normal provisions of the Act**

Particulars	₹	₹
<b>Tax @20% on LTCG of ₹ 89,000 on sale of Sculptures</b> [Since the property is transferred before 23.7.2024]		17,800
<b>Tax at slab rate on balance income of ₹ 42,60,000</b>		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [ <i>@5% of ₹ 2.50 lakh</i> ]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [ <i>@20% of ₹ 5,00,000</i> ]	1,00,000	
₹ 10,00,001 - ₹ 42,60,000 [ <i>@ 30% of ₹ 32,60,000</i> ]	9,78,000	10,90,500
		11,08,300
<i>Add: Health and education cess@4%</i>		44,332
Tax liability		11,52,632
<b>Tax liability (Rounded off)</b>		<b>11,52,630</b>

**Computation of adjusted total income and AMT of Mr. Vaibhav for A.Y. 2025-26**

Particulars	₹	₹
<b>Total Income</b>		43,49,000
<i>Add: Deduction under section 80JJAA</i>		17,28,000
<b>Adjusted Total Income</b>		60,77,000
Alternate Minimum Tax @18.5%		11,24,245
<i>Add: Surcharge @10% since adjusted total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore</i>		1,12,425
		12,36,670
<i>Add: Health and education cess@4%</i>		49,467
Tax liability		12,86,137
<b>Tax liability (Rounded off)</b>		<b>12,86,140</b>

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@10% and cess@4%. Therefore, tax liability as per section 115JC is ₹ 12,86,140.

**AMT Credit to be carried forward under section 115JEE**

	₹
Tax liability under section 115JC	12,86,140
<i>Less: Tax liability under the regular provisions of the Income-tax Act, 1961</i>	11,52,630
	<b>1,33,510</b>

**Working Note**

**Computation of Deduction under section 80JJAA**

Particulars	₹
<b>Additional employee cost</b> = ₹ 24,000 × 12 × 20 = ₹ 57,60,000	17,28,000
<b>Deduction under section 80JAA</b> = 30% of ₹ 57,60,000	
Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 30 regular employees employed on 1.8.2024 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000.	
Therefore, only 20 employees employed on 1.4.2024 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2024-25 is deemed to be the additional employee cost.	



**Question 69 [MTP 1 May 25] – 5 Marks**

Mr. Rishabh, a salaried employee in a private company, provides you with the following information for the year ended on 31-03-2025:

- Basic salary ₹ 75,000 p.m.
- From 1st February 2025, basic salary increased to 85,000 p.m.
- Dearness allowance @50% of basic salary (40% of D.A. forms part of salary for retirement benefits).
- Contribution of employer to recognized provident fund account of the employee @18% of basic salary. Employees also contribute an equivalent amount.
- Professional tax paid ₹ 2,200 of which ₹ 1,800 was paid by the employer.
- House rent allowance of ₹ 16,000 p.m. He paid rent of ₹ 17,000 p.m. for accommodation in Bangalore.
- Loan of ₹ 2,00,000 was taken from the employer on 1.7.2024 for medical treatment of his brother for tuberculosis treatment. Interest charged on such loan is 5%. The entire loan is outstanding as on 31.3.2025. No medical insurance has been taken for his brother. SBI rate of interest on 1.4.2024 was 11%.
- Leave travel concession given to Rishabh, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer ₹ 20,000 for adults and lumpsum of ₹ 25,000 for three children. Rishabh is eligible for availing exemption this year to the extent it is permissible under the Income-tax Act, 1961.

Compute the taxable salary of Mr. Rishabh if he has shifted out of the default tax regime under section 115BAC.

**Solution:**

**Computation of taxable salary of Mr. Rishabh for the A.Y. 2025-26**

Particulars	₹	₹
Basic Salary [(₹ 75,000 x 10) + (₹ 85,000 x 2)]		9,20,000
Dearness allowance [50% of basic salary]		4,60,000
Employer's contribution to recognized provident fund [18% x ₹ 9,20,000]	1,65,600	
Less: Exempt upto 12% of basic salary and D.A. forms part of retirement benefit [12% x ₹ 11,04,000]	1,32,480	33,120
<b>Taxable allowances</b>		
House rent allowance	1,92,000	
Less: Least of the following exempt under section 10(13A)	93,600	98,400
(i) HRA received	1,92,000	
(ii) Rent paid (-) 10% of salary [₹ 2,04,000 – 10% × ₹ 11,04,000]	93,600	
(iii) 40% of salary [40% × 4,41,600 ₹ 11,04,000]	4,41,600	
<b>Taxable Perquisite</b>		
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]		1,800
Interest on loan [Not a perquisite, since loan is for medical treatment of his brother for tuberculosis treatment]		-
Leave travel concession	45,000	
Less: Exempt u/s 10(5)	45,000	-
[Mr. Rishabh can avail exemption on the entire amount of ₹ 45,000 reimbursed by the employer towards leave travel concession since the leave travel concession was availed for himself, 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 birth which take place after the first child.]		
<b>Gross Salary</b>		<b>15,13,320</b>
<i>Less: Deduction under section 16</i>		
Professional tax paid	2,200	
Standard Deduction, lower of salary or ₹ 50,000 (Since Mr. Rishabh has opted out of section 115BAC)	50,000	52,200
<b>Taxable Salary</b>		<b>14,61,120</b>

#### Question 70 [ICAI Study Mat, MTP May 18 – 10 Marks]

From the following details, find out the salary chargeable to tax for the A.Y.2025-26 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) - Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2024 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 per month. He is also provided with following facilities:

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

#### Solution: Computation of taxable salary of Mr. X for A.Y. 2025-26

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) [See Note 1 below]	8,019
Taxable allowances	
Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation [See Note 1 & 2 below]	29,430
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher [See Note 5 below]	10,000
Gross Salary	3,78,749
Less: Deduction under section 16(ia) – Standard deduction	50,000
<b>Salary income chargeable to tax</b>	<b>3,28,749</b>

**Notes:**

1. Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly worked out.
2. Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 10% of 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 i.e. ₹ 24,300
- (iii) Bonus i.e., ₹ 21,000
- (iv) Telephone allowance i.e., ₹ 6,000

**Therefore, salary works out to**  $\text{₹ } 2,43,000 + \text{₹ } 24,300 + \text{₹ } 21,000 + \text{₹ } 6,000 = \text{₹ } 2,94,300$ . 10% of salary =  $\text{₹ } 2,94,300 \times 10/100 = \text{₹ } 29,430$

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 ₹ 44,145.**

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.

**Question 71 [ICAI SM, MTP 1 Nov 21, May 23 Nov 23]**

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

- (i) He retired on 31-12-2024 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.
- (ii) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 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 1.2.2025, 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.

**Solution: Computation of income under the head “Salaries” of Mr. Raja for the A.Y.2025-26 under default tax regime**

Particulars	₹	₹
<ul style="list-style-type: none"> <li><b>Basic Salary</b> [₹ 25,000 x 9 months]</li> <li><b>House Rent Allowance</b> = ₹ 6,000 x 9 months [Fully taxable under default tax regime]</li> <li><b>Gratuity</b> Less: Least of the following exempt under section 10(10)(ii) <ul style="list-style-type: none"> <li>(i) Actual Gratuity received ₹ 3,50,000</li> <li>(ii) 15 days salary for every year of completed service [15/26 x ₹ 25,000 x 26] = ₹ 3,75,000</li> <li>(iii) Notified limit = ₹ 20,00,000</li> </ul> </li> <li><b>Leave encashment</b> Less: Least of the following exempt under section 10(10AA) <ul style="list-style-type: none"> <li>(i) ₹ 25,00,000</li> <li>(ii) Leave salary actually received ₹ 3,15,000</li> <li>(iii) ₹ 2,50,000, being 10 months' salary x ₹ 25,000</li> <li>(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 → <math>375/30 \times ₹ 25,000 = ₹ 3,12,500</math> [Leave Due = Leave allowed – Leave taken] = 750 (30 days per year × 25 years) – 375 days (15 days x 25) = 375 days]</li> </ul> </li> <li><b>Uncommuted Pension received</b> [₹ 5,000 x 1) + (₹ 5,000 x 2 x 40%)</li> <li><b>Commuted Pension received</b> Less: Exempt under section 10(10A) [<math>1/3 \times ₹ 3,00,000/60\% \times 100\%</math>]</li> <li><b>Gift Voucher</b> [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt]</li> <li><b>Mobile Phone received as gift from colleagues</b> (Neither taxable under the head “Salaries” nor “Income from other sources”, since taxability provisions under section 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)</li> </ul>	   3,50,000 3,50,000   3,15,000 2,50,000     3,00,000 1,66,667	2,25,000 54,000  Nil   65,000     9,000 1,33,333 Nil Nil  4,86,333 75,000 4,11,333
<b>Gross Salary</b>		4,86,333
Less: Standard deduction u/s 16 [Actual salary or ₹ 75,000, whichever is less] [Allowable under default tax regime]		75,000
<b>Net Salary</b>		4,11,333