

**INCOME TAX**

**JAN 26**

**TRICKY**

**QUESTIONS**

**INCLUDING RTP/MTP SEP 25**

**CA KISHAN KUMAR**

**CA RANKHOLDER**

**DEDICATED To**

---

**My Mummy and Papa**

*who encouraged me to fly towards my dream.*



**Thank You!**

*who encouraged me to fly towards my dream.*

*I taught, they Learnt, I told them to Aspire,  
they Performed. You too have a look & try  
to make Your Parents & Me Proud.*

*Blessing!!*

**WE CRACKED IT!**

AIR

**6**

TAX

**90**



KUSHAGRA VAISH

AIR

**16**

TAX

**85**



ADITYA KUMAR

AIR

**33**

TAX

**82**



SAHIL AHMAD

AIR

**31**

TAX

**85**



VINAY KARNANI

TAX

**82**



MAYANK SATIJA

TAX

**82**



MANIKANDAN M

TAX

**86**



DHRUV SOAN



CA Kishan Kumar  
Taxation & SM

*K-K-K*

# INDEX

S No.	Chapters	No. of Questions	Page No.	Revisions
1.	Residential Status	4	1.1 – 1.4	<input type="radio"/> <input type="radio"/> <input type="radio"/>
2.	Scope of Total Income	8	2.1 – 2.10	<input type="radio"/> <input type="radio"/> <input type="radio"/>
3.	Agricultural Income	3	3.1 – 3.5	<input type="radio"/> <input type="radio"/> <input type="radio"/>
4.	Income From Salary	10	4.1 – 4.17	<input type="radio"/> <input type="radio"/> <input type="radio"/>
5.	House Property	9	5.1 – 5.12	<input type="radio"/> <input type="radio"/> <input type="radio"/>
6.	Profit & Gain from Business and Profession	14	6.1 – 6.22	<input type="radio"/> <input type="radio"/> <input type="radio"/>
7.	Income from Capital Gains	14	7.1 – 7.19	<input type="radio"/> <input type="radio"/> <input type="radio"/>
8.	Income From Other Sources	4	8.1 – 8.7	<input type="radio"/> <input type="radio"/> <input type="radio"/>
9.	Gift	3	9.1 – 9.4	<input type="radio"/> <input type="radio"/> <input type="radio"/>
10.	Clubbing of Income	7	10.1 – 10.9	<input type="radio"/> <input type="radio"/> <input type="radio"/>
11.	Set – off & Carry Forward of Losses	9	11.1 – 11.15	<input type="radio"/> <input type="radio"/> <input type="radio"/>
12.	Deductions from GTI	11	12.1 – 12.14	<input type="radio"/> <input type="radio"/> <input type="radio"/>
13.	TDS & TCS	11	13.1 – 13.13	<input type="radio"/> <input type="radio"/> <input type="radio"/>
14.	Advance Tax & Interest	6	14.1 – 14.6	<input type="radio"/> <input type="radio"/> <input type="radio"/>
15.	Filing of Return	11	15.1 – 15.11	<input type="radio"/> <input type="radio"/> <input type="radio"/>
16.	Computation of Total Income and Tax Liability	16	16.1 – 16.46	<input type="radio"/> <input type="radio"/> <input type="radio"/>
	Total	140		



# CHAPTER 1

## RESIDENTIAL STATUS

### Concept Problem 1

Brett Lee, an Australian cricket player visits India for 100 days in every financial year. This has been his practice for the past 10 financial years.

- Find out his residential status for the assessment year 2025-26.
- Would your answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia and represents the Australian cricket team?
- What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including P.Y. 2024-25?

### Solution

#### (a) Determination of Residential Status of Mr. Brett Lee for the A.Y. 2025-26:

Period of stay during previous year 2024-25 = 100 days

Calculation of period of stay during 4 preceding previous years ( $100 \times 4 = 400$  days)

2023-24	100 days
2022-23	100 days
2021-22	100 days
2020-21	100 days
<b>Total</b>	<b>400 days</b>

Mr. Brett Lee has been in India for a period more than 60 days during previous year 2024-25 and for a period of more than 365 days during the 4 immediately preceding previous years. Therefore, since he satisfies one of the basic conditions under section 6(1), he is a resident for the assessment year 2025-26.

Computation of period of stay during 7 preceding previous years =  $100 \times 7 = 700$  days

2023-24	100 days
2022-23	100 days
2021-22	100 days
2020-21	100 days
2019-20	100 days
2018-19	100 days
2018-19	100 days
<b>Total</b>	<b>700 days</b>

Since his period of stay in India during the past 7 previous years is less than 730 days, he is a not-ordinarily resident during the assessment year 2025-26. (See Note below)

Therefore, Mr. Brett Lee is a resident but not ordinarily resident during PY 2024-25 relevant to AY 2025-26.

**Note:** An individual, not being an Indian citizen, would be not-ordinarily resident person if he satisfies any one of the conditions specified under section 6(6), i.e.,

- i) If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or
- ii) If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less.

In this case, since Mr. Brett Lee satisfies condition (ii), he is a not-ordinarily resident for the A.Y. 2025-26.

- (b) If the above facts relate to Mr. Srinath, an Indian citizen, who residing in Australia, comes on a visit to India, he would be treated as non-resident in India, irrespective of his total income (excluding income from foreign sources), since his stay in India in the current financial year is, in any case, less than 120 days.
- (c) In this case, if Srinath's total income (excluding income from foreign sources) exceeds INR 15 lakh, he would be treated as resident but not ordinarily resident in India for P.Y.2024-25, since his stay in India is 120 days in the P.Y.2024-25 and 480 days (i.e., 120 days x 4 years) in the immediately four preceding previous years.

If his total income (excluding income from foreign sources) does not exceed INR 15 lakh, he would be treated as non-resident in India for the P.Y.2024-25, since his stay in India is less than 182 days in the P.Y.2024-25.

### Concept problem 2

Karta of one HUF comes to India every year for a minimum of 60 days and maximum 91 days. Determine the residential status of the HUF and also that of Karta for the AY 2025-26.

### Solution

A HUF would be resident in India if the control and management of its affairs is situated wholly or partly in India. Control and management refers to central control and management and is determined on the basis of stay of Karta/ manager in India.

HUF is resident since control and management of its affair is situated partly in India as Karta visits India.

However, since his stay in India during seven PYs immediately preceding relevant PY can be a maximum of 637 days, HUF shall be considered to be resident but not ordinarily resident.

Karta, in his individual capacity, is a non-resident since he cannot comply with even one of the two conditions prescribed under section 6(1).

### Concept Problems 3

Ram, a chartered accountant, is presently working in a firm in India. He has received an offer for the post of CFO from a company in USA. As per the offer letter, he should join the company at any time between 1<sup>st</sup> September, 2024 and 31<sup>st</sup> October, 2024. He approaches you for your advice on the following issues to mitigate his tax liability in India

- a) Date by which he should leave India to join the company.
- b) Direct credit of part of his salary to his bank account in Delhi maintained jointly with his mother to meet requirement of his family.
- c) Period for which he should stay in India when he comes on leave.

### Solution

The following category of individuals will be treated as resident in India only if the period of their stay in India during the relevant previous year is 182 days or more:

- i. Indian citizens who leave India in any previous year for purposes of employment outside India; or
- ii. Indian citizen or person of Indian origin who comes on a visit to India in any previous year.

- a) Since Ram is leaving India for the purpose of employment outside India, he will be treated as resident only if the period of his stay during the previous year amounts to 182 days or more. Therefore, Ram should leave India on or before 28<sup>th</sup> September, 2024, in which case, his stay in India during the previous year would be less than 182 days and he would become non-resident for the purpose of taxability in India.

In such a case, only the income which accrues or arises in India or which is deemed to accrue or arise in India or received or deemed to be received in India shall be taxable.

The income earned by him in USA would not be chargeable to tax in India for AY 2025-26 if he leaves India on or before 28<sup>th</sup> September, 2025.

- b) If any part of Ram's salary is credited directly to his bank account in India, then that part of his salary would be considered as income received in India during the previous year and would be chargeable to tax under Income-tax Act, 1961, even if he is a non-resident.

Therefore, Ram should receive his entire salary in USA and then send the required amount to his bank account in India.

- c) In case Ram visits India after taking up employment outside India, he would be treated as resident only if the period of his stay during the relevant previous year amounts to 182 days or more.

Therefore, when Ram comes to India on leave, he should stay in India for less than 182 days during the relevant previous year so that his status remains as a non-resident for the relevant previous year.

Moreover, he should not visit India again during the current previous year i.e., PY 2024-25.

Further, if Total Income of Ram excluding income from foreign source exceeds 15 lakhs, he should stay in India for less than 120 days to remain non-resident.

#### Concept Problem 4 [Not for Jan 26]

Mr. Jai Chand (an Indian citizen) left India for employment in country X on 5<sup>th</sup> June, 2016. He regularly visited India and stayed for 60 days in every previous year since then. However, in the financial year 2024-25, he did not come to India at all. He owns a commercial building in Delhi which is let out. He has also set a retail store in India which is controlled by his brother from India. He provides the following information to you regarding his income for the financial year 2024-25:

Income from commercial building in Delhi - 12,00,000 (computed as per the provisions of the Act).

Income from the retail store - 4,50,000 (computed as per the provisions of the Act)

Country X does not tax any individual on their income as there is no personal income-tax regime there.

Determine the residential status of Mr. Jai Chand for the Assessment year 2025-26. Will your answer change if he is a citizen of Country X? [ICAI May 23]

#### Solution

##### Determination of residential status of Mr. Jai Chand for A.Y. 2025-26

Since Mr. Jai Chand, an Indian citizen employed in Country X, did not come to India at all during the P.Y. 2024-25, he would not be a resident for A.Y.2025-26 as per section 6(1).

However, since he is an Indian citizen

- having total income (excluding income from foreign sources) of 16,50,000 [12,00,000, being income from commercial building in India + 4,50,000, being Income from retail store in India], which exceeds the threshold of 15 lakhs during the previous year; and
- not liable to tax in Country X,

he would be deemed resident in India for the P.Y. 2024-25.

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

Yes, in case Mr. Jai Chand is a citizen of Country X, he would be non-resident in India for the P.Y. 2024-25, since the provisions of deemed resident u/s 6(1A) are applicable only to an Indian citizen.



# CHAPTER 2

## SCOPE OF TOTAL INCOME

### Concept Problem 1

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

Particulars	Resident and ordinarily resident	Resident but not ordinarily resident	Non-resident
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
Profits on sale of shares of an Indian company received in London (assuming that they are in the nature of short-term capital gains)	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Profits on sale of plant at Germany, 50% of profits are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled from Delhi, out of which INR 40,000 is received in India	70,000	70,000	40,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
Interest on debentures in an Indian company received in London	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Bombay managed from London	26,000	26,000	26,000
Income from property situated in Pakistan 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]	-	-	-

Particulars	Resident and ordinarily resident	Resident but not ordinarily resident	Non-resident
Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
Income from a business in Russia, controlled from Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company	5,000	5,000	5,000
Agricultural income from a land in Rajasthan [Exempt 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 INR 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>

### Concept Problem 2

Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the FY 2024-25. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh is settled in Delhi. Compute the total income for AY 2025-26 assuming that both have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

S No.	Particulars	Ramesh	Suresh
1	Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000
2	Dividend from British company received in London	28,000	20,000
3	Profit from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
4	Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
5	Income from a business in Chennai	80,000	70,000
6	Fees for technical services rendered in India, but received in Canada	100,000	
7	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9	Rent received in respect of house property at Bhopal	1,00,000	60,000
10	Life insurance premium paid	—	30,000

### Solution

**Computation of total income of Mr. Ramesh & Mr. Suresh for the A.Y. 2025-26:**

S. No.	Particulars	Ramesh (NR)	Suresh (R)
1.	Interest on Canada Development Bond (See Note 2)	17,500	40,000
2	Dividend from British Company received in London (See Note 3)	-	20,000

S. No.	Particulars	Ramesh (NR)	Suresh (R)
3	Profit from a business in Nagpur but managed directly from London (See Note 2)	1,00,000	1,40,000
4	Short term capital gain on sale of shares of an Indian company received in India (See Note 2)	60,000	90,000
5	Income from a business in Chennai (See Note 2)	80,000	70,000
6	Fees for technical services rendered in India, but received in Canada (See Note 2)	1,00,000	-
7	Interest on savings bank deposit in UCO Bank, Delhi (See Note 2)	7000	12,000
8	Agricultural income from a land in Andhra Pradesh (See Note 4)	-	-
9	Income from house property at Bhopal (See Note 5)	70,000	42,000
	<b>Gross Total income</b>	<b>4,34,500</b>	<b>4,14,000</b>
	Less: Deduction under chapter VI-A 80C-Life insurance premium	-	30,000
	Section 80TTA (See Note 6)	7,000	10,000
	<b>Total Income</b>	<b>4,27,500</b>	<b>3,74,000</b>

#### Notes:

- Ramesh is a non-resident since he has been living in Canada since 1996. Suresh, who is settled in Delhi, is a resident.
- In case of a resident, his global income is taxable as per section 5(1). However, in case of a non-resident, only the following incomes are chargeable to tax:
  - Income received or deemed to be received in India; and
  - Income accruing or arising or deemed to accrue or arise in India.

Therefore, fees for technical services rendered in India would be taxable in the hands of Ramesh, even though he is a non-resident. The income referred to in S. No. 3, 4, 5, 7 and are taxable in the hands of both Ramesh and Suresh since they accrue or arise in India.

Interest on Canada Development Bond would be fully taxable in the hands of Suresh, whereas only 50% which is received in India is taxable in the hands of Mr. Ramesh.

- Dividend received from British company in London by Ramesh is not taxable since it accrues and is received outside India. However, dividend received by Suresh is taxable, since he is a resident and ordinarily resident.
- Agricultural income from a land situated in India is exempt under section 10(1) in the case of both non-residents and residents.
- Income from house property

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

The net income from house property in India would be taxable in the hands of both Mr. Ramesh and Mr. Suresh, since the accrual and receipt of the same are in India.

- In case of an individual, interest up to 10,000 from savings account with, inter alia, bank is allowable as deduction under section 80TTA.

**Concept Problem 3**

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

- i) Salary payable by Central Government to Mr. John, a citizen of India of 7,00,000 for the services rendered outside India considering that he pays tax as per the provisions of section 115BAC.
- ii) Interest on moneys borrowed from outside India 5,00,000 by a non- resident for the purpose of business within India say, at Mumbai.
- iii) Post office savings bank interest of 19,000 received by a resident assessee, Mr. Ram, aged 46 years if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).
- iv) Royalty paid by a resident to a non-resident in respect of a business carried on outside India.
- v) Legal charges of 5,00,000 paid in Delhi to a lawyer of United Kingdom who visited India to represent a case at the Delhi High Court.

**Solution**

S. No	Taxable / Not Taxable	Amount liable to tax	Reason
(i)	<b>Taxable</b>	<b>6,25,000</b>	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India.  Therefore, salary paid by Central Government to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India.  He would be entitled to standard deduction of ₹ 75,000 u/s 16(ia).
(ii)	<b>Taxable</b>	<b>5,00,000</b>	As per section 9(1)(v)(c), interest payable by a non- resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.
(iii)	<b>Partly Taxable</b>	<b>5,500</b>	The interest on Post Office Savings Bank Account, would be exempt under section 10(15)(i), only to the extent of INR 3,500 in case of an individual account.  Further, interest upto INR 10,000, would be allowed as deduction u/s 80TTA from Gross Total Income. Balance INR 5,500 i.e., INR 19,000 - 3,500 - 10,000 would be taxable in the hands of Mr. Ram, a resident.
(iv)	<b>Not Taxable</b>	<b>-</b>	Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India.  This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).
(v)	<b>Taxable</b>	<b>5,00,000</b>	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India.  Therefore, legal charges paid in India to a non-resident lawyer of UK, who visited India to represent a case at the Delhi High Court would be taxable in India.

**Concept Problem 4**

Mr. Thomas, a non-resident and citizen of Japan entered into following transactions during the previous year



ended 31.03.2025. Examine the tax implications in the hands of Mr. Thomas for the Assessment Year 2025-26 as per Income-tax Act, 1961 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). (Give brief reasoning)

- Interest received from Mr. Marshal, a non-resident outside India (The borrowed fund is used by Mr. Marshal for investing in Indian company's debt fund for earning interest).
- Received 10 lakhs in Japan from a business enterprise in India for granting license for computer software (not hardware specific).
- He is also engaged in the business of running news agency and earned income of 10 lakhs from collection of news and views in India for transmission outside India.
- He entered into an agreement with SKK & Co., a partnership firm for transfer of technical documents and design and for providing services relating thereto, to set up a Denim Jeans manufacturing plant, in Surat (India). He charged 10 lakhs for these services from SKK & Co.

### Solution

- Not taxable, since interest payable by a non-resident to another non-resident would be deemed to accrue or arise in India only if the borrowed fund is used for the purposes of business or profession carried on by him in India.

In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is **not taxable** in India.

- Royalty includes, inter alia, consideration for grant of license for computer software. Hence, the amount of 10 lakhs payable by a resident (business enterprise in India) for grant of license for computer software would be royalty which is deemed to accrue or arise in India in the hands of Mr. Thomas, a non-resident, since it is for the purpose of business in India.

Hence, the royalty is **taxable** in India.

- No income shall be deemed to accrue or arise to Mr. Thomas through or from activities which are confined to the collection of news and views in India for transmission outside India.

Hence, 10 lakhs is **not taxable** in India in the hands of Mr. Thomas.

- 10 lakhs is deemed to accrue or arise in India to Mr. Thomas, a non-resident, since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Denim Jeans manufacturing plant in Surat.

Hence, the same would be **taxable** in India in the hands of Mr. Thomas.

### Concept Problem 5

Mr. Dhanush, an Indian citizen aged 35 years, worked in ABC Ltd. in Mumbai. He got a job offer from XYZ Inc., USA on 01.06.2023. He left India for the first time on 31.07.2023 and joined XYZ Inc. on 08.08.2023. During the P.Y. 2024-25, Mr. Dhanush visited India from 25.05.2024 to 22.09.2024. He has received the following income for the previous year 2024-25:

Particulars	Amount
Salary from XYZ Inc. USA received in USA	7,00,000
Dividend from Indian Companies	5,50,000
Agricultural income from land situated in India	55,000
Rent received/ receivable from house property in Lucknow	4,00,000
Profit from a profession in USA, which was setup in India, received there	6,00,000

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

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

### 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 15 lakhs.

However, if such person has total income, other than the income from foreign sources, exceeding 15 lakhs, he would also be a resident if he has been in India for at least 120 days during the relevant 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. Dhanush for P.Y. 2024-25 under Optional Tax Regime would be:

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

Since, Mr. Dhanush 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 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
Salary From XYZ Inc. USA received in USA (Not taxable, since it neither accrues or arises in India nor it is received in India)	-
Dividend from Indian Companies, (Taxable, since deemed to accrue or arise in India)	5,50,000
Agricultural income from land situated in Punjab [Exempt u/s 10(1)]	-
Rent received/ receivable from house property in Lucknow (Taxable, since it is deemed to accrue or arise in India)	4,00,000
Less: 30% of 4 lakhs	1,20,000
Profit from a profession in USA, which was set up in India, received there	-
<b>Gross Total Income/ Total Income</b>	<b>8,30,000</b>

**Concept Problem 6**

Miss Asha is an Indian citizen. She is a lawyer by profession. She started her consultancy profession in India in 2022-23 with the name “New way associates”. In May 2023, she got married to Mr. Ram, an American citizen. Mr. Ram came to India for the first time on 1<sup>st</sup> May 2022 when he joined an MNC in India. He got a promotion and was transferred to Dubai. He left for Dubai on 1<sup>st</sup> October, 2023. Mrs. Asha accompanied him to Dubai. She started providing consultancy there. Both of them came to India for 3 months from June to August in 2024 to spend time with Asha’s family. Following incomes were earned by Mr. Ram and Mrs. Asha during the P.Y. 2024-25.

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

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

Determine the residential status of Mr. Ram and Mrs. Asha and their total income for the A.Y. 2025-26 ignoring the provisions of section 115BAC.

**Solution**
**Determination of residential status of Mr. Ram**

Mr. Ram is an American citizen who comes on a visit to India during the P.Y. 2024-25 for 3 months. He has been in India from 1<sup>st</sup> May 2022 to 1<sup>st</sup> October 2023. Since Mr. Ram has been in India for a period of more than 60 days (i.e., 92 days) during the P.Y. 2024-25 and for a period of more than 365 days (i.e., 519 days) during the 4 immediately preceding previous years, he satisfies one of the basic conditions and he is a resident for the A.Y. 2025-26.

Since his period of stay in India during the preceding 7 previous years is less than 730 days (i.e., 519 days), he is a resident but not-ordinarily resident in India during the A.Y. 2025-26.

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

**Computation of total Income of Mr. Ram for the A.Y. 2025-26**

		<b>Amount</b>
1	Salary from company in Dubai [Not taxable, since it accrues and arises outside India]	-
2	Long term capital gain on sale of shares of an Indian company [Taxable, since it accrues and arises in India]	2,50,000
3	Income from house property in Delhi [Taxable, since it accrues and arises in India]	4,60,000
4	Dividend from shares of an Indian company [Taxable, since it accrues and arises in India]	65,000

<b>Total Income</b>	<b>7,75,000</b>
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### Determination of residential status of Mrs. Asha

Mrs. Asha is an Indian citizen who comes on a visit to India during the P.Y. 2024-25 for 3 months i.e., 92 days. Since she does not satisfy any of the basic conditions of staying in India for 182 days or 120 days during the P.Y. 2024-25, she is not a resident in India as per section 6(1).

Mrs. Asha would be a deemed resident under section 6(1A) if her total income other than the income from foreign sources exceeds 15 lakhs during the P.Y. 2024-25 as she is an Indian citizen and is not liable to tax in Dubai.

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

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

Since, total income other than the income from foreign sources of Mrs. Asha does not exceed 15 lakhs, she would not be a deemed resident. Hence, Mrs. Asha is a non- resident during the A.Y. 2025-26.

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

Particulars of income		Amount
1	Profit from consultancy profession in Dubai which was set up in India [Not taxable]	-
2	Profit from consultancy profession in India [Taxable, since it accrues and arises in India]	3,00,000
3	Long term capital gain on sale of shares of British company [Not taxable, since it accrues and arises outside India]	-
4	Short term capital loss on sale of listed shares of an Indian company [Since, it accrues and arises in India, it is allowed to be carry forward to A.Y. 2026-27]	-
<b>Total Income</b>		<b>3,00,000</b>

### Concept Problem 7 [ICAI Sep 24]

Mr. Madan, a citizen of India and the Karta of an HUF, is employed in M/s. PCS Pvt. Ltd. He is drawing monthly salary of 65,500 in India. On June 1, 2024 he purchased one residential house property in Mumbai for 18,00,000 in his individual capacity. The market value of the property is 32,00,000 and value for the purpose of charging stamp duty is 23,00,000. On August 31<sup>st</sup>, 2024 he was transferred to the branch office of M/s. PCS Pvt. Ltd. in U.S.A. and he left India on September 1<sup>st</sup>, 2024. The overseas branch paid him a salary of \$ 2,500 per month in USA. He managed business of HUF from USA when he was not in India.

He had also gone out of India for 99 days and 201 days in previous years 2023-24 and 2022-23, respectively. He had never gone out of India prior to that.

He visited India from January 1, 2025 to January 15, 2025 for training on a project and received 15 days salary in India as per his Indian monthly salary before being transferred.

Mr. Rajeev, one of his friends, gifted him a sculpture in India on August 10, 2024. The market value is 45,100.



Determine the residential status of Mr. Madan and his HUF and compute gross total income of Mr. Madan for the AY 2025-26 assuming he opted out of the default tax regime. The value of one USD (\$) may be taken as 70.

### Solution

#### Residential Status of Mr. Madan

Mr. Madan, an Indian citizen who left India on 1<sup>st</sup> September 2024 for the purpose of employment to USA, would be non-resident in India, since he stayed in India for 169 days (30+31+30+31+31+1+15) only during the P.Y. 2024-25 which is less than 182 days.

#### Residential Status of HUF

Since Mr. Madan is managing the HUF for part of the year from India, control and management of its affairs is situated partly in India.

Hence, the HUF would be resident in India for the P.Y. 2024-25.

A HUF is said to be “Resident and ordinarily resident” in India during the previous year 2024-25, if Karta (Mr. Madan, in this case) satisfies both the following conditions:

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

Mr. Madan has satisfied both the above conditions as he had never gone out of India except for 99 days and 201 days in the P.Y. 2023-24 and P.Y. 2022-23, respectively, the HUF would be ROR in India.

#### Computation of Gross Total Income of Mr. Madan for the A.Y. 2025-26

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

#### Concept Problem 8 [ICAI May 25]

State with reasons whether income chargeable to tax in India for the A.Y. 2025-26 in the hands of recipients in following independent situations:

- i) Mr. Mahesh received dividend of 7 lakhs declared and paid by a foreign company outside India. Such dividend has been declared in respect of shares which derive their value substantially from assets situated in India. He is resident and not ordinarily resident in India.
- ii) Mr. Ramesh received royalty of 8,25,000 in consideration of providing patent rights to Mr. Sunil. Mr. Sunil has developed a new product in India by utilizing the patent rights. 30% of the royalty was received in India and 70% was received outside India. Mr. Ramesh and Sunil both have status of non-resident in India.

**Solution**

- i) Dividend received by Mr. Mahesh from a foreign company outside India would not be deemed to accrue or arise in India even if shares of such company derive their value substantially from assets situated in India.

Hence, such dividend of 7 lakhs would not be taxable in the hands of Mr. Mahesh.

- ii) Royalty received by Mr. Ramesh, a non-resident from Mr. Sunil, another non-resident would be deemed to accrue or arise in India, since such royalty is paid for patent rights used for a new product developed in India.

Thus, 8,25,000 would be taxable in the hands of Mr. Ramesh irrespective of the facts that only 30% such amount is received in India.

# CHAPTER 3

## AGRICULTURAL INCOME

### Concept Problem 1

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

Particulars	Amount
Income from salary (computed)	10,80,000
Income from house property (computed)	2,50,000
Agricultural income from a land in Jaipur	4,80,000
Expenses incurred for earning agricultural income	1,70,000

Compute his tax liability for AY 2025-26 assuming his age is –

- 45 years
- 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 u/s 115BAC

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

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

His tax liability is computed in the following manner:

Particulars	Amount	Amount
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>

<b>Step 1:</b>	13,30,000 + 3,10,000	16,40,000
	Tax on 16,40,000	1,82,000 (i.e., 5% of 4,00,000 + 10% of 3,00,000 + 15% of 2,00,000 + 20% of 3,00,000 plus 30% of 1,40,000)
<b>Step 2:</b>	3,10,000 + 3,00,000	6,10,000
	Tax on 6,10,000	15,500 (i.e., 5% of 3,10,000)

<b>Step 3:</b>	1,82,000 – 15,500	1,66,500.
<b>Step 4 &amp; 5:</b>	<b>Total Tax Liability</b>	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 Provision of the Act

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

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

His tax liability is computed in the following manner:

Particulars	Amount	Amount
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>

<b>Step 1:</b>	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)
<b>Step 2:</b>	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)
<b>Step 3:</b>	3,04,500 – 24,500	2,80,000
<b>Step 4 &amp; 5:</b>	<b>Total Tax Liability</b>	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 u/s 115BAC

Tax liability of Mr. X would be same under default tax regime whether he is of age of 45 years of 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:

<b>Step 1:</b>	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)
<b>Step 2:</b>	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)
<b>Step 3:</b>	3,02,000 – 32,000	2,70,000
<b>Step 4 &amp; 5:</b>	<b>Total Tax Liability</b>	2,70,000+ 4% of 2,70,000 = 2,80,000.



**Concept Problem 2**

Mr. Tenzingh is engaged in the business of growing and curing coffee in Coorg, Karnataka. Whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2025 are given below:

Particulars	Amount
Opening balance of car (only asset in the block) as on 1.4.2024 (i.e. WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24)	3,00,000
Opening balance of machinery as on 1.4.2024 (i.e., WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for running and maintenance of car are INR 50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities for the assessment year 2025-26.

Show the WDV of the assets as on 1.4.2025.

What would be your answer if car is used only for agricultural use and machine was used for curing business.

**Solution**

Where an Assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income as per Rule 7B of the Income Tax Rules 1962.

As per the above Rule, 75% of income derived from sale of coffee grown and cured by the seller in India shall be treated as agriculture income and 25% of such income shall be deemed to be business income.

Particulars	Amount	Amount
Sale value of cured coffee		22,00,000
Less: expenses for growing coffee	3,10,000	
Car expenses (80% of INR 50,000)	40,000	
Depreciation on car (80% of 15% of INR 3,00,000) (WN)	36,000	
<b>Total cost of agricultural operations</b>	<b>3,86,000</b>	
Expenditure for coffee curing operations	3,00,000	
Add: Depreciation on machinery (15% of 15,00,000) [WN]	2,25,000	
Total cost of the curing operations	<b>5,25,000</b>	<b>9,11,000</b>
<b>Total profits from composite activities</b>		<b>12,89,000</b>
Business income (25% of above)		3,22,250
Agricultural income (75% of above)		9,66,750

**Computation of value of depreciable assets as on 31.3.2025:**

Particulars	Amount	Amount
<b>Car</b>		

Particulars	Amount	Amount
Opening balance as on 1.4.2024 (i.e., WDV as on 31.3.2024 (-) depreciation for P.Y.2023-24)		3,00,000
Depreciation thereon at 15%	45,000	
Less: disallowance @20% for personal use	9,000	
Depreciation actually allowed		36,000
<b>Closing value as on 01.4.2025</b>		<b>2,64,000</b>
<b>Machinery</b>		
Opening balance as on 1.4.2024 (i.e., WDV as on 31.3.2024 (-) depreciation for P.Y.2023-24)		15,00,000
Less: Depreciation @ 15% for PY 2024-25		2,25,000
<b>Closing value as on 01.4.2025</b>		<b>12,75,000</b>

**Note:** In cases of composite income for the purpose of computing written down value of assets, the total amount of depreciation shall be computed as if the entire composite income of the Assessee (and not just 25%) is chargeable under the head “Profits and gains of business or profession”. The depreciations so computed shall be deemed to have been “actually allowed” to the Assessee. In other words, entire depreciation is allowed instead of proportionate amount.

If car is used only for agricultural use and machine was used for curing business, this implies both are being used for agricultural purpose and not for personal use. Hence, depreciation allowable for car shall be 45,000 and car expense allowed shall be 50,000. Composite income shall be 12,70,000.

There will be no impact on WDV as on 01.04.2025.

### Concept Problem 3

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31.3.2025:

S. No	Particulars	Amount
1	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
2	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
3	Income from sale of coffee grown, cured, roasted and grounded in Colombo; sale consideration was received at Chennai.	2,50,000
4	Income from sale of tea grown and manufactured in Shimla.	4,00,000
5	Income from sapling and seeding grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the AY 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

### Solution

**Computation of business income and agricultural income of Ms. Vivitha for the A.Y. 2025-26 under Optional Tax Regime:**

S. No	Sources of Income	Gross	Business Income		Agricultural income
		INR	%	INR	INR
i.	Sale of latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
ii.	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000
iii.	Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below)	2,50,000	100 %	2,50,000	-
iv.	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
v.	Saplings and seedlings grown in nursery in India (See Note 2 below)	80,000		Nil	80,000
	<b>Total</b>			<b>5,40,000</b>	<b>5,90,000</b>

**Notes:**

- Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in **India**, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India doesn't make it agricultural income.

In the case of an Assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.

- Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land.

# CHAPTER 4

## SALARY

### Concept Problem 1

Mr. A retires from service on December 31, 2024, after 25 years of service. Following are the particulars of his income/investments for the PY 2024-25:

Particulars	Amount
Basic pay @ ₹ 16,000 per month for 9 months	1,44,000
Dearness pay (50% forms part of the retirement benefits) ₹ 8,000 per month for 9 months	72,000
Lumpsum payment received from the Unrecognized Provident Fund	6,00,000
Deposits in the PPF account	40,000

Out of the amount received from the unrecognized provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,50,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2025-26?

### Solution

Taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the A.Y. 2025-26 is computed hereunder:

Particulars	Amount
<b>Amount taxable under the head "Salaries":</b>	
Employer's share in the payment received from the URPF	2,20,000
Interest on the employer's share	50,000
<b>Total</b>	<b>2,70,000</b>
<b>Amount taxable under the head "Income from Other Sources"</b>	
Interest on the employee's share	60,000
<b>Total amount taxable from the amount received from the fund</b>	<b>3,30,000</b>

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

### Concept Problem 2

Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2024-25:

- Domestic servant was provided at the residence of Bala. Salary of domestic servant is INR 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).

In case the company has employed the domestic servant, what is the value of perquisite?

- ii) Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at INR 900 per month and for Ashok at INR 1,200 per month. No amount was recovered by the company for such education facility from Bala.
- iii) The employer has provided movable assets such as television, refrigerator and air- conditioner at the residence of Bala. The actual cost of such assets provided to the employee is INR 1,10,000.
- iv) A gift voucher worth INR 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- v) Telephone provided at the residence of Shri Bala and the bill aggregating to INR 25,000 paid by the employer.
- vi) Housing loan @ 6% per annum. Amount outstanding on 1.4.2024 is INR 6,00,000. Shri Bala pays INR 12,000 per month towards principal, on 5<sup>th</sup> of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2025-26. The lending rate of State Bank of India as on 1.4.2024 for housing loan may be taken as 10%.

### **Solution**

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

- i) Domestic servant was employed by the employee and the salary of such domestic servant was paid/ reimbursed by the employer. It is taxable as perquisite for all categories of employees.

Taxable perquisite value = INR 1,500 × 12 = INR 18,000.

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

- ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed INR 1,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed INR 1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds INR 1,000 per month. The taxable perquisite value would be INR 14,400 (INR 1,200 × 12).

**Note** – An alternate view possible is that only the sum in excess of INR 1,000 per month is taxable. In such a case, the value of perquisite would be INR 2,400.

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

The perquisite value would be 10% of the actual cost i.e., INR 11,000, being 10% of INR 1,10,000.

- iv) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding INR 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on the occasion of marriage anniversary and the sum exceeds the limit of INR 5,000.

Therefore, the entire amount of INR 10,000 is liable to tax as perquisite.

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

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



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

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

The perquisite value for computation is  $10\% - 6\% = 4\%$

Month	Maximum outstanding balance as on last date of month	Perquisite value at 4% for the month
April, 2024	5,88,000	1,960
May, 2024	5,76,000	1,920
June, 2024	5,64,000	1,880
July, 2024	5,52,000	1,840
August, 2024	5,40,000	1,800
September, 2024	5,28,000	1,760
October, 2024	5,16,000	1,720
November, 2024	5,04,000	1,680
December, 2024	4,92,000	1,640
January, 2025	4,80,000	1,600
February, 2025	4,68,000	1,560
March, 2025	4,56,000	1,520
	<b>Total value of this perquisite</b>	<b>20,880</b>

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

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

### Concept Problem 3

In the case of Mr. Hari, who turned 71 years on 28.3.2025, you are informed that the salary for the previous year 2024-25 is INR 10,20,000 and arrears of salary received is INR 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Previous year	Taxable Salary (INR)	Arrears now received (INR)
2011 – 2012	7,10,000	1,03,000
2012 – 2013	8,25,000	1,17,000
2013 – 2014	9,50,000	1,25,000

Compute the relief available under section 89 and the tax payable for the A.Y. 2025-26. Assume that Mr. Hari does not opt for section 115BAC(1A).

**Note: Rates of Taxes:**

Assessment Year	Slab rates of income-tax			
	For resident individuals of the age of 60 years or more at any time during PY		For other resident individuals	
	Slabs	Rate	Slabs	Rate
2012 – 13	up to INR 2,40,000	NIL	up to INR 1,60,000	Nil
	INR 2,40,001 – INR 5,00,000	10%	INR 1,60,001 – INR 5,00,000	10%
	INR 5,00,001 – INR 8,00,000	20%	INR 5,00,001 – INR 8,00,000	20%
	Above INR 8,00,000	30%	Above INR 8,00,000	30%
2013-14	up to INR 2,50,000	NIL	up to INR 1,80,000	Nil
	INR 2,50,001 – INR 5,00,000	10%	INR 1,80,001 – INR 5,00,000	10%
	INR 5,00,001 – INR 8,00,000	20%	INR 5,00,001 – INR 8,00,000	20%
	Above INR 8,00,000	30%	Above INR 8,00,000	30%
2014-15	up to INR 2,50,000	Nil	up to INR 2,00,000	Nil
	INR 2,50,001 – INR 5,00,000	10%	INR 2,00,001 – INR 5,00,000	10%
	INR 5,00,001 – INR 10,00,000	20%	INR 5,00,001 – INR 10,00,000	20%
	Above INR 10,00,000	30%	Above INR 10,00,000	30%

**Note** – Education cess @ 2% and Secondary and higher Education cess @1% is attracted on the income-tax for all the above preceding years.

### Solution

#### Computation of tax payable by Mr. Hari for the A.Y.2025-26:

Particulars	Incl. arrears of salary	Excl. arrears of salary
Current year salary (computed)	10,20,000	10,20,000
Add: Arrears of salary	3,45,000	-
<b>Taxable Salary</b>	<b>13,65,000</b>	<b>10,20,000</b>
<b>Income-tax thereon</b>	<b>2,19,500</b>	<b>1,16,000</b>
Add: Health and education cess @ 4%	8,780	4,640
<b>Total payable</b>	<b>2,28,280</b>	<b>1,20,640</b>

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

Particulars	A.Y. 2011-12		A.Y. 2012-13		A.Y. 2013-14	
	Incl. arrears	Excl. arrears	Incl. arrears	Excl. arrears	Incl. arrears	Excl. arrears
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Arrears of salary	1,03,000	-	1,17,000	-	1,25,000	-
<b>Taxable salary</b>	<b>8,13,000</b>	<b>7,10,000</b>	<b>9,42,000</b>	<b>8,25,000</b>	<b>10,75,000</b>	<b>9,50,000</b>
Tax on the above	97,900	76,000	1,34,600	99,500	1,47,500	1,15,000
Add: Cess @3%	2,937	2,280	4,038	2,985	4,425	3,450
<b>Tax payable</b>	<b>1,00,837</b>	<b>78,280</b>	<b>1,38,638</b>	<b>1,02,485</b>	<b>1,51,925</b>	<b>1,18,450</b>

#### Computation of relief under section 89

S. No	Particulars	Amount	Amount
i.	<b>Tax payable in A.Y.2025-26 on arrears:</b>		
	Tax on income including arrears	2,28,280	
	Less: Tax on income excluding arrears	1,20,640	1,07,640
ii.	<b>Tax payable in respective years on arrears:</b>		
	Tax on income including arrears (1,00,837 + 1,38,638 + 1,51,925)	3,91,400	
	Less: Tax on income excluding arrears (78,280 + 1,02,485 + 1,18,450)	2,99,215	92,185
	<b>Relief under section 89 - difference between tax on arrears in A.Y 2025-26 and tax on arrears in the respective years</b>		<b>15,455</b>

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

Particulars	Amount
Income-tax payable on total income including arrears of salary	2,28,280
Less: Relief under section 89 as computed above	15,455
<b>Tax payable after claiming relief</b>	<b>2,12,825</b>

#### Concept problem 4

Mr. Mohit is employed with ABC Ltd. on a basic salary of INR 10,000 p.m. He is also entitled to dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of INR 6,000 p.m. which was increased to INR 7,000 p.m. with effect from 01.01.2025. He also got an increment of INR 1,000 p.m. in his basic salary wef 01.02.2025. Rent paid by him during the PY 2024-25 is as under:

April and May, 2024	Nil, as he stayed with his parents.
June to October, 2024	INR 6,000 p.m. for an accommodation in Ghaziabad.
November, 2024 to March, 2025	INR 8,000 p.m. for an accommodation in Delhi.

Compute the gross salary for the AY 2025-26, assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

#### Solution

#### Computation of gross salary of Mr. Mohit for AY 2025-26:

Particulars	Amount
Basic salary [(INR 10,000 x 10) + (INR 11,000 x 2)]	1,22,000
Dearness Allowance (100% of basic salary)	1,22,000
House Rent Allowance (Working Note)	21,300
<b>Gross Salary</b>	<b>2,65,300</b>

#### Working Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-Mar (₹)
Basic salary per month	10,000	10,000	10,000	10,000	11,000
Dearness allowance (included in salary as per terms of	5,000	5,000	5,000	5,000	5,500

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-Mar (₹)
employment) (50% of basic salary)					
Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (₹ 6,000×5)	16,000 (₹ 8,000×2)	8,000 (₹8,000×1)	16,000 (₹ 8,000×2)
<b>House rent allowance (HRA) received during the relevant period (A)</b>	<b>12,000</b> <b>(₹ 6,000×2)</b>	<b>30,000</b> <b>(₹ 6,000×5)</b>	<b>12,000</b> <b>(₹ 6,000×2)</b>	<b>7,000</b> <b>(₹7,000×1)</b>	<b>14,000</b> <b>(₹ 7,000×2)</b>
<b>Least of the following is exempt u/s 10(13A)</b>					
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (–) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad – June to Oct, 2024) 50% of salary (Residence at Delhi– Nov 2024 - March, 2024)	-	30,000 (40% × 75,000)	15,000 (50% × 30,000)	7,500 (50% × 15,000)	16,500 (50% × 33,000)
<b>Exempt HRA (B)</b>	<b>Nil</b>	<b>22,500</b>	<b>12,000</b>	<b>6,500</b>	<b>12,700</b>
<b>Taxable HRA [Actual HRA – Exempt HRA] (A-B)</b>	<b>12,000</b>	<b>7,500</b>	<b>Nil</b>	<b>500</b>	<b>1,300</b>

**Taxable HRA (total) = ₹ 12,000 + ₹ 7,500 + ₹ 500 + ₹ 1,300 = ₹ 21,300**

### Concept Problem 5

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:

- 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.
- 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.
- 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.
- 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.
- 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	Amount	Amount
Basic Salary = 25,000 x 9 months		2,25,000
House Rent Allowance = 6,000 x 9 months [Fully taxable under default tax regime]		54,000
Gratuity	3,50,000	
Less: Least of the following exempt under section 10(10)(ii)	3,50,000	Nil
i) Actual Gratuity received - 3,50,000		
ii) 15 days salary for every year of completed service $[15/26 \times 25,000 \times 26] = 3,75,000$		
iii) Notified limit = 20,00,000		
Leave encashment	3,15,000	
Less: Least of the following exempt under section 10(10AA)	2,50,000	65,000
i) 25,00,000		
ii) Leave salary actually received 3,15,000		
iii) 2,50,000, being 10 months' salary x 25,000		
iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired $375/30 \times 25,000 = 3,12,500$ [Leave Due = Leave allowed – Leave taken] = 750 (30 days per year x 25 years) – 375 days (15 days x 25) = 375 days]		
Uncommuted Pension received $[(5,000 \times 1) + (5,000 \times 2 \times 40\%)]$		9,000
Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A) $[1/3 \times 3,00,000/60\% \times 100\%]$	1,66,667	1,33,333
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding 5,000 in aggregate during the previous year is exempt]		Nil
Mobile Phone received as gift from colleagues (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)		Nil
<b>Gross Salary</b>		<b>4,86,333</b>
Less: Standard deduction u/s 16 [Actual salary or 75,000, whichever is less] [Allowable under default tax regime]		75,000



Particulars	Amount	Amount
Net Salary		4,11,333

**Concept Problem 6**

Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2024-25:

Particulars	Amount
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	8,000
Gift voucher given by employer on her birthday	10,000
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use. Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	7,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2025-26 if she pays tax under default tax regime.

**Solution**

**Computation of income chargeable under the head “Salaries” of Ms. Akansha for A.Y. 2025-26 under default tax regime**

Particulars	Amount
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds 5,000) as per Rule 3(7)(iv)	10,000

Particulars	Amount
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be 39,600 $[(2,400 + 900) \times 12]$ as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000
<b>Gross Salary</b>	<b>12,26,600</b>
<b>Less: Deductions under section 16</b>	
Standard Deduction as per section 16(ia)	75,000
<b>Income chargeable under the head “Salaries”</b>	<b>11,51,600</b>

**Note:** As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift.

However, the value of any gift or voucher received by the employee or by member of his household below 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.

Since the value of the gift voucher exceeds the limit of 5,000, the entire amount of 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be 5,000. Accordingly, the gross salary and net salary would be INR 12,21,600 and INR 11,71,600, respectively.

### Concept Problem 7

From the following details, find out the salary chargeable to tax of Mr. Anand for the assessment year 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Mr. Anand is a regular employee of Malpani Ltd. In Mumbai, he was appointed on 01-03-2024 in the scale of INR 25,000 – INR 2,500 - INR 35,000. He is paid dearness allowance (which forms part of salary for retirement benefits) @ 15% of basic pay and bonus equivalent to one and a half month's basic pay as at the end of the year. He contributes 18% of his salary (basic pay plus dearness allowance) towards recognized provident fund and the company contributes the same amount.

He is provided free housing facility which has been taken on rent by the company at INR 15,000 per month. He is also provided with following facilities:

- The company reimbursed the medical treatment bill of INR 40,000 of his daughter who is dependent on him.
- The monthly salary of INR 2,000 of a house keeper is reimbursed by the company.
- He is getting telephone allowance @ INR 1,000 per month.
- A gift voucher of INR 4,700 was given on the occasion of his marriage anniversary.
- The company pays medical insurance premium to effect an insurance on the health of Mr. Anand INR 12,000.
- Motor car running and maintenance charges of INR 36,600 fully paid by employer.

(The motor car is owned and driven by Mr. Anand. The engine cubic capacity is below 1.60 litres. The motor car is used for both official and personal purpose by the employee)

vii) Value of free lunch provided during office hours is INR 2,200.

### Solution

#### Computation of taxable salary of Mr. Anand for A.Y 2025-26 under Optional Tax Regime:

Particulars	Amount
Basic pay [(INR 25,000 x 11) + (INR 27,500 x 1)] = INR 2,75,000 + INR 27,500	3,02,500
Dearness allowance [15% of basic pay]	45,375
Bonus [INR 27,500 x 1.5]	41,250
Employer's contribution to recognized provident fund in excess of 12% (18% -12% = 6% of INR 3,47,875)	20,873
<b>Taxable allowances</b>	
Telephone allowance	12,000
<b>Taxable perquisite</b>	
Rent free accommodation [see note 1 below]	40,113
Medical reimbursement	40,000
Reimbursement of salary of housekeeper [INR 2,000 x 12]	24,000
Gift voucher [see Note 4 below]	-
Motor car owned and driven by employee, running and maintenance charges borne by the employer [INR 36,600 – INR 21,600 (i.e., INR 1,800 x 12)]	15,000
Value of free lunch facility [see note 5 below]	-
<b>Gross Salary</b>	<b>5,41,111</b>
Less: Standard Deduction u/s 16(ia)	50,000
<b>Salary income chargeable to tax</b>	<b>4,91,111</b>

Notes		
1.	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:	
	Basic salary	3,02,500
	Dearness allowance	45,375
	Bonus	41,250
	Telephone allowance	12,000
	<b>Total</b>	<b>4,01,125</b>
	10% of salary = INR 4,01,125 x 10/100 = 40,113	

**Notes**

	Value of rent-free house will be ➤ Actual amount of lease rental paid by employer (i.e. INR 1,80,000) or ➤ 10% of salary (i.e. INR 40,113) whichever is lower.
	Therefore, the perquisite value is INR 40,113
2.	Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family in private hospital is taxable.
3.	Medical insurance premium paid by the employer to effect an insurance on the health of the employee is fully exempt.
4.	If the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is less than INR 5,000 in aggregate during the previous year, the perquisite value is Nil. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum is less than INR 5,000. Therefore, the perquisite value of gift voucher is nil.
5.	Free lunch provided by the employer during office hours is not a perquisite assuming that the value does not exceeds INR 50 per meal.

**Concept problem 8**

Mr. Vignesh, Finance Manager of KLM Ltd., Mumbai, furnishes the following particulars for the FY 2024-25:

- Salary INR 46,000 per month
- Value of medical facility in a hospital maintained by the company INR 7,000
- Rent free accommodation owned by the company.
- Housing loan of INR 6,00,000 given on 01.04.2024 at the interest rate of 6% p.a. (No repayment made during the year). Rate of interest charged by SBI as on 01.04.2024 in respect of housing loan is 10%.
- Gifts in kind made by the company on the occasion of wedding anniversary of Mr. Vignesh INR 4,750
- A wooden table and 4 chairs were provided to Mr. Vignesh at his residence (dining table). This was purchased on 1.5.2021 for INR 60,000 and sold to Mr. Vignesh on 1.8.2024 for INR 30,000.
- A personal purchase through credit card provided by the company amounting to INR 10,000 was paid by the company. No part of the amount was recovered from Mr. Vignesh.
- An ambassador car which was purchased by the company on 16.7.2021 for INR 2,50,000 was sold to the Assessee on 14.7.2024 for INR 80,000.
- Other income received by the Assessee during the previous year 2024-25:

S No.	Particulars	Amount
1	Interest on Fixed Deposits with a company	5,000
2	Income from specified mutual fund	3,000
3	Interest on bank fixed deposits of a minor married daughter	3,000

- Contribution to LIC towards premium under section 80CCC INR 1,00,000
- Deposit in PPF Account made during the year 2024-25 INR 40,000

Compute the taxable income of Mr. Vignesh and the tax thereon for the Assessment year 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

**Solution**

**Computation of taxable income of Mr. Vignesh for the A.Y. 2025-26 under Optional Tax Regime:**

Particulars	Amount	Amount
Income from salaries (See Working Note below)		<b>6,85,200</b>
Income from other sources		
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>6,94,700</b>
Less: Deductions under Chapter VI-A		
Section 80C – PPF	40,000	
Section 80CCC	1,00,000	1,40,000
<b>Total Income</b>		<b>5,54,700</b>
<b>Tax on total income</b>		<b>23,440</b>
Add: Health and education cess @ 4%		938
<b>Total tax liability</b>		<b>24,338</b>
<b>Total tax liability (rounded off)</b>		<b>24,340</b>

**Working Note:**
**Computation of salary income of Mr. Vignesh for the Assessment Year 2025-26:**

Particulars	Amount
<b>Income under the head “salaries”</b>	
Salary [INR 46,000 x 12]	5,52,000
Medical facility [ in the hospital maintained by the company is exempt]	-
Rent free accommodation (10% of salary is taxable i.e. 5,52,000 × 10%)	55,200
Use of dining table for 4 months [INR 60,000 x 10 /100 x 4 /12]	2,000
Valuation of perquisite of interest on loan [ 10% - 6% = 4%]	24,000
Gift given on the occasion of wedding anniversary is exempt, since value is less than 5,000	Nil
Perquisite on sale of dining tables (WN 1)	12,000
Purchase through credit card – not being a privilege but covered by section 17(2)(iv)	10,000
Perquisite on sale of car (WN 2)	80,000
<b>Gross Salary</b>	<b>7,35,200</b>
Less: Standard Deduction u/s 16(ia)	50,000
<b>Income from Salaries</b>	<b>6,85,200</b>

**Working Note 1 - Perquisite on sale of dining tables**

Cost	60,000
Less: Depreciation on straight line method @ 10% for 3 years	18,000



<b>Written Down Value</b>	<b>42,000</b>
Less: Amount paid by the Assessee	30,000
<b>Perquisite on sale of dining tables</b>	<b>12,000</b>

**Working Note 2 - Perquisite on sale of car**

<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
	<b>2,00,000</b>
Less: Depreciation from 16.7.2022 to 15.7.2023 @ 20%	40,000
<b>Value as on 14.07.2024 - being the date of sale to employee</b>	<b>1,60,000</b>
Less: Amount received from the Assessee on 14.07.2024	80,000
<b>Perquisite on sale of car</b>	<b>80,000</b>

**Note:**

Under Rule 3(7)(viii), while calculating the perquisite value of benefit to the employee arising from the transfer of any movable asset, the normal wear and tear is to be calculated in respect of each completed year during which the asset was put to use by the employer.

In the given case the third year of use of ambassador car is completed on 15.7.2024 whereas the car was sold to the employee on 14.7.2024. The solution worked out above provides for wear and tear for only two years.

**Concept problem 9**

MR. Muhafiz, a resident individual, retires from PwC w.e.f. 1<sup>st</sup> February, 2025 after 25 years of service. He joined EY Ltd. on the same day.

The following information is provided by him about his incomes/outgoing during the Previous Year 2024-24:

<b>(a) Salary/allowance/perquisites/other payment from 01.04.2024</b>	<b>Amount</b>
(i) Basic salary	12,000 p.m.
(ii) Dearness allowance (One-half includible for superannuation benefits)	3,000 p.m.
(iii) Commission, 5% on turnover achieved by him	6,000
(iv) House accommodation, rent paid by company	5,000 p.m.
(v) Best suggestion award for total quality management scheme (in kind)	12,000
(vi) Lunch Facility	2,000 p.m.
(vii) Gratuity under Gratuity Act, 1972	3,35,000
(viii) Pension	3,000 p.m.
(ix) Commuted value of one-half pension w.e.f. 01.02.2025	2,25,000
(x) Refund of employer contribution from unrecognized PF (Including interest of INR 1,00,000)	2,50,000
(xi) Refund of employee contribution from unrecognized PF (Including interest of INR 1,00,000)	2,50,000
<b>(b) Salary/allowance/perquisites etc. from 01.02.2025 to 31.03.2025 from EY Ltd.</b>	
(i) Salary	8,000 p.m.
(ii) House rent allowance	1,500 p.m.

(a) Salary/allowance/perquisites/other payment from 01.04.2024	Amount
(iii) Free use of motorcar (exceeding 1.6 liters engine capacity) (expenses met by employer)	
(iv) Rent paid by the Assessee	2,000 p.m.

You are required to compute his income under the head Salary and Tax Liability for the Assessment Year 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

### Solution

#### Computation of income under the head Salary for AY 2025-26 under Optional Tax Regime:

Particulars	Amount
<b>PwC</b>	
Basic Pay (12,000 x 10)	1,20,000
Dearness Allowance (3,000 x 10)	30,000
Commission	6,000
Rent free accommodation (WN 1)	14,100
Best suggestion award (Gift) (12,000 - 5,000)	7,000*
Lunch Facility (10 x 2,000) – (50 x 25 x 10) (assuming 25 working days in a month)	7,500
Gratuity {sec 10(10)} (WN 2)	1,18,654
Uncommuted pension (3,000 x 50 x 2)	3,000
Commuted Pension {sec 10(10A)} (WN 3)	75,000
Refund of employer's contribution (including interest)	2,50,000
<b>EY Ltd.</b>	
Basic pay (8,000 x 2)	16,000
House rent allowance (WN 4)	600
Motor Car (2,400 x 22)	4,800
<b>Gross salary</b>	<b>6,52,654</b>
Less: Standard Deduction u/s 16(ia)	50,000
<b>Income under the head Salary</b>	<b>6,02,654</b>
<b>Income under the head Other Sources</b> (interest on employee's contribution to unrecognized provident fund)	<b>1,00,000</b>
<b>Gross Total income</b>	<b>7,02,654</b>
Less; Deduction u/s 80C to 80U	Nil
<b>Total income (R/off u/s 288B)</b>	<b>7,02,650</b>

#### Computation of tax Liability

Particulars	Amount
Tax on Amount 7,02,650 at Slab rate	53,030
Add: Health and education cess @ 4%	2,121

<b>Tax Liability</b>	<b>55,151</b>
<b>Rounded off u/ s 288 B</b>	<b>55,150</b>

**Working Note 1**

<b>Particulars</b>	
10% of rent-free accommodation salary or rent paid whichever is less	
Rent free accommodation salary	
= Basic Pay + Dearness Allowance + Commission	
= 1,20,000 + 15,000 + 6,000 = 1,41,000	
10% of rent-free accommodation salary	14,100
Rent Paid = 5,000 x 10	50,000
Perquisite value of rent-free accommodation	14,100

**Working Note 2**

**Least of the following is exempt**

a) Gratuity received 3,35,000
b) 10,00,000
c) $15/26 \times 25 \times 15,000 = 2,16,346.15$
Received = 3,35,000
Exempt = (2,16,346.15)
Taxable = 1,18,653.85

**Working Note 3**

**Least of the following is exempt**

Received	2,25,000
Exempt = $4,50,000 \times 1/3$	(1,50,000)
<b>Taxable</b>	<b>75,000</b>

**Working Note 4**

**Least of the following is exempt**

a) INR 3,000
b) INR 4,000 - INR 1,600 = INR 2,400
Retirement benefit salary = Amount 16,000
c) 40% of Retirement benefit salary = 6,400
HRA Received = 3,000
HRA Exempt = (2,400)
<b>Taxable HRA = 600</b>

**Concept Problem 10**

Mr. B is a sales manager in PQR Ltd. During F.Y. 2024-25 he has received the following towards his salary and

allowances/perquisites;

- i) Basic pay 85,000 per month upto December 2024 and thereafter an increase of 2,000 per month.
- ii) Dearness allowance 40% of basic pay forming part of retirement benefits.
- iii) Bonus 1-month basic pay based on the salary drawn during January month every year.
- iv) He contributes 14% of his basic pay & DA towards his recognized provident fund and his employer company contributes the same amount.
- v) Travelling allowance of 5,000 per month towards on duty tours.
- vi) Research and training allowance 3,000 per month.
- vii) Children education allowance of 600 per month, per child for his 2 sons and 1 daughter.
- viii) Accommodation owned by PQR Ltd. was provided to him in Hyderabad for the whole year and furniture of 2,00,000 was provided from 1<sup>st</sup> October, 2024.
- ix) Reimbursement of medical expenses on his treatment in private hospital - 15,000, medical allowance 1,500 per month. Company has paid premium on medical policy purchased on his health 12,500.

You are required to:

- I. Compute the income chargeable to tax under the head "Income from Salary", assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).
- II. What will be the income under the head "Salaries", if he pays tax under default tax regime u/s 115BAC?

**Solution**

- I. **Computation of income chargeable to tax under the head "Salaries" for A.Y. 2025-26, under Optional Tax Regime:**

Particulars	Amount
Basic Pay $[85,000 \times 9 + 87,000 \times 3]$	10,26,000
Dearness Allowance $[10,26,000 \times 40\%]$	4,10,400
Bonus	87,000
Travelling allowance [Exempt, since provided towards duty tours <sup>1</sup> ]	-
Research and training allowance $[3,000 \times 12]$	36,000
Medical allowance $[1500 \times 12]$	18,000
Children Education allowance $[600 \times 12 \times 3]$	21,600
Less: Exempt $[100 \times 12 \times 2]$	2,400
Salary (for the purpose of valuation of Rent-free accommodation)	15,96,600
Value of Rent-free accommodation $[10\% \text{ of } 15,96,600]$	1,59,660
Add: Value of furniture $[2,00,000 \times 10\% \text{ p.a. for 6 months}]$	10,000
Reimbursement of medical expenses [taxable, since amount is reimbursed for treatment in private hospital]	15,000
Health insurance premium paid by PQR Ltd. [Exempt]	-
Employers' contribution to RPF in excess of 12% of salary = 2% of 14,36,400 $(10,26,000 + 4,10,400)$	28,728
<b>Gross Salary</b>	<b>18,09,988</b>

Particulars	Amount
Less: Deductions under section 16	
Standard deduction	50,000
<b>Income chargeable under the head “Salaries”</b>	<b>17,59,988</b>

**II. Computation of income chargeable to tax under the head “Salaries” for A.Y. 2025-26, under default tax regime u/s 115BAC:**

Particulars	Amount
Income chargeable under the head “Salaries”	<b>17,59,988</b>
Add: Exemption in respect of children education allowance [Not allowable u/s 115BAC]	2400
	<b>17,62,388</b>
Less: Value of rent-free accommodation (As per regular provisions)	1,69,600
Less: Additional standard deduction under DTR	25,000
	<b>15,67,728</b>
Add: Value of Rent-free accommodation [10% of 15,99,000 (15,96,600 (as calculated above) + 2,400)]	1,59,900
Add: Value of furniture [2,00,000 × 10% p.a. for 6 months]	10,000
<b>Income chargeable under the head “Salaries”</b>	<b>17,37,628</b>



# CHAPTER 5

## HOUSE PROPERTY

### Concept Problem 1

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	31.3.1999	31.3.2002	01.4.2017
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.

Compute the income from this property chargeable in the hands of Raman for A.Y. 2025-26.

### 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 INR		
	House I	House II	House III
<b>Gross Annual Value (GAV)</b>			
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 PY)	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>
<b>Less Deductions under section 24</b>			
(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 INR
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 INR
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 INR
House I (Deemed to be let-out)	2,19,800
House II (Self-occupied) (no interest deduction)	Nil
House III (Self-occupied) (no interest deduction)	Nil
<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 INR 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 INR
House I (Self-occupied)	Nil
House II (Self-occupied) (Interest deduction restricted to 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 INR
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 INR
House I (Deemed to be let-out)	2,19,800
House II (Self-occupied) (Interest deduction restricted to 30,000)	30,000
House III (Self-occupied)	1,75,000
(Total interest deduction restricted to 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 1,840 for the A.Y. 2025-26 under the optional tax regime i.e., the normal provisions of the Act.

### Concept Problem 2

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 1915-16. The property consists of eight identical units and is situated at Cochin.

During the financial year 2024-25, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of INR 12,000 per month per unit. The municipal value of the house property is INR 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

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

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

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

The other income of Mr. Arun and Mr. Bimal are INR 2,90,000 and INR 1,80,000, respectively, for FY 2024-25.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2025-26 if they pay tax under the default tax regime under section 115BAC.

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

### Solution

#### (i) If Arun and Bimal pay tax under the default tax regime u/s 115BAC

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

Particulars	Arun	Bimal
-------------	------	-------

Particulars	Arun	Bimal
Income from house property		
<b>I. Occupied portion (25%)</b>		
Annual value	Nil	Nil
Less: Deduction under section 24(b)	Nil	Nil
<b>Loss from self-occupied property</b>	<b>Nil</b>	<b>Nil</b>
<b>II. Let out portion (75%) – See Working Note below</b>	<b>1,25,850</b>	<b>1,25,850</b>
Income from house property	1,25,850	1,25,850
<b>Other income</b>	<b>2,90,000</b>	<b>1,80,000</b>
<b>Total Income</b>	<b>4,15,850</b>	<b>3,05,850</b>

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

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

**(ii) If Arun and Bimal have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)**

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

Particulars	Arun	Bimal
Income from house property		
<b>Occupied portion (25%)</b>		
Annual value	Nil	Nil
Less: Deduction under section 24(b) Interest on loan taken for construction 37,500 (being 25% of INR 1.5 lakh) [Allowable since they have exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)]	37,500	37,500
<b>Loss from self-occupied property</b>	<b>(37,500)</b>	<b>(37,500)</b>

Particulars	Arun	Bimal
Let out portion (75%) – See Working Note above	1,25,850	1,25,850
<b>Income from house property</b>	<b>88,350</b>	<b>88,350</b>
Other income	2,90,000	1,80,000
<b>Total Income</b>	<b>3,78,350</b>	<b>2,68,350</b>

### Concept problem 3

Mr. Ram has taken a loan of INR 15,00,000 on 01.07.2020 from State Bank of India @ 12% p.a. for construction of one house which was completed on 01.05.2024 and was let out @ INR 90,000 p.m. wef. 01.07.2024 and fair rent is INR 1,00,000 p.m. The Assessee has paid municipal tax of INR 30,000 in PY 2024-25 and the Assessee has repaid the loan amount in annual installment of INR 1,00,000 starting from 01.01.2023.

Compute his Total Income for the assessment year 2025-26 assume that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

### Solution

**Computation of Total Income for previous year 2024-25 under optional tax regime:**

Particulars	Amount
GAV (Refer Note 1)	11,00,000
Less: Municipal Tax	30,000
<b>Net Annual Value</b>	<b>10,70,000</b>
Less: 30% of NAV u/s 24(a)	3,21,000
Less: Interest on capital borrowed u/s 24(b) (Refer Note 2)	2,84,400
<b>Income under the head house property</b>	<b>4,64,600</b>
<b>Gross Total Income</b>	<b>4,64,600</b>
Less: Deduction u/s 80C	1,00,000
<b>Total Income</b>	<b>3,64,600</b>

#### Note 1

Gross Annual Value	Amount
Fair Rent (1,00,000 x 11)	11,00,000
Expected Rent	11,00,000
Rent received/ receivable (90,000 x 9)	8,10,000
If there was no vacancy, in that case rent received/ receivable would have been INR 990,000 (90,000*11) and it was still less than expected Rent, therefore GAV shall be expected rent.	
<b>GAV</b>	<b>11,00,000</b>

#### Note 2

<b>Current period Interest</b>	
<u>From 01.04.2024 to 31.03.2025</u>	



$(13,00,000 \times 12\% \times 9/12) + (12,00,000 \times 12\% \times 3/12) =$	<b>1,53,000</b>
<b>Prior period interest</b>	
<u>From 01.07.2020 to 31.03.2024</u>	
$15,00,000 \times 12\% \times 30/12 =$	4,50,000
$14,00,000 \times 12\% \times 12/12 =$	168,000
$13,00,000 \times 12\% \times 3/12 =$	39,000
Instalment $(6,57,000/5)$	<b>131,400</b>
<b>Total Interest (1,53,000 + 131,400)</b>	<b>2,84,400</b>

#### Concept Problem 4

Mr. Roxx, a citizen of the Country Y, is a resident but not ordinarily resident in India during the FY 2024-25. He owns two house properties in Country Y, one is used as his residence. Another house property is rented for a monthly rent of \$ 18,000. Fair rent of house property is \$ 20,000. The value of one CYD (\$) may be taken as 78.

He took ownership and possession of a flat in Delhi on 1.10.2024, which is used for self-occupation, while he is in India. The flat was used by him for 3 months at the time when he visited India during the previous year 2024-25. The municipal valuation is 4,58,000 p.a. and the fair rent is 3,60,000 p.a. He paid property tax of 13,800 and 2,800 as Sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of 18,00,000 @ 9.5% from HDFC Bank on 1<sup>st</sup> August, 2021 for purchasing this flat. No amount is repaid by him till 31.03.2025.

He also had a house property in Bangalore which is let out on a monthly rent of 40,000. The fair rent of which is 4,58,000 p.a. and Municipal value of 3,58,000 p.a. and Standard Rent of 4,20,000 p.a. He had taken a loan of 25,00,000 @ 10% from one of his friends, residing in Country Y for this house. Municipal tax of 5,400 is paid by him in respect of this house during the previous year 2024-25.

Compute the income chargeable from house property of Mr. Roxx for the assessment year 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

#### Solution

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

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

Accordingly, the income from house property of Mr. Roxx for A.Y. 2025-26 under optional tax regime will be calculated as under:

S.No.	Particulars	Amount	Amount
<b>1.</b>	<b>Self – occupied house at Delhi</b>		
	Annual Value		Nil
	Less: Deduction under section 24	Nil	
	Interest on borrowed capital (See Note below)		2,00,000
	Chargeable income from this house property		<b>(2,00,000)</b>
<b>2.</b>	<b>Let out house property at Bangalore</b>		

S.No.	Particulars	Amount	Amount
	Expected rent, being higher of 3,58,000 municipal value and fair rent of 4,58,000 but restricted to standard rent of 4,20,000	4,20,000	
	Actual rent [40,000 x 12]	4,80,000	
	Gross Annual value, being higher of expected rent and actual rent		4,80,000
	Less: Municipal taxes		5400
	Net Annual Value		4,74,600
	Less: Deduction under section 24		
	- 30% of net annual value [30% x 4,74,600]	1,42,380	
	- Interest on borrowed capital (actual allowable as deduction without any ceiling limit)	2,50,000	3,92,380
			82,220
	<b>Loss uth “Income from house property” (2,00,00 -82,220)</b>		<b>(1,17,780)</b>

**Note: - Interest on borrowed capital**

Particulars	Amount
Interest for the current year [18,00,000 x 9.5%]	1,71,000
Add: 1/5 <sup>th</sup> of pre- construction interest (4,56,400 x 1/5)	91,280
1.8.2021 to 31.03.2022 – (18,00,000 x 9.5% x 8/12)	1,14,000
1.4.2022 to 31.03.2024 – (18,00,000 x 9.5% x 24/12)	3,42,400
	2,62,280
<b>Interest deduction allowable under section 24, restricted to</b>	<b>2,00,000</b>

### Concept Problem 5

Mr. Ravi, a resident and ordinarily resident in India, owns a let-out house property having different flats in Kanpur which has municipal value of 27,00,000 and standard rent of 29,80,000. Market rent of similar property is 30,00,000. Annual rent was 40,00,000 which includes 10,00,000 pertaining to different amenities provided in the building. One flat in the property (annual rent is 2,40,000) remains vacant for 4 months during the previous year.

He has incurred following expenses in respect of aforesaid property:

Municipal taxes of 4,00,000 for the financial year 2024-25 (10% rebate is obtained for payment before due date). Arrears of municipal tax of financial year 2023-24 during the year of 1,40,000 which includes interest on arrears of 25,000.

Lift maintenance expenses of 2,40,000 which includes a payment of 30,000 which made in cash.

Salary of 88,000 paid to staff for collecting house rent and other charges.

Compute the total income of Mr. Ravi for the assessment year 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

### Solution

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

Particulars	Amount	Amount
<b>Income from House Property</b>		

Particulars	Amount	Amount
Gross Annual Value		
<b>Expected rent = 29,80,000</b> [Higher of Municipal value of 27,00,000 p.a. and Fair Rent of 30,00,000 p.a., but restricted to Standard Rent of 29,80,000 p.a.]		
<b>Actual rent = 29,40,000</b> [30,00,000, being annual rent for house property less rent of 60,000 ( $2,40,000 \times \frac{4}{12} \times \frac{3}{4}$ ) due to vacancy]		
<b>Gross Annual Value</b>	29,40,000	
In this case, the actual rent is lower than the expected rent due to vacancy. Otherwise, the actual rent of 30,00,000 would have been higher than the expected rent. In such a case, the actual rent would be the gross annual value, even if it is lower than the expected rent.		
Les: Municipal taxes actually paid during the year.		
[4,00,000 – rebate of 40,000] = 3,60,000		
[1,40,000 arrears – 25,000 interest] = 1,15,000	4,75,000	
<b>Net Annual Value</b>	<b>24,65,000</b>	
Less: Deduction from Net Annual Value		
30% of Net Annual Value	7,39,500	
		<b>17,25,500</b>
<b>Income from Other Sources/ Profits and gains from business or profession</b>		
Rent for amenities	10,00,000	
Less: Loss due to vacancy [ $2,40,000 \times \frac{4}{12} \times \frac{1}{4}$ ]	20,000	
	9,80,000	
<b>Less: Expenditure in respect thereof</b>		
Lift maintenance expenses excluding cash payment of 30,000 disallowed] = $2,40,000 - 30,000$	2,10,000	
Salary to staff [ $88,000 \times \frac{1}{4}$ , being the proportion pertaining to amenities]	22,000	2,32,000
		<b>7,48,000</b>
<b>Total Income</b>		<b>24,73,500</b>

### Concept Problem 6

Mr. Sailesh constructed a house in P.Y. 2017-18 with 3 independent units. During the P.Y. 2024-25, Unit - 1 (50% of floor area) is let out for residential purpose at monthly rent of 20,000. Rent of January, 2025 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Sailesh is occupied by the tenant. Unit - 1 remains vacant for February and March 2025 when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Sailesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal Valuation	2,88,000
Fair Rent	2,98,000
Standard Rent under the Control Rent Act	2,78,000
Municipal Taxes	30,000 paid by Mr. Sailesh

Repairs	7,000
Interest on capital borrowed for the construction of the property	90,000
Ground Rent	6,000
Fire Insurance Premium paid	60,000

Income of Sailesh from the business is 2,40,000 (without debiting house rent and other incidental expenditure). Determine the taxable income of Mr. Sailesh for the assessment year 2025-26 under default tax regime.

### Solution

#### Computation of taxable income of Mr. Sailesh for A.Y. 2025-26:

Particulars	Amount	Amount
<b>Income from house property</b>		
<b>Unit - 1 [50% of floor area - Let out]</b>		
Gross Annual Value, higher of		
<b>Expected Rent 1,39,000</b> [higher of Municipal Value of 1,44,000 p.a. and Fair Rent of 1,49,000 p.a., but restricted to Standard Rent of 1,39,000 p.a. Actual Rent 1,80,000 i.e., [20,000 x 10] less unrealized rent of 20,000 for January 2025]		
Gross Annual Value	1,80,000	
Less: Municipal Taxes [50% of 30,000]	15,000	
<b>Net Annual Value</b>	<b>1,65,000</b>	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	49,500	
(b) Interest on loan [50% of 90,000]	45,000	70,500
<b>Unit - 3 [25% of floor area - Self occupied]</b>		
Net Annual Value		
Less: Interest on loan [ Not allowed as Mr. Sailesh is opting for section 115BAC.]	-	-
<b>Income from house property</b>		<b>70,500</b>
<b>Unit 2 - 25% floor area used for business purposes [Profits and gains from business or profession]</b>		
Business Income [without deducting expenditure of Unit 2]	2,40,000	
Less: Expenditure in respect of Unit – 2		
Municipal Taxes [25% of 30,000]	7500	
Repairs [25% of 7000]	1,750	
Interest on loan [25% of 90,000]	22,500	
Ground rent [ 25% of 6,000]	1,500	
Fire Insurance premium [25% of 60,000]	15,000	

Particulars	Amount	Amount
PGBP		<b>1,91,750</b>
<b>Taxable Income</b>		<b><u>2,62,250</u></b>

**Note:** Alternatively, if as per income-tax returns, unrealised rent is deducted from GAV, then GAV would be 2,00,000, being higher of unexpected rent of 1,39,000 and actual rent of 2,00,000. Thereafter, unrealized rent of 20,000 and municipal taxes of 15,000 would be deducted from GAV of 2,00,000 to arrive at the NAV of 1,65,000.

#### Concept Problem 7

Mr. Rajesh, owner of a residential house, let out for a monthly rent of INR 15,000. The fair rental value of the property for the let-out period is INR 1,50,000. The house was self-occupied by him from 1<sup>st</sup> January, 2025 to 31<sup>st</sup> March, 2025. He has taken a loan from bank of INR 20 lacs for the construction of the property and has repaid INR 1,05,000 (including interest INR 40,000) during the year. Compute Rajesh's income from house property for the AY 2025-26 assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

**(Answer - INR 1,00,000)**

#### Concept Problem 8

Mr. Ramesh and Mr. Suresh constructed their houses on a piece of land purchased by them at Mumbai. The built-up area of each house was 1,500 sq.ft. ground floor and an equal area in the first floor. Ramesh started construction on 1-04-2023 and completed on 1-04-2024. Suresh started the construction on 1-04-2023 and completed the construction on 30-06-2024. Ramesh occupied the entire house on 01-04-2024. Suresh occupied the ground floor on 01-07-2024 and let out the first floor for a rent of INR 15,000 per month. However, the tenant vacated the house on 31-12-2024 & Suresh occupied the entire house during the period 01-01-2025 to 31-03-2025.

Following are the other information:

(i)	Fair rental value of each unit (ground floor /first floor)	1,00,000 per annum
(ii)	Municipal value of each unit (ground floor / first floor)	72,000 per annum
(iii)	Municipal taxes paid by	Ramesh - 8,000
		Suresh - 8,000
(iv)	Repair and maintenance charges paid by	Ramesh - 28,000
		Suresh - 30,000

Ramesh has availed a housing loan of INR 20 lakhs @ 12% p.a. on 01-04-2023. Suresh has availed a housing loan of INR 12 lakhs @ 10% p.a. on 01-07-2023. No repayment was made by either of them till 31-03-2025. Compute income from house property for Ramesh and Suresh for the previous year 2024-25 (A.Y. 2025-26) assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

#### Solution

**Computation of income from house property of Mr. Ramesh for A.Y. 2025-26 under optional tax regime:**

Particulars	Amount	Amount
Annual value is nil (since house is self-occupied)		Nil
Less: Deduction under section 24(b)		
Interest paid on borrowed capital 20,00,000 @ 12%	2,40,000	
Pre-construction interest 2,40,000/5	48,000	



As per second proviso to section 24(b), interest deduction restricted to	2,88,000	2,00,000
<b>Loss under the head “Income from house property” of Mr. Ramesh</b>		<b>(2,00,000)</b>

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

<b>Particulars</b>	<b>Ground floor (Self occupied)</b>	<b>First floor</b>
Gross annual value (See Note below)	Nil	90,000
Less: Municipal taxes (for first floor)	-	<u>4,000</u>
<b>Net annual value(A)</b>	<b>Nil</b>	<b>86,000</b>
Less: Deduction under section 24		
a) 30% of net annual value		25,800
b) interest on borrowed capital		
Current year interest $12,00,000 \times 10\% = 1,20,000$	60,000	60,000
Pre-construction interest $12,00,000 \times 10\% \times 9/12 = 90,000$ 90,000 allowed in 5 equal installments $90000/5 = 18,000$ per annum	<u>9,000</u>	<u>9,000</u>
Total deduction under section 24	<u>69,000</u>	<u>94,800</u>
<b>Income from house property (A) - (B)</b>	<b><u>(69,000)</u></b>	<b><u>(8,800)</u></b>
Loss under the head “Income from house property” of Mr. Suresh (both ground floor and first floor)	(77,800)	

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

If a single unit of property (in this case the first floor of Suresh’s house) is let out for some months and self-occupied for the other months, then the Expected Rent of the property shall be taken into account for determining the annual value. The Expected Rent shall be compared with the actual rent and whichever is higher shall be adopted as the annual value. In this case, the actual rent shall be the rent for the period for which the property was let out during the previous year.

The Expected Rent is the higher of fair rent and municipal value. This should be considered for 9 months since the construction of property was completed only on 30.6.2024.

Expected rent	= 75,000 being higher of (a) Fair rent = $1,00,000 \times 9/12 = 75,000$ & (b) Municipal value = $72,000 \times 9/12 = 54,000$
Actual rent	= 90,000 (15,000 p.m. for 6 months from July to December, 2024)

Gross Annual Value = 90,000 (being higher of Expected Rent of 75,000 and actual rent of 90,000)

**Concept Problem 9 [MTP Sep 24]**

Mr. Kamal, a resident but not ordinarily resident in India during the Assessment Year 2025-26. He owns two houses, one in Dubai and the other in Mumbai. The house in Dubai is let out there at a rent of DHS 20,000 p.m. (1 DHS = INR 22). The entire rent is received in India. He paid property tax of DHS 2,500 and Sewerage Tax DHS 1,500 there, for the Financial Year 2024-25. The house in Mumbai is self-occupied. He had taken a loan of 10,00,000 to construct the house on 1<sup>st</sup> June, 2021 @ 12%. The construction was completed on 31<sup>st</sup> May, 2023 and he occupied the house on 1<sup>st</sup> June, 2023. The entire loan is outstanding as on 31<sup>st</sup> March, 2025. Property tax paid in respect of the second house is 2,400 for the Financial Year 2024-25.

Compute the income chargeable under the head "Income from House property" in the hands of Mr. Kamal for the Assessment Year 2025-26 under regular provisions of the Act.

### Solution

#### Computation of income from house property of Mr. Kamal for A.Y. 2025-26:

Particulars	Amount
<b>Income from let-out property in Dubai [See Note 1 below]</b>	
Gross Annual Value (DHS 20,000 p.m. x 12 months x 22)	52,80,000
Less: Municipal taxes paid during the year [DHS 4,000 (DHS 2,500 + DHS 1,500) x 22]	<u>88,000</u>
Net Annual Value (NAV)	51,92,000
Less: Deductions under section 24	
a) 30% of NAV	15,57,600
b) Interest on housing loan	-
	<b><u>36,34,400</u></b>
<b>Income from self-occupied property in Mumbai</b>	
Annual Value [Nil, since the property is self-occupied]	
[No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property]	
Less: Deduction in respect of interest on housing loan [See Note 2 below]	<u>1,64,000</u>
	<b><u>(1,64,000)</u></b>
<b>Income from house property [36,34,400 – 1,64,000]</b>	<b>34,70,400</b>

#### Notes:

- Since Mr. Kamal is a resident but not ordinarily resident in India for A.Y. 2025-26, income which is, *inter alia*, received in India shall be taxable in India, even if such income has accrued or arisen outside India. Accordingly, rent received from house property in Dubai would be taxable in India since such income is received by him in India. Income from property in Mumbai would accrue or arise in India and consequently, interest deduction in respect of such property would be allowable while computing Mr. Kamal's income from house property because of self-occupied property.
- Interest on housing loan for construction of self-occupied property allowable as deduction under section 24

Interest for the current year (10,00,000 x 12%)	1,20,000
<b>Pre-construction interest</b>	<u>44,000</u>
For the period 01.06.2021 to 31.03.2023 (10,00,000 x 12% x 22/12) = 2,20,000 2,20,000 allowed in 5 equal installments (2,20,000/5)	
	<b>1,64,000</b>

# CHAPTER 6

## PGBP

### Concept Problem 1

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

Unit A commenced operations on 1.4.2023 and it claimed deductions of INR 100 lacs incurred on purchase of two buildings for INR 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y. 2024-25. However, in February 2025, unit A transferred one of its buildings to Unit B.

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

### Solution

Since the capital asset in respect of which deduction of INR 50 lacs was claimed under section 35AD has been transferred by unit A carrying on specified business to unit B carrying on non-specified business in the P.Y. 2024-25, the deeming provision under section 35AD(7B) is attracted during the A.Y. 2025-26.

Particulars	Amount
Deduction allowed under section 35AD for A.Y. 2024-25	50,00,000
Less: depreciation allowable u/s 32 for A.Y. 2024-25 [10% of INR 50 lacs]	5,00,000
<b>Deemed income under section 35AD (7B)</b>	<b>45,00,000</b>

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation under section 32 on the building in Unit B for A.Y. 2025-26. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	Amount
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y. 2024-25 [10% of INR 50 lacs]	5,00,000
<b>Actual cost in the hands of Mr. Arnav in respect of building in its Unit B</b>	<b>45,00,000</b>

### Concept Problem 2

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

- Salary of INR 40,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- Depreciation on plant and machinery under section 32 (computed) INR 1,50,000.
- Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest INR 5,00,000.

Compute:

- Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- Allowable working partner salary for the assessment year 2025-26 as per section 40(b).

### Solution

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

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

#### Computation of Book Profit of the firm under section 40(b)

Particulars	Amount	Amount
Net Profit (before deduction of depreciation, salary and interest)		17,00,000
Less: Depreciation under section 32	1,50,000	
Less: Interest @ 12% p.a. [the maximum allowable u/s 40(b)] $(5,00,000 \times 12\%)$	60,000	2,10,000
<b>Book Profit</b>		<b>14,90,000</b>

- ii) Salary actually paid to working partners =  $\text{INR } 40,000 \times 2 \times 12 = \text{INR } 9,60,000$ .

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

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

Therefore, the maximum allowable working partners’ salary for the A.Y. 2025-26 in this case would be:

Particulars	Amount
On the first 6,00,000 of book profit $[(3,00,000 \text{ or } 90\% \text{ of } 6,00,000) \text{ whichever is more}]$	5,40,000
On the balance of book profit $[60\% \text{ of } (14,90,000 - 6,00,000)]$	5,34,000
<b>Maximum allowable partners’ salary</b>	<b>10,74,000</b>

Hence, allowable working partners’ salary for the A.Y.2025-26 as per the provisions of section 40(b)(v) is 9,60,000.

### Concept Problem 3

Mr. Praveen engaged in retail trade, reports a turnover of INR 2,98,50,000 for the financial year 2024-25. Amount received in cash during the P.Y. 2024-25 is INR 14,00,000 and balance through prescribed electronic modes on or before 31<sup>st</sup> October 2025. His income from the said business as per books of account is INR 15,00,000 computed as per the provisions of Chapter IV-D “Profits and gains from business or Profession” of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2024-25 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

- Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the assessment year 2025-26?
- If so, determine his income from retail trade as per the applicable presumptive provision.
- In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 1961?
- What is the due date for filing his return of income under both the options?

### Solution

- i) Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover ( $14,00,000/2,98,50,000 \times 100$ ) and his total turnover for the F.Y.2024-25 is below INR 300 lakhs, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.
- ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be 18,19,000 (1,12,000, being 8% of 14,00,000 + 17,07,000, being 6% of 2,84,50,000).
- iii) Mr. Praveen had declared profit for the previous year 2023-24 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive assessment years i.e., A.Y. 2025-26 to A.Y. 2029-30, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2024-25 relevant to A.Y.2025-26, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2026-27 to A.Y. 2030-31.  
  
Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.
- iv) In case he declares presumptive income under section 44AD, the due date would be 31<sup>st</sup> July, 2025.  
  
In case he declares profits as per books of account which is lower than the presumptive income, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31<sup>st</sup> October, 2025.

#### Concept Problem 4

Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2025:

Particular	Amount (in lakhs)
WDV of Plant and Machinery on 31.3.2024	30
Depreciation including additional depreciation for P.Y. 2023-24	4.75
New machinery purchased on 1-9-2024	10
New machinery purchased on 1-12-2024	8
Computer purchased on 3-1-2025	4

#### Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2024 and computer have been installed in the office.
- During the year ended 31-3-2024, a new machinery had been purchased on 31-10-2023, for INR 10 lacs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31- 3-2025 if -

- i) he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)
- ii) he pays tax under the default tax regime under section 115BAC.

#### Solution (Refer solution done in class)

**Computation of written down value of block of assets of Venus Ltd. as on 31.3.2025:**



Particulars	Plant & machinery (INR in lacs)	Computer (INR in lacs)
Opening written down value (as on 31.03.2024)	30	Nil
Less: Depreciation inc. additional depreciation for P.Y. 2023-24	4.75	
Opening balance as on 1.4.2024	25.25	
Add: Actual cost of new assets acquired during the year		
➤ New machinery purchased on 1.9.2024	10	-
➤ New machinery purchased on 1.12.2024	8	-
➤ Computer purchased on 3.1.2025	-	4
	43.25	4
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Closing Written Down Value (as on 31.03.2025)	43.25	4

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

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

#### Computation of depreciation for A.Y. 2025-26

S. No	Particular	Plant & machinery (lakhs)	Computer (lakhs)
1.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	Normal Depreciation		
	Opening WDV of plant and machinery (INR 25.25 lacs x 15%)	3.79	-
	New Machinery purchased on 1.9.2024 (INR 10 lacs x 15%)	1.50	-
	(A)	5.29	-
	Additional Depreciation		
	New Machinery purchased on 1.9.2024 (INR 10 lacs x 20%)	2.00	-
	Balance additional depreciation in respect of new machinery purchased on 31.10.2023 and put to use for less than 180 days in the P.Y. 2023-24 (INR 10 lakhs x 20% x 50%)	1.00	
	(B)	3.00	
2.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	Normal Depreciation		
	New machinery purchased on 1.12.2024 [8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2025 [INR 4 lacs x 20% (50% of 40%)]	-	0.80

S. No	Particular	Plant & machinery (lakhs)	Computer (lakhs)
	(C)	0.60	0.80
	<b>Total Depreciation (A+B+C)</b>	<b>8.89</b>	<b>0.80</b>

#### Notes:

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

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

- Any office appliances or road transport vehicles;
- Any machinery or plant installed in, inter alia, office premises.

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

- Car purchased on 1.12.2024; and
- Computer purchased on 3.1.2025, installed in office.

- As per third proviso to section 32(1)(ii), balance 50% of additional depreciation on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year

Hence, in this case, the balance additional depreciation @ 10% (i.e., 1 lakh, being 10% of 10 lakhs) in respect of new machinery which had been purchased during the previous year 2023-24 and put to use for less than 180 days in that year can be claimed in P.Y. 2024-25 being immediately succeeding previous year.

#### (ii) If Mr. Venus pays tax under default tax regime under section 115BAC

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

#### Computation of Depreciation for A.Y. 2025-26

S. No	Particular	Plant & machinery (lakhs)	Computer (lakhs)
1.	<b>Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation</b>		
	<b>Normal Depreciation</b>		
	Opening WDV of plant and machinery (INR 25.25 lacs x 15%)	3.79	-
	New Machinery purchased on 1.9.2024 (INR 10 lacs x 15%)	1.50	-
	<b>(A)</b>	<b>5.29</b>	-
2.	<b>Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation</b>		
	<b>Normal Depreciation</b>		
	New machinery purchased on 1.12.2024 [8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2025 [INR 4 lacs x 20% (50% of 40%)]	-	0.80

S. No	Particular	Plant & machinery (lakhs)	Computer (lakhs)
	(C)	0.60	0.80
	<b>Total Depreciation (A+B+C)</b>	<b>5.89</b>	<b>0.80</b>

### Concept Problem 5

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2025:

### Trading and Profit and Loss Account for the year ended 31.03.2025

Particulars	Amount	Particulars	Amount
To Opening stock	90,000	By sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		
	<b>1,13,97,600</b>		<b>1,13,97,600</b>
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares (Short term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	<b>3,06,000</b>		<b>3,06,000</b>

### Additional Information:

- i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock	INR 9,000
Closing stock	INR 18,000

- ii) Salary includes INR 10,000 paid to his brother, which is unreasonable to the extent of INR 2,000.  
iii) The whole amount of printing and stationery was paid in cash by way of one-time payment to Mr. Ramesh.  
iv) The depreciation provided in the Profit and Loss Account INR 1,05,000 was based on the following information:

The opening balance of plant and machinery (i.e., the written down value as on 31.3.2024 minus depreciation for P.Y. 2023-24) is INR 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2024 for INR 70,000. Two old plants were sold on 1.10.2024 for INR 50,000.

- v) Rent and rates includes GST liability of INR 3,400 paid on 7.4.2025.  
vi) Other general expenses include INR 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation u/s 44AD and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

**Solution**
**Computation of business income of Mr. Sivam for the A.Y. 2025-26:**

Particulars	Amount	Amount
Net profit as per profit and loss account		50,000
<b>Add: Inadmissible expenses/ losses</b>		
- Under valuation of closing stock	18,000	
- Salary paid to brother – unreasonable [section 40A(2)]	2,000	
- Printing and stationary whole amount of printing & stationary paid in cash would be disallowed since such amount exceeds INR 10,000 [section 40A (3)]	23,200	
- Depreciation (considered separately)	1,05,000	
- Short term capital loss on shares	8,100	
- Donation to public charitable trust	2,000	1,58,300
		<b>2,08,300</b>
<b>Less: Items to be deducted:</b>		
- Under valuation of opening stock	9,000	
- Income from UTI (Chargeable under the head “Income from Other Sources)	2,400	11,400
<b>Business income before depreciation</b>		<b>1,96,900</b>
Less: Depreciation (see note 1)		66,000
<b>PGBP</b>		<b>1,30,900</b>

**Computation of business income as per section 44AD**

As per section 44AD, where the amount of turnover is received by way of account payee cheque or use of electronic clearing system through bank, the presumptive business income would be 6% of turnover i.e., INR 1,12,11,500 x 6/100 = INR 6,72,690

The business income under section 44AD is INR 6,72,690

**Notes:**
**i) Calculation of depreciation**

Particulars	Amount
Opening balance of plant & machinery as on 1.4.2024 (i.e. WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24)	4,20,000
Add: Cost of new plant and machinery	70,000
	<b>4,90,000</b>
Less: sale proceeds of assets sold	50,000

Particulars	Amount
WDV of the block of plant and machinery as on 31.3.2025	4,40,000
Depreciation @ 15%	66,000
No additional depreciation is allowable as the Assessee is not engaged in manufacture or production of any article	

- ii) Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible u/s 43B

### Concept Problem 6

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1<sup>st</sup> April, 2024, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle of such goods is 15,000 kg each). On 2<sup>nd</sup> May, 2024, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6<sup>th</sup> May, 2024. This new vehicle could however be put to use only on 15<sup>th</sup> June, 2024.

Compute the total income of Mr. Sukhvinder for the assessment year 2025-26, taking note of the following data:

Particulars	Amount	Amount
Freight charges collected		12,70,000
Less: Operational expenses	6,25,000	
Less: Depreciation as per section 32	1,85,000	
Less: Other office expenses	15,000	8,25,000
<b>Net Profit</b>		<b>4,45,000</b>
<b>Other business and non- business income</b>		<b>70,000</b>

### Solution

Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such Assessee on a presumptive basis. The income shall be deemed to be INR 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and INR 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the Assessee in the previous year or such higher sum as declared by the Assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is INR 13,72,500 (See Notes 1 & 2 below) and his total income would be INR 14,42,500.

However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be INR 4,45,000 instead of INR 13,72,500 and his total income would be INR 5,15,000.

### Notes:

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

Particulars	Presumptive income	Where books are maintained
Income from business of plying goods carriages [Note 2 Below]	13,72,500	4,45,000
Other business and non-business income	70,000	70,000



Total Income	14,42,500	5,15,000
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#### Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month	Ton	Amount (INR)
(1)	(2)		(3)	(4)
<b>Heavy goods vehicle</b>				
1 goods carriage upto 1 <sup>st</sup> May	2	1,000	15 (15,000/1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/1,000)	9,00,000
<b>Goods vehicle other than heavy goods vehicle</b>				
1 goods carriage from 6 <sup>th</sup> May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000
<b>Total</b>				<b>13,72,500</b>

#### Concept Problem 7

Mr. Raju, 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	Amount	Particulars	Amount
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	<b>2,34,00,000</b>		<b>2,34,00,000</b>
To Administrative charges	3,26,000	By Gross Profit	10,60,000
To State GST penalty	5,000	By Dividend from domestic companies	15,000
To State GST paid	1,10,000	By Income from agriculture (net)	1,80,000
To General Expenses	54,000		
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	<b>12,55,000</b>		<b>12,55,000</b>

Following are the further information relating to the financial year 2024-25:

- Administrative charges include INR 46,000 paid as commission to brother of the Assessee. The commission amount at the market rate is INR 36,000.

- ii) The Assessee paid INR 33,000 in cash to a transport carrier on 29.12.2024. This amount is included in manufacturing expenses (Assume that the provisions relating to TDS are not applicable to this payment.)
- iii) A sum of INR 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
- iv) Bank term loan interest actually paid upto 31.03.2025 was INR 20,000 and the balance was paid in November 2025.
- v) Housing loan principal repaid during the year was INR 50,000 and it relates to residential property occupied by him in PY 2023-24 for self-occupation. Interest on housing loan was INR 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.
- vi) Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate @ 15%)	Amount
WDV as on 31.03.2024 minus Depreciation for P.Y. 2023-24	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the A.Y. 2025-26 assuming he pays tax under default tax regime.

**Note:** Ignore application of section 14A for disallowance of expenditures in respect of any exempt income.

### Solution

#### Computation of total income of Mr. Raju for the A.Y 2025-26:

Particulars	Amount	Amount
Net profits as per profit and loss account		5,00,000
<b>Add:</b> Excess commission paid to brother disallowed under section 40A(2)	10,000	
Disallowance u/s 40A(3) is not attracted since the limit for one-time cash payment is INR 35,000 in respect of payment to transport operators. Therefore, amount of INR 33,000 paid in cash to a transport carrier is allowable deduction	Nil	
Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B	40,000	
State GST penalty paid disallowed [see Note 2 below]	5,000	
Depreciation debited to profit and loss account	2,00,000	2,55,000
		<b>7,55,000</b>
<b>Less:</b> Dividend from domestic companies [Chargeable to tax under the head “Income from Other Sources”]	15,000	
Income from agricultural [exempt under section 10(1)]	1,80,000	
Salary paid to staff not recorded in the books (Assumed it was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same would be allowable as deduction while computing profits and gains of business and profession) [See Note 1 below]	48,000	
Depreciation under the income tax act 1961 (as per working note)	2,23,500	4,66,500
<b>Income uth PGBP</b>		<b>2,88,500</b>

Particulars	Amount	Amount
<b>Income from house property</b>		
Annual value of self-occupied property	Nil	
Less: deduction under section 24(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]	Nil	Nil
<b>Income from Other Source</b>		
Dividend from domestic companies		15,000
<b>Gross total income</b>		<b>3,03,500</b>
Less: deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime]		Nil
<b>Total income</b>		<b>3,03,500</b>

**Working note:**

#### Computation of depreciation under the Income tax Act 1961

Particulars	Amount
Depreciation @ 15% on INR 13.90 lakh (WDV as on 31.3.2024 less depreciation for P.Y. 2023-24 i.e. 11.90 lakh plus assets purchased during the year and used for more than 180 days INR 2 lakh)	2,08,500
Depreciation @ 7.5% on INR 2 lakh (Assets used for less than 180 days)	15,000
	<b>2,23,500</b>

Since Mr. Raju is paying tax as per default tax regime, additional depreciation u/s 32(1)(iia) would not be available to him.

**Notes:** Where the imposition of penalty is not for delay in payment of GST but for contravention of provisions of the GST, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.

Since the question only mentions “GST penalty paid” and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be INR 3,94,500.

#### Concept Problem 8

Mr. Kunal, a proprietor, engaged in the business of generation of power, furnishes the following particulars pertaining to P.Y. 2024-25. Compute the depreciation allowable under section 32 for A.Y. 2025-26, while computing his income under the head “Profits and Gains of Business or Profession” assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). The proprietor has opted for the depreciation allowance on the basis of written down value.

S. No	Particulars	Amount
1.	Opening Written down value of Plant and Machinery (15% block) as on 01.04.2024 (Purchase value INR 8,00,000)	5,78,000
2.	Purchase of second-hand machinery (15% block) on 29.12.2024 for business purpose	2,00,000
3.	Purchase of machinery Y (15% block) on 12.07.2024 for business purpose	8,00,000

S. No	Particulars	Amount
4.	Acquired and installed for use a new air pollution control equipment on 31.7.2024	2,50,000
5.	New air conditioner purchased and installed in office premises on 8.9.2024	3,00,000
6.	New machinery Z (15% block) acquired and installed on 23.11.2024 for the purpose of generation of power	3,25,000
7.	Sale value of an old machinery X, sold during the year (Purchase value INR 4,80,000, WDV as on 01.04.2024 INR 3,46,800)	3,10,000

### Solution

**Computation of depreciation allowance under section 32 for the A.Y. 2025-26 under optional tax regime:**

Particulars	Amount	Plant and machinery (15%)	Plant and machinery (40%)
Opening WDV as on 01.04.2024		5,78,000	-
Add: Plant and Machinery acquired during the year			
- Second hand machinery		2,00,000	
- Machinery Y		8,00,000	
- Air conditioner for office		3,00,000	
- Machinery Z		3,25,000	
- Air pollution control equipment		-	2,50,000
		<b>22,03,000</b>	<b>2,50,000</b>
Less: Asset sold during the year		3,10,000	NIL
<b>Written down value before charging depreciation</b>		<b>18,93,000</b>	<b>2,50,000</b>
<b>Normal depreciation</b>			
40% on air pollution control equipment (INR 2,50,000 x 40%)		-	1,00,000
Depreciation on plant and machinery put to use for less than 180 days @ 7.5% (i.e., 50% of 15%)			
- Second hand machinery (INR 2,00,000 x 7.5%)	15,000		
- Machinery Z (INR 3,25,000 x 7.5%)	24,375	39,375	
15% on the balance WDV being put to use for more than 180 days (INR 13,68,000 x 15%)		2,05,200	
<b>Additional depreciation</b>			
- Machinery Y (INR 8,00,000 x 20%)	1,60,000		
- Machinery Z (INR 3,25,000 x 10%, being 50% of 20%)	32,500		
- Air pollution control equipment (INR 2,50,000 x 20%)	-	1,92,500	50,000
<b>Total depreciation</b>		<b>4,37,075</b>	<b>1,50,000</b>

**Notes:**

1. Power generation equipment qualifies for claiming additional depreciation in respect of new plant and machinery.
2. Additional depreciation is not allowed in respect of second-hand machinery.
3. No additional depreciation is allowed in respect of office appliances. Hence, no depreciation is allowed in respect of air conditioner installed in office premises.
4. The balance 50% additional depreciation in respect of Machinery Z of INR 32,500 ( $10\% \times \text{INR } 3,25,000$ ) can be claimed as deduction in subsequent financial year i.e., F.Y. 2025-26.

### Concept Problem 9

Sarvan Kumar has computed its income to be INR 20,00,000 and some of the entries noted from profit and loss account are as given below:

- i) He has debited the amount of opening stock INR 33,00,000 which is overvalued by 10%
- ii) He has received duty drawbacks of INR 7,00,000 but the amount has not been credited to the profit and loss account.
- iii) He has received import entitlement license from the Government and it was sold it at a profit of INR 3,00,000. The amount has not been credited to the profit and loss amount.
- iv) Interest expenses of INR 50,000 was debited in the books out of which INR 12,000 was payable outside India on which tax was not deducted at source; INR 15,000 was payable to a resident on which no tax was deducted.
- v) Drawings INR 50,000.
- vi) Stipend paid to articled assistants INR 40,000 and incentive to articled assistant for clearing CA Final exams in first attempt INR 10,000.
- vii) Rental expense of the building in which office is located in INR 25,000 per annum. 20% of the building is used for residence of the Assessee.
- viii) INR 1,40,000 was incurred in relation to repairs and maintenance of office building which includes INR 1,00,000 being cost of raising a compound wall for the own business premises.
- ix) Rates and taxes debited to profit and loss account include 1,000 paid towards late filing of his IT return for A.Y. 2024-25 under section 234F of Income-tax Act.
- x) Interest of 1,20,000 paid on loan of 10,00,000 taken from NBFC. Out of the loan, amount of 2 lakhs was used for personal purposes and the balance was used for business purposes. No TDS was deducted while paying interest. Interest of 1,20,000 is debited to profit and loss account.

Compute the taxable income of Sarvan Kumar assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). His turnover in preceding PY was 1.5 crores.

### Solution

#### Computation of Total Income for AY 2025-26 under optional tax regime:

Particulars	Amount
Net Profit as per profit and loss account	20,00,000
Add: Opening stock overvalued ( $33,00,000/110 \times 10$ )	3,00,000
Add: Duty drawback received	7,00,000
Add: Sale of import entitlement license	3,00,000
Add: Interest payable to a Non-Resident without deduction of tax	12,000
Add: Interest payable to a Resident without deduction of tax ( $15,000 \times 30\%$ )	4,500



Particulars	Amount
Add: Drawings (being a personal expense)	50,000
Add: Proportionate rent of the building used for personal expense disallowed	5,000
Add: Capital expenditure on raising a compound wall	1,00,000
Add: Fee for late filing of income-tax return for A.Y. 2024-25 - disallowed	1,000
Add: Interest paid to NBFC on loan which is used for personal purposes (1,20,000 x 2,00,000/10,00,000) – not allowed as per section 37	24,000
Add: Interest paid to NBFC on which tax is not deducted attracts disallowance @ 30% of 96,000 under section 40(a)(ia) [Since Mr. Ramesh'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
Less: Depreciation on compound wall (1,00,000 x 10%) (assuming more than 180 days of use)	10,000
<b>Income under the head Business/Profession</b>	<b>35,15,300</b>
<b>Gross Total Income</b>	<b>35,15,300</b>
Less: Deduction u/s 80C to 80U	Nil
<b>Total Income</b>	<b>35,15,300</b>

### Concept Problem 10

X, Y and Z are the partners in a firm with profit sharing ratio 5:3:2 and profit and loss account of the partnership firm for PY 2024-25 is as given below:

Particulars	Amount	Particulars	Amount
Purchases	90,00,000	Sales	102,00,000
Salary and bonus to partners		Discount	10,000
X	3,00,000		
Y	2,50,000		
Z	1,50,000		
Municipal tax payable	30,000	Interest from Indian company	60,000
General expenses	1,00,000	Interest on drawings	10,000
Expenditure on technical know-how (purchased and put to use on 01.01.2025)	40,000	Income tax refund	5,000
Advance Income Tax	70,000		
Expenses on GST proceedings	10,000		
Expenses on income tax proceedings	8,000		
Advertisements	50,000		
Interest on capital to partners @ 13% p.a.			
X	65,000		
Y	39,000		
Z	26,000		
Rent of building owned by partnership firm	1,20,000		
Net Profit	27,000		

Particulars	Amount	Particulars	Amount
<b>Total</b>	<b>102,85,000</b>		<b>102,85,000</b>

**Additional information:**

- The partnership firm has complied with all the conditions of section 184.
- Salary to the partners is allowed as per partnership deed and interest is allowed @ 10% p.a.
- Capital contributed by Mr. X is INR 5,00,000; by Mr. Y is INR 3,00,000 and by Mr. Z is INR 2,00,000.
- The partnership firm has brought forward business loss for AY 2021-22 amounting to INR 1,00,000.
- Municipal tax was paid on 01.11.2025.

**Personal incomes of partners:**

- Mr. X has income from house property INR 5,00,000 and amount invested in NSC INR 80,000.
- Mr. Y has income from house property INR 2,00,000 and amount invested in NSC INR 1,00,000.
- Mr. Z has loss from house property INR 2,00,000.

Compute total income of the partnership firm and also that of its partners for the AY 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

**Solution**

Income under the head Business Profession under Optional Tax Regime	Amount
Net Profit as per profit and loss account	27,000
<b>Add:</b>	
Salary and bonus to partners	
X INR 3,00,000	
Y INR 2,50,000	
Z INR 1,50,000	7,00,000
Municipal tax payable (sec 43B)	30,000
Technical Know-how	40,000
Income tax (Sec 40(a))	70,000
Interest on capital	
X (65,000 x 3/13)	15,000
Y (39,000 x 3/13)	9,000
Z (26,000 x 3/13)	6,000
Rent of own building (Sec 30)	1,20,000
<b>Less:</b>	
Depreciation on technical Know-how (40,000 x 25% x 1/2)	-5,000
Interest from Indian company	-60,000
Income tax refund	-5,000
<b>Book Profit</b>	<b>9,47,000</b>
Salary and bonus allowed to partners	

Income under the head Business Profession under Optional Tax Regime	Amount
X (7,48,200 x 3/7)	-3,20,657
Y (7,48,200 x 2.5/7)	-2,67,214
Z (7,48,200 x 1.5/7)	-1,60,329
<b>Income under the head business/profession</b>	<b>1,98,800</b>
Less: Brought forward business loss	-1,00,000
<b>Income under the head Business/Profession</b>	<b>98,800</b>

Income under the head Other Sources	Amount
Interest from Indian Company	60,000
<b>Income under the head Other Sources</b>	<b>60,000</b>

**Computation of Total Income**

Particulars	Amount
Income under the head Business/Profession	<b>98,800</b>
Income under the head Other Sources	60,000
<b>Gross Total Income</b>	<b>1,48,800</b>
Less: Deductions u/s 80C to 80U	Nil
<b>Total Income</b>	<b>1,48,800</b>

**Working note**

Computation of remuneration allowed to partners
6,00,000 x 90% = INR 5,40,000
3,47,000 x 60% = INR 2,08,200
Total remuneration = INR 7,48,200
Salary allowed to partners maximum to INR 7,48,200

Computation of total Income and Tax Liability of Mr. X	Amount
Salary from partnership firm	3,20,657
Interest from partnership firm	50,000
<b>Income under the head Business/profession</b>	<b>3,70,657</b>
Income from house property	5,00,000
<b>Gross Total Income</b>	<b>8,70,657</b>
Less: Deduction u/s 80C {National Saving Certificate}	-80,000
<b>Total Income (rounded off u/s 288A)</b>	<b>7,90,660</b>

Computation of Total Income and Tax Liability of Mr. Y	Amount
Salary from partnership firm	2,67,214
Interest from partnership firm	30,000

Computation of Total Income and Tax Liability of Mr. Y	Amount
<b>Income under the head business/profession</b>	<b>2,97,214</b>
Income from house property	2,00,000
<b>Gross Total Income</b>	<b>4,97,214</b>
Less: Deduction u/s 80C {National Saving Certificate}	-1,00,000
<b>Total Income (Rounded off u/s 288A)</b>	<b>3,97,210</b>

Computation of total income and tax liability of Mr. Z	Amount
Salary from partnership firm	1,60,329
Interest from partnership firm	20,000
<b>Income under the head Business/Profession</b>	<b>1,80,329</b>
Loss from house property	-1,80,329
<b>Total Income</b>	<b>Nil</b>
<b>Net house property loss carried forward</b>	<b>-19,671</b>

### Concept Problem 11

Mr. Ram is an Advocate in the Delhi High Court and he keeps his books of account on cash basis and his receipt and payment a/c for the year 2024-25 is as given below:

Receipts	Amount	Payments	Amount
Balance b/f	4,50,000	Rent of building in the use of profession	2,20,000
Legal consultancy fee	9,20,000	Office expenses	30,000
Interest on units of UTI	12,000	New computer purchased on 01.11.2024 and put to use on the same date	35,000
Remuneration from Delhi University for setting one paper for LLB exams	4,000	Computer purchased on 10.11.2024 and put to use the same date	25,000
Honorarium for delivering lectures as guest speaker	3,000	Motor car purchased on 01.12.2024 and put to use on the same date	4,00,000
Sales proceeds of an old computer with w.d.v as on 01.04.2024 INR 2,300	7,000	Legal books purchased on 01.01.2025 and put to use on the same date.	9,000
Sale proceeds of one house which was purchased on 01.04.2024 for INR 6,70,000	9,80,000	Income tax paid being advance tax under section 207 to 219	12,000
		Subscription to Bar Association	3,000
		Deposit in public provident fund in the name of major son	12,000
		Balance carried forward	16,30,000
	<b>23,76,000</b>		<b>23,76,000</b>

Compute his income tax liability for AY 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

### Solution

Computation of income under the head Business/Profession of Mr. Ram for AY 2025-26 under optional tax regime:

Particulars	Amount
Legal consultancy fees	9,20,000
<b>Less:</b>	
- Rent of building	-2,20,000
- Office expenses	-30,000
- Depreciation on computer (WN)	-11,060
- Depreciation on car (4,00,000*7.5%)	-30,000
- Depreciation on books (9,000*20%)	-1,800
- Subscription to bar association	-3,000
<b>Income under the head Business/Profession</b>	<b>6,24,140</b>
<b>Working Note:</b>	
<b>Computer – W.D.V. as on 01.04.2024</b>	<b>2,300</b>
+ New compute purchase and put to use on 01.11.2024	35,000
+ Compute purchase and put to use on 10.11.2024	25,000
(-) Sale of computer	(7,000)
W.D.V. as on 31.03.2025	<b>55,300</b>
<b>Depreciation @ 20%</b>	<b>11,060</b>

Computation of income under the head Capital Gains on sale of house

Particulars	Amount
Full Value of Consideration	9,80,000
Less: Cost of acquisition	(6,70,000)
<b>Income under the head Capital Gains (STCG)</b>	<b>3,10,000</b>

Computation of income under the head Other Sources

Particulars	Amount
Remuneration from Delhi University	4,000
Honorarium for delivering lectures	3,000
Interest from UTI	12,000
<b>Income under the head Other Sources</b>	<b>19,000</b>

Computation of Total Income

Particulars	Amount
Income under the head Business/Profession	6,24,140



Income under the head Capital Gains (STCG)	3,10,000
Income under the head Other Sources	19,000
<b>Gross Total Income</b>	<b>9,53,140</b>
Less: Deduction u/s 80C	(12,000)
<b>Total Income</b>	<b>9,41,140</b>

**Computation of Tax Liability**

Particulars	Amount
Tax on INR 9,41,140 at slab rate	1,00,728
Add: Health and education cess @ 4%	4029
<b>Tax Liability</b>	<b>1,04,757</b>
Less: Advance tax payable	12,000
<b>Tax Payable</b>	<b>92,757</b>
<b>Rounded off u/s 288B</b>	<b>92,760</b>

**Concept Problem 12**

Mr. Ram submits his profit & loss account for year ending 31<sup>st</sup> March, 2025.

Particulars	Amount
Computed net profit after debiting the following amounts to	87,000
i) Provision for doubtful debts	16,000
ii) Depreciation reserve	21,000
iii) Household expenses	20,000
iv) Donation to poor persons	10,000
v) Other charitable donations	20,000
vi) Cash payment for purchases	80,000

**Additional Information**

- Advertisement expenses INR 5,000 spent on a neon sign board purchased and put to use on 01.07.2024 and advertisement gifts to 100 customers at a cost of INR 100 each.
- Audit fee charged INR 5,000 including expenses on income tax assessment INR 3,000.
- Patents purchased for INR 70,000 on 01.10.2024 and put to use on 07.10.2024.
- Preliminary expenses covered under section 35D - market survey expenses of INR 5,000 and feasibility report expenses of INR 10,000. Project cost INR is 10,00,000.
- Income credited to profit and loss account were:
  - Interest on company deposit INR 50,000.
  - Opening stock is valued at cost plus 15% whereas closing stock was valued at cost minus 15% basis.
  - Opening stock was valued at INR 1,15,000. Closing stock was valued at INR 1,70,000.

Compute his tax liability for the AY 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

### Solution

Computation of Total Income of Mr. Ram for AY 2025-26 under optional tax regime:

Particulars	Amount
<b>Computation of Business Income</b>	
Net Profit as per profit and loss account	87,000
<b>Add: Inadmissible expenses</b>	
Provision for doubtful debts	16,000
Depreciation Reserve	21,000
Household Expenses	20,000
Donations	30,000
Cash purchase in excess INR 10,000	80,000
Cost of neon sign board (capital expenditure)	5,000
Patents purchase	70,000
Installment for preliminary expenses under section 35D (15,000 – 3,000) (WN)	12,000
Opening stock overvalue [1,15,000 x 15/115]	15,000
Closing stock undervalued [1,70,000 x 15/85]	30,000
<b>Less: Admissible expenses</b>	
Interest on company deposit	-50,000
Depreciation on neon sign @ 10% on INR 5,000	-500
Depreciation on patents @ 12.5 on INR 70,000	-8,750
<b>Income under the head Business/Profession</b>	<b>3,26,750</b>
Income under the head Other Sources	50,000
<b>Gross Total Income</b>	<b>3,76,750</b>
Less: Deduction u/s 80C to 80U	Nil
<b>Total Income</b>	<b>3,76,750</b>

#### Working Note:

15,000 but subject to a maximum of  $10,00,000 \times 5\% = 50,000$

Installment allowed  $\text{INR } 15,000 / 5 = \text{INR } 3,000$

#### Computation of Tax Liability

Particulars	Amount
Tax on INR 3,76,750 at slab rates	6,338
Less: Rebate u/s 87A	6,338
<b>Tax Liability</b>	<b>Nil</b>

#### Concept Problem 13

Mr. Ramesh, a property dealer, has developed an independent floor of 4 residential units. He sold one of its residential units to Mr. Vikas, who is a dealer in spare parts, for 55 lakhs on 01.06.2024. The agreement was, however, entered into on 01.04.2024. Mr. Ramesh had received a down payment of 5 lakhs by an account payee cheque from Mr. Vikas on the date of agreement.

Mr. Ramesh sold remaining 3 residential units to Mr. Raj, Mr. Ashok and Mr. Ashish for 60 lakhs each on 01.12.2024. All the units were transferred by way of first-time allotment.

The stamp duty value of each residential unit on various dates are as follows - 01.04.2024 – 60 lakhs

01.06.2024 - 68 lakhs

01.12.2024 - 70 lakhs

Discuss the tax consequences of above transactions, in the hands of each one of them, viz, Mr. Ramesh, Mr. Vikas, Mr. Raj, Mr. Ashok and Mr. Ashish.

### Solution

I.	Tax consequences in the hands of Mr. Ramesh
	<p>In the hands of Mr. Ramesh, the provisions of section 43CA would be attracted, since he is a property dealer and he has transferred the residential units for a consideration less than the stamp duty value.</p> <p>The consideration received would be the full value of consideration if the stamp duty value does not exceed 110% of the consideration received.</p> <p>Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of, <i>inter alia</i>, account payee cheque.</p> <p><b>In respect of residential unit sold to Mr. Vikas</b></p> <p>In case of residential unit sold to Mr. Vikas, since the down payment of 5 lakhs is received on the date of agreement by account payee cheque, stamp duty value on the date of agreement would be considered.</p> <p>Accordingly, in this case, business income would be computed in the hands of Mr. Ramesh for A.Y.2025-26, taking the consideration of 55 lakhs as the full value of consideration arising on transfer of residential unit, since the stamp duty value of 60 lakhs on the date of agreement does not exceed 110% of the actual consideration of 55 lakhs and all the other conditions are satisfied.</p> <p><b>In respect of residential unit sold to Mr. Raj, Mr. Ashok and Mr. Ashish</b></p> <p>In case of residential unit sold to Mr. Raj, Mr. Ashok and Mr. Ashish, business income would be computed in the hands of Mr. Ramesh for A.Y.2025-26, taking the stamp duty value of 70 lakhs as the full value of consideration arising on transfer of each residential unit, since the same exceeds 110% of actual consideration of 60 lakhs. Therefore, the full value of consideration would be 210 lakhs (70 lakhs x 3).</p>
II.	Tax consequences in the hands of Mr. Vikas
	<p>In case immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of 50,000 or 10% of actual sales consideration.</p> <p>The option to adopt stamp duty value on the date of agreement can be exercised only if whole or part of consideration has been paid on or before date of agreement by way of, <i>inter alia</i>, account payee cheque.</p> <p>In this case, since the down payment of 5 lakhs is paid on the date of agreement by account payee cheque, stamp duty value on the date of agreement would be considered.</p> <p>No income would be taxable in the hands of Mr. Vikas under the head “Income from Other Sources” in A.Y.2025-26 since the difference between the stamp duty value of 60 lakhs and actual consideration of 55 lakhs does not exceed 5,50,000, being higher of 50,000 and 10% of actual sale consideration of 55 lakhs.</p>
III.	Tax consequences in the hands of Mr. Raj, Ashok and Ashish
	<p>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of 50,000 or 10% of actual sales consideration.</p> <p>In this case, 10 lakhs would be taxable in the hands of Mr. Raj, Mr. Ashok and Mr. Ashish each under the head “Income from Other Sources” in A.Y. 2025-26 since the difference between the stamp duty value of 70 lakhs and actual consideration of 60 lakhs exceeds 6,00,000, being the higher of 50,000 and 10% of</p>

<b>I.</b>	<b>Tax consequences in the hands of Mr. Ramesh</b>
	actual sale consideration of 60 lakhs.

**Concept Problem 14 [ICAI Jan 25]**

Mr. Prem has following assets as on 01.04.2024:

- A machinery costing 4 lakh, which was used for scientific research related to business and deduction u/s 35 was allowed and claimed.
- A laptop received as a gift from his friend costing 60,000. It was purchased on 01.04.2023 by his friend.
- A temporary wooden structure costing 70,000 erected in Dec. 2024 which was used for business purposes.

Compute the depreciation allowed on these assets for F.Y. 2024-25.

**Solution**

**Computation of Depreciation to Mr. Prem for P.Y. 2024-25**

<b>Particulars</b>	<b>Amount</b>
Depreciation on machinery used for scientific research - Actual cost is nil as 4,00,000, being actual cost – 4,00,000, being deduction allowed and claimed u/s 35]	Nil
Depreciation on laptop received as a gift @ 40% on 36,000 [60,000, being actual cost to previous owner - 24,000, being depreciation for P.Y. 2023-24 allowable to Assessee if it was the only asset]	14,400
Depreciation on temporary wooden structure @ 40% x 50% on 70,000 [Since it is put to use for less than 180 days]	14,000
	<b>28,400</b>

# CHAPTER 7

## CAPITAL GAINS

### Concept Problem 1 [RTP Sep 25]

Mr. Aryan, a resident individual, is working in Nishchay Ltd. and earns salary of 90,000 per month during P.Y. 2024-25. He holds 20,000 equity shares of Alpha Ltd., an Indian listed company, purchased on 1<sup>st</sup> January 2016 at 200 per share. These were acquired through a recognized stock exchange and STT was paid on both acquisition and sale.

In August, 2024, Mr. Aryan transferred a plot in Chandigarh for 70 lakhs which was acquired by him in May 2016 for 22 lakhs. He paid brokerage of 1% on transfer.

In November, 2024, Alpha Ltd. decided to buy back 50% of its shares at 250 per share. Alpha Ltd. bought back proportionate shares of Mr. Aryan. In May 2025, Mr. Aryan acquired a residential house property in Kanpur for 40 lakhs. Fair Market value of equity shares of Alpha Ltd. as on 31.1.2018 was 190 per share.

You are required to compute the total income of Mr. Aryan if he is paying tax under default tax regime.

CII for F.Y. 2015-16: 254; F.Y. 2016-17: 264; F.Y. 2017-18: 272; F.Y. 2024-25: 363

### Solution

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

Particulars		Amount	Amount
<b>I</b>	<b>Salaries</b>		
	Salary from Nishchay Ltd. [90,000 x 12]	10,80,000	
	Less: Deduction under section 16 - Standard deduction upto 75,000	<u>75,000</u>	10,05,000
<b>II</b>	<b>Capital Gains</b>		
	<b>On buy back of equity shares of Alpha Ltd.</b>		
	Consideration received on buy back of shares	Nil	
	Less: Cost of acquisition Higher of ➤ Actual cost of acquisition of 20 lakhs [10,000 shares @ 200 per share] ➤ Lower of FMV as on 31.1.2018 i.e., 19 lakhs and full value of consideration i.e., Nil	<u>20,00,000</u>	
	Long term capital loss on buy back of shares	(20,00,000)	
	<b>On sale of plot</b>		
	Sale consideration	70,00,000	
	Less: Brokerage @1%	<u>70,000</u>	
	Net sale consideration	69,30,000	
	Less: Cost of acquisition [Indexation benefit is not available on transfer which took place on or after 23.7.2024]	22,00,000	
		47,30,000	
	Less: Exemption under section 54F	<u>27,30,159</u>	



Particulars		Amount	Amount
	Amount invested in residential house within 2 years would qualify for exemption against long term capital gain arising from transfer of plot. Since the amount invested is less than the net consideration, proportionate capital gains is exempt [47,30,000 x 40,00,000/69,30,000]		
	Long term capital gain on transfer of plot	19,99,841	
	Less: Set off of long term capital loss on buy back of original shares against long term capital gain on transfer of plot to the extent of	<u>19,99,841</u>	<b>Nil</b>
	Balance long term capital loss of 159 on buy back of original shares is to be carried forward to A.Y. 2026-27		
<b>III</b>	<b>Income from Other Sources</b>		
	Dividend on buy back of shares [10,000 x 250]		<u>25,00,000</u>
	<b>Total Income</b>		<b><u>35,05,000</u></b>

**Concept Problem 2**

Calculate the income-tax liability for the assessment year 2025-26 in the following cases:

	<b>Mr. A (age 45)</b>	<b>Mrs. B (age 62)</b>	<b>Mr. C (age 81)</b>	<b>Mr. D (age 82)</b>
<b>Status</b>	<b>Non-Resident</b>	<b>Non- resident</b>	<b>Resident</b>	<b>Non- resident</b>
Total income other than LTCG	2,40,000	3,10,000	5,90,000	4,80,000
Long-term capital gain [Assume transfer took place before 23.7.2024]	85,000 from sale of vacant site	10,000 from sale of listed equity shares (STT paid on sale and purchase of shares)	60,000 from sale of agricultural land in rural area	Nil

- (i) If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.
- (ii) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

**Solution**

- (i) If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.

**Computation of income-tax liability for the A.Y.2025-26:**

Particulars	<b>Mr. A (age 45)</b>	<b>Mrs. B (age 62)</b>	<b>Mr. C (age 81)</b>	<b>Mr. D (age 82)</b>
<b>Residential Status</b>	<b>Non-resident</b>	<b>Non-resident</b>	<b>Resident</b>	<b>Non- resident</b>
Applicable basic exemption limit	3,00,000	3,00,000	3,00,000	3,00,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Long-term capital gain (on sale of above asset)	85,000 [Taxable @ 20% u/s 112]	10,000 [exempt u/s 112A since it is less than 1,25,000]	60,000 (Exempt – not a capital asset)	-
Other income	2,40,000	3,10,000	5,90,000	4,80,000
<b>Tax liability</b>				
On LTCG	17,000	-	-	-
On Other income	Nil	500	14,500	9,000
	<b>17,000</b>	<b>500</b>	<b>14,500</b>	<b>9,000</b>
Less: Rebate u/s 87A	-	-	14,500	-
	<b>17,000</b>	<b>500</b>	<b>Nil</b>	<b>9,000</b>
Add: Health and education cess @ 4%	680	20	Nil	360
<b>Total tax liability</b>	<b>17,680</b>	<b>520</b>	<b>Nil</b>	<b>9,360</b>

**Note:** Since Mr. C is a resident whose total income does not exceed 7 lakhs, he is eligible for rebate of 25,000 or the actual tax payable, whichever is lower, under section 87A.

**(ii) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act**

**Computation of income-tax liability for the A.Y.2025-26:**

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
<b>Residential Status</b>	<b>Non-Resident</b>	<b>Non-resident</b>	<b>Resident</b>	<b>Non- resident</b>
Applicable basic exemption limit	2,50,000	2,50,000	5,00,000	2,50,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	85,000 [Taxable @ 20% u/s 112]	10,000 [exempt u/s 112A since it is less than 1,25,000]	60,000 (Exempt – not a capital asset)	-
Other income	2,40,000	3,10,000	5,90,000	4,80,000
<b>Tax liability</b>				
On LTCG (after adjusting Basic Exemption limit)	17,000	-	-	-
On Other income	Nil	3,000	18,000	11,500
	<b>17,000</b>	<b>3,000</b>	<b>18,000</b>	<b>11,500</b>

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Less: Rebate u/s 87A	-	-	-	-
	<b>17,000</b>	<b>3,000</b>	<b>18,000</b>	<b>11,500</b>
Add: Health and education cess @ 4%	680	120	720	460
<b>Total tax liability</b>	<b>17,680</b>	<b>3,120</b>	<b>18,720</b>	<b>11,960</b>

**Notes:** Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of 3,00,000 and 5,00,000 for persons over the age of 60 years and 80 years, respectively. Also, they along with Mr. A, being non-residents are not eligible for rebate under section 87A even though their total income does not exceed 5 lakh.

### Concept Problem 3

Mr. Mithun purchased 100 shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of INR 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 INR 10 per share on 01.05.2024.

He has sold all the shares on 01.10.2024 at the rate of INR 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 and tax liability of Mr. Mithun for A.Y. 2025-26:

Particulars	Amount
<b>Long term capital gains on sale of original shares</b>	
Gross sale consideration (100 x INR 4,000)	4,00,000
Less: Brokerage @ 1%	4,000
<b>Net sale consideration</b>	<b>3,96,000</b>
Less: Cost of acquisition of original shares (100 x INR 2000) (Note b)	2,00,000
<b>Long term capital gain</b>	<b>1,96,000</b>
<b>Short term capital gain on sale of bonus shares</b>	
Gross sale consideration (100 x INR 4000)	4,00,000
Less: Brokerage @ 1%	4,000
<b>Net sale consideration</b>	<b>3,96,000</b>
Less: Cost of acquisition of Bonus Shares [Nil as such shares are allotted after 1.04.2001]	Nil
<b>Short term Capital Gains</b>	<b>3,96,000</b>
<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

Particulars		Amount
Other Income		8,00,000
<b>Total Income</b>		<b>13,94,000</b>
<b>Tax Liability</b>		
Tax on STCG u/s 111A [20% of 3,96,000]		79,200
Tax on LTCG u/s 112A [12.5% of (1,96,000 - 1,25,000)] since it is transferred on or after 23.7.2024		8,875
Tax on Other Income of 8,02,000		
3,00,000 to 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 payable</b>		<b>1,23,006</b>
<b>Tax payable (Rounded off)</b>		<b>1,23,010</b>

**Notes:**

a) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of:

- Cost of acquisition i.e. INR 1,000 per share and
- Lower of-
  - Fair Market value of such asset i.e. INR 2,000 per share and
  - Full value consideration i.e. INR 4,000 per share.

So, the cost of acquisition of original shares is INR 2,000 per share.

b) Securities transaction tax is not allowable as deduction.

**Concept Problem 4**

Mrs. Harshita purchased a land at a cost of INR 35 lakhs in the financial year 2004-05 and held the same as her capital asset till 20<sup>th</sup> March, 2024. She started her real estate business on 21<sup>st</sup> 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 INR 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is INR 10 lakhs. Construction was completed in February, 2025. She sold 10 flats at INR 30 lakhs per flat in March, 2025. The remaining 5 flats were held in stock as on 31<sup>st</sup> March, 2025.

She invested INR 50 lakhs in bonds issued by National Highways Authority of India on 31<sup>st</sup> March, 2025 and another INR 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	Amount
<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 [INR 210 lacs × 2/3]	1,40,00,000
Cost of construction of flats [10 × INR 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>
<b>Proportionate capital gains arising during A.Y. 2025-26</b> [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 the 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.

### Concept Problem 5

Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident which occurred in December 2024.

The value of stock lost (total damaged) was INR 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2024 (i.e., WDV as on 31.3.2024 after providing depreciation for P.Y. 2023-24) was 10,80,000.

During the process of safeguarding machinery and in the fire-fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for 1,20,000. The market value of these two items as on the date of fire accident was 1,80,000.

Mr. A received the following amounts from the insurance company:

Particulars	Amount
Towards loss of stock	4,80,000
Towards damage of machinery	6,00,000
Towards gold chain and diamond ring	1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961.

### Solution

#### a) Compensation towards loss of stock:

Any compensation received from the insurance company towards loss/damage to stock in trade is to be treated as a trading receipt. Hence, INR 4,80,000 received as insurance claim for loss of stock has to be assessed under the head “Profit and Gains of Business or Profession”.

**Note:** The Assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head “Profits and gains of business or profession.”

#### b) Compensation towards damage to machinery:

The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, INR 4,80,000 being the excess of written down value (i.e., INR 10,80,000) over the insurance compensation (i.e., INR 6,00,000) will be assessable as a short-term capital loss.

**Note:** If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year

#### c) Compensation towards loss of gold chain and diamond ring:

Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not “personal effects”, which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the cost of acquisition of jewellery from the insurance compensation of 1,80,000.

### Concept Problem 6

Mrs. Yuvika bought a vacant land for INR 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for INR 100 lakhs during the FY 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at 700 lakhs and on 23-4-2015, Mrs. Yuvika received 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.05.2024 for sale of this house at 810 lakhs. She received 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was 890 lakhs. The sale deed was executed and registered on 14-7-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following investments:

- Acquired two residential houses at Delhi and Chandigarh for INR 130 lakhs & INR 50 lakhs, respectively, on 31.1.2025 and 15.5.2025.
- Acquired a residential house at UK for INR 180 lakhs on 23.3.2025.
- Subscribed to NHA capital gains bond (approved under section 54EC) for INR 50 lakhs on 30-11-2024 and for INR 40 lakhs on 9-1-2025.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2025-26. The choice of exemption must be in the manner most beneficial to the Assessee.

Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007-08 – 129; F.Y. 2024-25 - 363.

### **Solution**

#### **Computation of income chargeable under the head “Capital Gains” of Mrs. Yuvika for A.Y.2025-26:**

<b>Particulars</b>	<b>Amount (in lakhs)</b>	<b>Amount (in lakhs)</b>
<b>Capital Gains on sale of residential building</b>		
Actual sale consideration INR 810 lakhs		
Value adopted by Stamp Valuation Authority INR 890 lakhs		
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.  However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement.  In this case, since advance of INR 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration)		
Gross Sale consideration (actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration)		810.00
Less: Brokerage @ 1% of sale consideration (1% of INR 810 lakhs)		8.10
<b>Net Sale consideration</b>		<b>801.90</b>

Particulars	Amount (in lakhs)	Amount (in lakhs)
Less: Indexed cost of acquisition		
- Cost of vacant land, 80 lakhs, plus registration and other expenses i.e., 8 lakhs, being 10% of cost of land [88 lakhs × 363/117]	273.03	
- Construction cost of residential building (100 lakhs × 363/129)	281.40	554.43
<b>Long-term capital gains</b>		<b>247.47</b>
Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]		
<b>Less: Exemption under section 54</b>		130.00
Where long-term capital gains exceed INR 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., INR 130 lakhs as exemption.		
<b>Less: Exemption under section 54EC</b>		50.00
Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.1.2025), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of 50 lakh out of 90 lakhs, even if the both the investments are made on or before 13.1.2025 (i.e., within six months after the date of transfer).		
<b>Long term capital gains chargeable to tax</b>		<b>67.47</b>

**Note:** Advance of INR 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head “Income from other sources”, in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

### Concept Problem 7

Mr. Shiva purchased a house property on February 15, 1979 for INR 3,24,000. In addition, he has also paid stamp duty value @ 10% on the stamp duty value of 3,50,000.

In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for INR 14,35,000 and received an amount of INR 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 INR 20,25,000 to Ms. Deepshikha and received INR 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 INR 3,90,000.

On November 15, 2024, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for INR 30,50,000 and received an amount of INR 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 INR 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 INR 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
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement	39,00,000	
(Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.  However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement.  In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)  <b>Deemed Full value of consideration</b> [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]		39,00,000
Less: Expenses on transfer (Brokerage @ 1% of INR 30,50,000)		30,500
<b>Net sale consideration</b>		<b>38,69,500</b>
Less: Cost of acquisition	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
<b>Tax Liability (rounded off)</b>	<b>3,27,666</b>

On LTCG with indexation benefit	
Net Sale consideration	38,69,500
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.	

**Note:**

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

Particulars	Amount	Amount
Cost of acquisition,		10,70,000
Being the higher of		
i) Lower of Fair market value i.e., INR 11,85,000 and Stamp duty value i.e., INR 10,70,000, on April 1, 2001	10,70,000	
ii) Actual cost of acquisition (INR 3,24,000 + 35,000, being stamp duty @ 10% of INR 3,50,000)	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
<b>Cost of acquisition for indexation</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 A.Y.2016-17.

**Concept Problem 8**

Mrs. Ram purchased one house on 01.07.1998 for INR 2,00,000 and incurred INR 1,00,000 on its improvement in PY 1999-00 and its market value as on 01.04.2001 is INR 2,50,000. She incurred INR 2,00,000 on its improvement in 2013-14 and the house was acquired by the Government on 01.07.2017. The compensation fixed is INR 60,00,000 and half of the amount was paid by the Government on 01.06.2024 and balance half on 01.06.2025. She has also received interest of INR 2,00,000 in PY 2024-25 from the Government for delay in payment of compensation.

Income from Business/Profession is INR 20,03,990. Compute Total Income of Mrs. Ram for the AY 2025-26 assuming he exercised the option of shifting out of default tax regime u/s 115BAC.

She also received enhanced compensation of INR 5 Lakhs on 01/06/2026.

**Solution**

**Computation of income under the head Capital Gains**

Capital gain shall be computed in the year in which the asset was acquired by the Government i.e., in the PY 2017-18 and shall be taxed in the year in which the first payment has been received by Assessee i.e., PY 2024-25.

	Amount
Full value of consideration	60,00,000
Less: Indexed cost of acquisition	
=2,50,000/Index of 2001-02 x Index of 2017-18	



	Amount
=2,50,000/100 x 272	(6,80,000)
Less: Indexed cost of improvement	
=2,00,000/Index of 2013-14 x Index of 2017-18	
=2,00,000/220 x 272	(2,47,273)
<b>Long Term Capital Gain</b>	<b>50,72,727</b>

Computation of income under the head other sources	Amount
Interest income	2,00,000
Less: Deduction u/s 57 @ 50%	(1,00,000)
<b>Income under the head Other Sources</b>	<b>1,00,000</b>

Computation of Total Income under Optional Tax regime	Amount
Income under the head Business Profession	20,03,990
Income from long term capital gains	50,72,727
Income under the head Other Sources	1,00,000
<b>Gross Total Income</b>	<b>71,76,717</b>
Less: Deduction u/s 80C to 80U	Nil
<b>Total Income (rounded off u/s 288A)</b>	<b>71,76,720</b>

Enhanced compensation of INR 5,00,000 received on 01/06/2025 shall be taxable as LTCG in PY 2025-26 and cost of acquisition and cost of improvement in this case shall be Nil.

### Concept Problem 9

Mr. Malik owns a factory building on which he had been claiming depreciation for the past few years. It is the only asset in the block. The factory building and attached land were sold during year. The following details are available:

Particulars	Amount
Building completed in September, 2009 for	10,00,000
Land appurtenant thereto purchased in April, 2002 for	12,00,000
Advance received from a prospective buyer for land in May, 2003, forfeited in favour of Assessee, as negotiations failed	50,000
WDV of the building block as on 1.4.2024	8,74,800
Sale value of factory building in May, 2024	10,00,000
Sale value of appurtenant land in June, 2024	40,00,000

The Assessee is ready to invest in long-term specified assets under section 54EC, within specified time.

Compute the amount of taxable capital gain for the assessment year 2025-26 and the amount to be invested under section 54EC for availing the maximum exemption.

### Solution

#### Computation of taxable capital gain of Mr. Malik for A.Y.2025-26:

Particulars	Amount	Amount
<b>Factory building</b>		
Sale price of building	10,00,000	
Less: WDV as on 1.4.2024	8,74,800	
<b>Short-term capital gain on sale of building</b>		<b>1,25,200</b>
<b>Land appurtenant to the above building</b>		
Sale value of land	40,00,000	
Less: Indexed cost of acquisition (INR 11,50,000 × 363/105)	39,75,714	
<b>Long-term capital gains on sale of land</b>		<b>24,286</b>
<b>Chargeable long-term capital gain</b>		<b>1,49,486</b>

### Investment under section 54EC

In this case, both land and building have been held for more than 24 months and hence, are long-term capital assets. Exemption under section 54EC is available if the capital gains arising from transfer of a long-term capital asset, being land or building or both including depreciable asset (building) held for more than 24 months, are invested in five-year redeemable bonds of National Highways Authority of India and Rural Electrification Corporation Ltd. or bonds notified by Central Government in this behalf, within 6 months from the date of transfer.

As per section 54EC, the amount to be invested for availing the maximum exemption is the net amount of capital gain arising from transfer of long-term capital asset, which is INR **1,49,486** (rounded off to INR **1,49,490**) in this case.

### Notes:

- Forfeiture of advance money prior to 01.04.2014 is reduced from the cost of acquisition and Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited i.e. INR 12,00,000 – INR 50,000 = INR 11,50,000.
- Factory building on which depreciation has been claimed, is a depreciable asset. Profit / loss arising on sale is deemed to be short-term capital gain/loss as per section 50, and no indexation benefit is available.
- Land is not a depreciable asset; hence section 50 will not apply. Being a long-term capital asset (held for more than 24 months), indexation benefit is available.

### Concept Problem 10

Mr. Rajan provides you the following details with regard to sale of certain securities by him during F.Y. 2024-25:

#### (i) Sold 10,000 shares of A Ltd. on 05-04-2024 @ INR 650 per share

A Ltd. is a listed company. These shares were acquired by Mr. Rajan on 05-04-2016 @ INR 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange.

On 31-01-2018, the shares of A Ltd. were traded on a recognized stock exchange as under:

Highest price - INR 300 per share; Average price - INR 290 per share; Lowest price - INR 280 per share.

#### (ii) Sold 1000 units of B Mutual Fund on 20-04-2024 @ INR 50 per unit

B Mutual Fund is an equity-oriented fund. These units were acquired by Mr. Rajan on 15-04-2017 @ INR 10 per unit. STT was paid only at the time of transfer of such units. On 31-01-2018, the Net Asset Value of the units of B Mutual Fund was INR 55 per unit.

#### (iii) Sold 100 shares of C Ltd. on 25-04-2024 @ INR 200 per share

C Ltd. is an un-listed company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Market Value of these shares as on 01-04-2001 was INR 50 per share.

Cost Inflation Index for various financial years are as under:

2001-02: 100	2016-17: - 264	2017-18: 272	2024-25: 363
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Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2025-26 assuming that the other incomes of Mr. Rajan exceed the maximum amount not chargeable to tax. (Ignore surcharge and cess).

### Solution

#### Computation of amount chargeable to tax under the head “Capital Gains” in the hands of Mr. Rajan

	Particulars	Amount
(i)	<b>Sale of 10,000 shares of A Ltd. on 5.4.2024 @ 650 per share</b>	
	Sales consideration (10,000 x INR 650)	65,00,000
	Less: Cost of Acquisition	30,00,000
	Higher of	
	- Actual cost (10,000 x 100)	10,00,000
	- Lower of:	30,00,000
	• 30,00,000 (INR 300 x 10,000), being fair market value as on 31.1.2018 (Highest price of the shares traded on 31.01.2018); and 65,00,000, being full value of consideration on transfer	
	<b>Long-term capital gain under section 112A [Since shares held for more than 12 months and STT is paid both at the time of purchase and sale. Benefit of indexation is, however, not available on LTCG taxable u/s 112A].</b>	<b>35,00,000</b>
(ii)	<b>Sale of 1,000 units of B Mutual Fund5 on 20.4.2024 @ INR 50 per unit</b>	
	Sale consideration (1,000 x 50)	50,000
	Less: Cost of acquisition – Higher of -	50,000
	- Actual cost (1,000 x 10)	10,000
	- Lower of:	50,000
	• 55,000 (55 x 1,000) FMV, being Net Asset Value as on 31.1.2018; and 50,000 being full value of consideration on transfer	
	<b>Long-term capital gain under section 112A [Since shares are held for more than 12 months and STT is paid at the time of sale]</b>	<b>NIL</b>
(iii)	<b>Sale of 100 shares of C Ltd. on 25.4.2024 @ 200 per share</b>	
	Sale consideration (100 x 200)	20,000
	Less: Indexed cost of Acquisition [100 x 50 (being FMV on 1.4.2001) x 363/100]	18,150
	<b>Long-term capital gain under section 112 [Since shares are unlisted and held for more than 24 months]</b>	<b>1,850</b>

#### Computation of tax on such capital gains for A.Y. 2025-26

Particulars	Amount
Tax under section 112A @ 10% on long-term capital gains of INR 34,00,000 [LTCG of INR 35,00,000 (-) INR 1,25,000] arising on sale of shares of A Ltd.	3,37,500

Particulars	Amount
Tax under section 112 @ 20% on long-term capital gains of INR 1,850 arising on sale of unlisted shares of C Ltd.	370
<b>Total Tax payable on capital gains (Rounded off u/s 288B)</b>	<b>3,37,870</b>

### Concept Problem 11

Rohit purchased gold on 01.04.1991 for INR 3,00,000 and its market value on 01.04.2001 is INR 2,00,000. This gold was sold by him on 01.05.2024 for INR 35,00,000 and selling expenses are INR 37,000. He has purchased one house on 01.10.2024 for INR 4,00,000 because he did not have any house in his name and he deposited INR 3,00,000 in capital gain account scheme on 31.07.2025.

Rohit is also engaged in a business and he has turnover of his business INR 105,00,000 and cost of goods sold INR 100,00,000 and other expenses INR 5,10,000.

He has withdrawn INR 2,00,000 from capital gain account scheme on 01.01.2026 and constructed 1<sup>st</sup> floor of the house which was purchased by him on 01.05.2025.

Remaining amount in the capital gain account scheme was unutilized.

Compute Assessee's tax liability for assessment year 2025-26 and capital gains for various years assuming he exercised the option of shifting out of default tax regime u/s 115BAC.

### Solution

#### Computation of Total Income for Assessment year 2025-26 under Optional Tax Regime:

Particulars	Amount
Full value of consideration	35,00,000
Less: Selling expenses	(37,000)
<b>Net consideration</b>	<b>34,63,000</b>
Less: Indexed cost of acquisition (INR 3,00,000 / 100 x 363)	(10,89,000)
<b>LTCG</b>	<b>23,74,000</b>
Less: Exemption u/s 54F [INR 700,000/34,63,000*23,74,000]	(4,79,873)
<b>Income under the head Capital Gain (LTCG)</b>	<b>18,94,127</b>
<b>Loss u/s PGBP</b>	<b>(10,000)</b>
<b>Gross Total Income</b>	<b>18,84,127</b>
Less: Deduction u/s 80C to 80U	Nil
<b>Total Income</b>	<b>18,84,130</b>

#### Computation of Tax Liability

Since normal income is Nil, as per section 112, deficiency of INR 2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%.

Particulars	Amount
Tax on 17,44,230 (INR 18,84,130 – INR 2,50,000) @ 20%	3,26,826
Health and education cess @ 4%	13,073
<b>Tax Liability (round off u/s 288B)</b>	<b>3,39,900</b>

#### Previous year 2027-28

Particulars	Amount
Amount deposited in capital gains account scheme	3,00,000
Less: Amount withdrawn	2,00,000
<b>Balance Amount</b>	<b>1,00,000</b>
<b>LTCG [23,74,000/34,63,000*100,000]</b>	<b>68,553</b>

Proportionate exemption with regard to unutilized amount lying in the capital gain account scheme is chargeable to tax after expiry of period of three years.

### Concept Problem 12

Mr. Patel is a proprietor of Star Stores since 20-05-2022. He has transferred his shop by way of slump sale for a total consideration of 30 lakh on 01.04.2024. The professional fees & brokerage paid for this sale are 80,000. His balance sheet as on 31-03-2024 is as under:

Liabilities	Amount	Assets	Amount
Own Capital	10,50,000	Building	5,00,000
Bank Loan	5,00,000	Furniture	5,00,000
Trade Creditors	2,50,000	Debtors	2,00,000
Unsecured Loan	2,00,000	Other Assets	8,00,000
	<b>20,00,000</b>		<b>20,00,000</b>

Other Information:

- No individual value of any asset is considered in the transfer deed.
- Other assets include trademarks valuing 2,00,000 as on 01-04-2023 on which no depreciation has been provided.
- Furniture of 1,50,000 purchased on 05-11-2023 on which no depreciation has been provided.
- Unsecured loan includes 50,000 as advance received from his wife, which she has agreed to waive off.

Compute the capital gain for A.Y. 2025-26.

### Solution

#### Computation of capital gains on slump sale on shop

Particulars	Amount	
Sale Value	30,00,000	
Less: Expense on sale [professional fees & brokerage]	80,000	
<b>Net Sale consideration</b>	<b>29,20,000</b>	
Less: Net Worth (See working Note below)	10,42,500	
<b>Short - term capital gain</b> [Since shop is held for not more than 36 months immediately preceding the date of transfer]		<b>18,77,500</b>
<b>Working Note:</b>		
<b>Computation of net worth of shop</b>		
Building	5,00,000	
Furniture	5,00,000	



Particulars	Amount	
Less: Depreciation on 1,50,000 @ 5%, being 50% of 10% since furniture is put to use for less than 180 days during the previous year	7,500	
	4,92,500	
Debtors	2,00,000	
Other Assets	8,00,000	
Less: Depreciation on 2,00,000, being intangible asset @ 25%	50,000	
	7,50,000	
<b>Total assets</b>		<b>19,42,500</b>
Less: Bank loan	5,00,000	
Trade Creditors	2,50,000	
Unsecured loan 2,00,000 less 50,000, being the amount waived off by his wife	1,50,000	
		9,00,000
<b>Net worth</b>		<b>10,42,500</b>

### Concept Problem 13

Mr. Suresh has a sole proprietary manufacturing unit. On 1<sup>st</sup> April, 2024, he owns Plant A and Plant B (rate of depreciation 15%). Depreciated value of the block on 1<sup>st</sup> April, 2024 is INR 10,00,000. Plant B is transferred on 15<sup>th</sup> October, 2024 for INR 19,00,000. Expenditure on transfer of Plant B is INR 20,000. Plant C (rate of depreciation 15%) is purchased on 10<sup>th</sup> March, 2025 for INR 22,00,000. However, Plant C is put to use on 2<sup>nd</sup> September, 2025. Business income of Mr. Suresh before claiming any depreciation is INR 11,00,000.

On 1<sup>st</sup> March, 2025, Mr. Suresh transfers 900 equity shares in A Ltd. (unlisted) for INR 23,50,000. Mr. Suresh does not own any residential house property. These shares were purchased on 2<sup>nd</sup> April, 2017 for INR 2,00,000. To avail of the benefit of exemption under different sections, he made the following investments on 1<sup>st</sup> May, 2025.

- A residential house property at Kolkata: 19,00,000 (out of which stamp duty expenditure is 30,000).
- NHAI bonds: 3,00,000.

Find out the gross total income of Mr. Suresh for the A.Y. 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

### Solution

**Computation of gross total income of Mr. Suresh for the A.Y. 2025-26 under Optional Tax regime:**

Particulars	Amount	Amount
<b>Profits and gains of business or profession</b>		
<b>Business income before depreciation</b>		<b>11,00,000</b>
<b>Depreciated value of the block on April 1, 2024</b>	10,00,000	
Add: "Actual cost" of Plant C acquired on March 10, 2025	22,00,000	
Less: Sale Consideration of Plant B	19,00,000	
<b>Written down value on March 31, 2025</b>	<b>13,00,000</b>	
Normal depreciation (not available as Plant C is not put to use during the P.Y. 2024-25)	Nil	

Particulars	Amount	Amount
Additional depreciation (not available as Plant C is not put to use during the P.Y. 2024-25)	Nil	-
<b>Capital Gains</b>		
Long term capital gain on transfer of unlisted equity shares [Since shares were held for more than 24 months]		
Sale consideration	23,50,000	
Less: Cost of Acquisition	2,00,000	
	21,50,000	
Less: Exemption under section 54EC [Deduction under section 54EC is allowable only in respect of long-term capital gain on transfer of land and building]	Nil	
Exemption under section 54F $[21,50,000 \times 19,00,000 / 23,50,000]$	17,38,298	4,11,702
<b>Gross Total Income</b>		<b>15,11,702</b>

**Concept Problem 14 [ICAI Jan 25]**

Mr. Paras has a proprietary business since P.Y. 2016-17. He has transferred this business on 01.04.2024 by way of a slump sale for a total consideration of 40 Lakh. The fair market value of his capital assets as on 01.04.2024 is 35 Lakh. He has incurred expenses for this deal of 1,50,000. His Balance Sheet as on 31.03.2024 is given below:

Liabilities	Amount	Assets	Amount
Own Capital	20,00,000	Building	18,00,000
Bank Loan	5,00,000	Debtors	5,00,000
Unsecured Loans	2,50,000	Machinery	5,00,000
Creditors	4,10,000	Other assets	3,60,000
	<b>31,60,000</b>		<b>31,60,000</b>

Other information:

- Bank loan balance includes 2 lakh for personal purpose.
- Machinery costing 50,000 has been allowed 100% as deduction u/s 35AD
- Other assets include self-generated goodwill of 60,000.
- Unsecured loans include 1 lakh for amount payable for the purchase of the ornaments of his wife.

Compute the capital gain/loss for the A.Y. 2025-26.

**Solution**
**Computation of capital gains on slump sale for A.Y. 2025-26**

Particulars	Amount
Full value of consideration [Higher of (i) FMV of capital assets on 1.4.2024 of 35 lakhs or (ii) FMV of Monetary consideration received of 40 lakhs]	40,00,000
Less: Expenses for transfer	<u>1,50,000</u>
	38,50,000

Particulars		Amount
Less: Net worth (See Note below)		<u>21,90,000</u>
<b>Long-term capital gain</b>		<b>16,60,000</b>
<b>Working Note - Computation of net worth</b>		
Building		18,00,000
Machinery [5,00,000 – 50,000, being the amount allowed as 100% as deduction u/s 35AD]		4,50,000
Debtors		5,00,000
Other assets (3,60,000 – 60,000, being the amount of self-generated goodwill)		3,00,000
<b>Total assets</b>		<b>30,50,000</b>
Less: Bank Loan (5,00,000 – 2,00,000, being loan for personal purpose)	3,00,000	
Unsecured Loan (2,50,000 – 1,00,000, being the amount payable for purchase of ornaments of his wife)	1,50,000	
Creditors	<u>4,10,000</u>	<u>8,60,000</u>
<b>Net worth</b>		<b>21,90,000</b>

## CHAPTER 8

# OTHER SOURCES (IFOS)

### Concept Problem 1

State with reasons in brief whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A):

- i) Exemption is available to a Sikkimese individual, only in respect of income from any source in the State of Sikkim.
- ii) Pension received by a recipient of gallantry award, who was a former employee of Central Government, is exempt from income-tax.
- iii) Mr. Roy received a sum of 20 lakh on 31.3.2025 from Life Insurance Corporation of India in respect of a policy, where the sum assured was 15 lakhs, taken on 1.10.2005 and for which a onetime premium of 10 lakh was paid. Mr. Roy claims that the amount is totally exempt under section 10(10D) of the Income-tax Act, 1961.
- iv) Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable.

### Solution

**i) False**

Exemption under section 10(26AAA) is available to a Sikkimese individual not only in respect of the said income, but also in respect of income by way of dividend or interest on securities from anywhere in world.

**ii) True:** Section 10(18) exempts any income by way of pension received by individual who has been in service of Central Government and has been awarded “Paramvir Chakra” or “Mahavir Chakra” or “Vir Chakra” or such other gallantry award as the Central Government, may, by notification in the Official Gazette, specify in this behalf.

**iii) False**

As per section 10(10D), any sum received under an insurance policy issued before 01.04.2012, in respect of which the premium payable for any year during the term of the policy exceeds 20% of actual capital sum assured, shall not be exempt from tax. Hence, the contention of Mr. Roy is not correct since the one-time premium of 10 lakh paid by him is in excess of 20% of the sum assured [i.e. it exceeds 3 lakhs, being 20% of 15 lakh].

Further, tax is deductible @ 2% on net income of 10,00,000 [Maturity proceeds – Total Insurance premium paid] under section 194DA on such sum paid to Roy, since the same is not exempt under section 10(10D) and payment amount is INR 1,00,000 or more.

**iv) False**

As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax.

However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

### Concept Problem 2

Mrs. Ram has received incomes as given below during the previous year 2024-25:

- i) Interest on saving bank account with State Bank of India INR 50,000 (gross).
- ii) Interest from Govt. securities INR 1,00,000 on 01.06.2024 (collection charge paid to the bank @ 1.5%).
- iii) Interest from Tax Ltd. on non-listed debentures INR 3,60,000 (after TDS) on 01.09.2024 (collection charge paid to bank INR 30).
- iv) Interest credited to post office saving bank account during the year INR 10,000.
- v) Interest credited to public provident fund during the year INR 10,000
- vi) Interest received from ABC Ltd. on listed debentures INR 1,35,000 (Net). Collection charges INR 30. The amount was invested by taking a loan of INR 15,00,000 @ 12% p.a.
- vii) Mrs. Ram has income from house property INR 4,00,000.
- viii) Winnings from a lottery INR 70,000 (after TDS)
- ix) Loan of INR 3,00,000 taken from XYZ Pvt. Ltd., a closely held company and Mrs. Ram is holding 10% equity shares of this company.
- x) Honorarium of INR 10,000 received for delivering lecture in a seminar.
- xi) Interest of INR 5,000 received from a loan given to a relative.
- xii) Royalty of INR 20,000 received on a book written by him. He paid INR 1,000 for typing the manuscript.

Compute her Total Income for AY 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

### Solution

#### Computation of Total Income for AY 2025-26 under Optional Tax Regime:

Income under the head Other Sources	Amount
Gross interest from State Bank of India	50,000
Interest from Government securities (1,00,000 – 1,500)	98,500
Interest from Tax Ltd [(3,60,000/90 x 100) - INR 30]	3,99,970
Interest on Post office saving account [3,500 exempt u/s 10(15)]	6,500
Interest on PPF [exempt u/s 10(11)]	Nil
Interest from ABC Ltd. Gross interest = INR 1,35,000 / 90 x 100 = 1,50,000 Less: Collection charges = 30 Less: Interest paid on loan = 1,80,000 (15,00,000*12%)	(30,030)
Winning from lottery (70,000 / 70 x 100)	1,00,000
Loan taken from XYZ Pvt. Ltd. [taxable u/s 2(22)(e)]	3,00,000
Honorarium	10,000
Interest on loan received from a relative	5,000
Net Royalty income	19,000
<b>Income under the head Other Sources</b>	<b>9,58,940</b>
Income under the head House Property	4,00,000
<b>Gross Total Income</b>	<b>13,58,940</b>



Income under the head Other Sources	Amount
Less: Deduction u/s 80TTA	10,000
Less: Deduction u/s 80QQB	19,000
<b>Total Income</b>	<b>13,29,940</b>

### Concept Problem 3

Mr. Lalit, a dealer in shares and securities, has entered into following transactions during the PY 2024-25:

- Received a motor car of 5,00,000 as gift from his friend Sunil on the occasion of his marriage anniversary.
- Cash gift of 21,000 each from his four friends.
- Land at Jaipur on 1<sup>st</sup> July, 2024 as a gift from his friend Kabra, the stamp duty value of the land is 6 lakhs as on the date. The land was acquired by Mr. Kabra in the previous year 2001-02 for 2 lakhs.

Mr. Lalit purchased from his friend Mr. Abhishek, who is also a dealer in shares, 1000 shares of ABC Ltd. @ 400 each on 19<sup>th</sup> June, 2024 the fair market value of which was 600 each on that date. Mr. Lalit sold these shares in the course of his business on 23<sup>rd</sup> June, 2024.

Further, on 1<sup>st</sup> November, 2024, Mr. Lalit took possession of his residential house booked by him two years back at 20 lakhs. The stamp duty value of the property as on 1<sup>st</sup> November, 2024 was 32 lakh and on the date of booking was 24 lakhs. He had paid 1 lakh by account payee cheque as down payment on the date of booking.

He received a shop (building) of the fair market value 1,50,000 and cash 50,000 in distribution from the ABC (P) Ltd at the time of liquidation process of the company in proportion of his share capital. The balance in general reserve of the company attributable to his share capital is 1,25,000.

On 1<sup>st</sup> March, 2025, he sold the plot of land at Jaipur for 8 lakhs.

The value of the cost inflation index is 100 and 331 for the previous year 2001-02 and 2024-25 respectively.

Compute the income of Mr. Lalit chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

### Solution

#### Computation of "Income from Other Sources" of Mr. Lalit for the A.Y. 2025-26 under Optional Tax Regime:

	Particulars	Amount
i.	Motor car is not included in the definition of "property" for the purpose of section 56(2) (x), hence, value of the same is not taxable, even though it is received without any consideration.	-
ii.	Cash gift is taxable under section 56(2)(x) [Since the aggregate of 84,000 (21,000 x 4) exceeds 50,000]	84,000
iii.	Stamp value of plot of land at Jaipur, received without consideration, is taxable under section 56(2)(x), since the same exceeds 50,000.	6,00,000
iv.	Difference of 2 lakh [1000 shares x 200] in the value of shares of ABC Ltd., purchased from Mr. Abhishek, a dealer in shares, is not taxable as it represents the stock in trade of Mr. Lalit (since he is a dealer in shares) and not capital asset.	-
v.	Difference between the stamp duty value of 24 lakh on the date of booking (since advance was paid by account payee cheque on that date) and the actual consideration of 20 lakh paid is taxable under section 56(2)(x), since the difference exceeds 2,00,000, being the higher of 50,000 and 10% of consideration.	4,00,000

	Particulars	Amount
vi.	Distribution of assets by ABC (P) Ltd., on liquidation attributable to the accumulated profits (general reserve) of the company is taxable as dividend under section 2(22)(c).	1,25,000
	<b>Income taxable under the head ‘Income from other Sources’</b>	<b>12,09,000</b>

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

Particulars	Amount
Capital gains on sale of land at Jaipur	
Sale consideration	8,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x)]	6,00,000
Short term capital gains (since held for a period of not more than 24 months. Period of holding of previous owner, Mr. Kabra, not to be considered)	<u>2,00,000</u>
<b>Capital gains on distribution of assets on liquidation of ABC (P) Ltd.</b>	
<b>Full value of consideration for capital gains on distribution of assets on liquidation of ABC(P) Ltd.</b>	
FMV of assets distributed	1,50,000
Cash	50,000
	<b>2,00,000</b>
Less: Deemed dividend under section 2(22)(c)	1,25,000
<b>Full value of consideration for computing capital gains</b>	<b><u>75,000</u></b>

### Note -

- As cost of acquisition of shares in ABC(P) Ltd. is not given in the question, capital gains on distribution of assets on liquidation of ABC(P) Ltd. in the hands of Mr. Lalit has not been computed.
- As per section 56(1)(i), dividend income is chargeable under the head “Income from Other Sources”. Hence, deemed dividend u/s 2(22)(c) would be taxable under the head “Income from Other Sources” in the hands of Mr. Lalit, who is a dealer in shares.

### Concept Problem 4 [ICAI Jan 25]

Mr. X, age 83 years, a resident individual, gives the following particulars of his receipts for A.Y. 2025-26:

1. Installment received from the bank under reverse mortgage arrangement	1,50,000
2. Interest on bank term deposits	2,00,000
3. Interest on bank saving a/c	45,000
4. Pension from Central Govt.	4,50,000
5. STCG on sale of dining table and chairs	1,00,000
6. Income from dairy farming on his rural agricultural land	50,000

Compute his total income and Income Tax thereon for A.Y. 2025-26 considering that Assessee has opted out of Default tax regime.

### Solution

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

		Amount	Amount
<b>I</b>	<b>Income from Salaries</b>		
	Pension from Central Government	4,50,000	
	Less: Standard deduction u/s 16 [Actual salary or 50,000, whichever is less]	<u>50,000</u>	4,00,000
<b>II</b>	<b>Capital Gains</b>		
	STCG on sale of dining table and chairs [Not a capital asset since it is personal effects]		Nil
<b>III</b>	<b>Income from Other Sources</b>		
	Installment received under reverse mortgage [Exempt u/s 10(43)]	Nil	
	Interest on bank term deposits	2,00,000	
	Interest on bank saving a/c	45,000	
	Income from dairy farming on agricultural land	<u>50,000</u>	<u>2,95,000</u>
	<b>Gross Total Income</b>		<b>6,95,000</b>
	Less: Deduction under section 80TTB		50,000
	<b>Total Income</b>		<b>6,45,000</b>
	<b>Tax liability</b>		
	Up to 5,00,000	<u>Nil</u>	
	5,00,001 – 6,45,000 [@ 20% of 1,45,000]	<u>29,000</u>	<b>29,000</b>
	Add: Health and education cess @4%		1,160
	<b>Tax liability</b>		<b>30,160</b>

**Example 1:**

LIP	X	A	B	C
Date of issue	1.4.2022	1.4.2023	1.4.2023	1.4.2023
Annual premium	5,50,000	1,00,000	3,50,000	6,00,000
Sum assured	55,00,000	10,00,000	35,00,000	60,00,000
Consideration received as on 01.11.2032 on maturity	62,00,000			
Consideration received as on 01.11.2033 on maturity		12,00,000	40,00,000	70,00,000
<b>Note</b> – The Assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34, except LIP X in P.Y. 2032-33.				

**Eligibility for exemption u/s 10(10D)** - The consideration received under LIP “X” would be exempt u/s 10(10D) in A.Y. 2032-33, since annual premium does not exceed 10% of the actual capital sum assured. Moreover, as the policy has been issued before 1.4.2023, limit of 5,00,000 on amount of premium payable is not applicable, since LIP “X” is not an eligible LIP.

The aggregate of annual premium payable for LIP “A”, LIP “B” and LIP “C” (being LIPs issued on or after 1.4.2023) exceeds 5,00,000 during the term of these policies.

However, the consideration received under LIPs “A” and “B” would be exempt u/s 10(10D) in A.Y. 2034-35, since aggregate of annual premium payable for these two policies does not exceed 5,00,000 for any previous year during the term of these two policies and annual premium payable in respect of these policies does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under LIP “C” alone would not be exempt u/s 10(10D) in A.Y. 2034-35.

### Example 2:

LIP	X	A	B	C
Date of issue	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	4,50,000	1,00,000	1,50,000	6,00,000
Sum assured	45,00,000	10,00,000	15,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	50,00,000			
Consideration received as on 01.11.2034 on maturity		12,00,000	18,00,000	70,00,000
<b>Note</b> – The Assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2034-35, except LIP X in P.Y. 2033-34.				

**Eligibility for exemption u/s 10(10D)** - The consideration under LIP “X” would be exempt u/s 10(10D) in P.Y. 2033-34, since the annual premium does not exceed 5,00,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for LIP “A”, LIP “B” and LIP “C” along with the premium for LIP “X” exceeds 5,00,000 during the term of these policies.

The aggregate of the annual premium payable for LIP “A” and the premium for LIP “X” also exceeds 5,00,000 during the term of these policies.

Consequently, the consideration received under LIP “A”, LIP “B” and LIP “C” would not be exempt u/s 10(10D) in A.Y. 2035-36.

### Example 3:

LIP	X	A	B	C
Date of issue	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	2,50,000	2,00,000	2,50,000	6,00,000
Sum assured	25,00,000	20,00,000	25,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	30,00,000			
Consideration received as on 01.11.2034 on maturity		24,00,000	38,00,000	70,00,000
<b>Note</b> – The Assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2034-35, except LIP X in P.Y. 2033-34.				

**Eligibility for exemption u/s 10(10D)** - The consideration under LIP “X” would be exempt u/s 10(10D) in P.Y. 2033-34, since the annual premium does not exceed 5,00,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for LIP “A”, LIP “B” and LIP “C” along with the premium for LIP “X” exceeds 5,00,000 during the term of these policies.

However, the consideration received under LIPs “A” or “B” (any one) can be claimed as exempt u/s 10(10D) in A.Y. 2035-36.

If the consideration received under LIP “A” is claimed to be exempt as aggregate of the annual premium payable for LIP “X” and “A” did not exceed 5,00,000 for any of the PYs., the consideration received under LIP “B” would not be exempt.

If the consideration received under LIP “B” is claimed to be exempt as aggregate of the annual premium payable for LIP “X” and “B” did not exceed 5,00,000 for any of the PYs., the consideration received under LIP “A” would not be exempt. Exemption for consideration received under LIP “B” is preferred as it is more beneficial to the Assessee.

**Alternative treatment:** If the consideration under LIP “X” was not claimed to be exempt u/s 10(10D) in A.Y. 2034-35 by the Assessee, then, the consideration received under LIP “A” and LIP “B” would be exempt u/s 10(10D) in A.Y. 2035-36 since the aggregate of the annual premium payable for the LIPs “A” and “B” together did not exceed 5,00,000 for any of the previous years during the term of these two policies. However, the most beneficial treatment is to claim LIP “X” and “B” as exempt.

It may be noted that in every case, the consideration received for LIP “C” would not be exempt u/s 10(10D).



# CHAPTER 9

## TAXABILITY OF GIFT

### Concept Problem 1

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 INR 75,000 on his anniversary, 15<sup>th</sup> April, 2024.
2. Bullion, the fair market value of which was INR 60,000, on his birthday, 19<sup>th</sup> June, 2024.
3. A plot of land at Faridabad on 1<sup>st</sup> July, 2024, the stamp value of which is INR 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. @ INR 400 each on 19<sup>th</sup> June, 2024, the fair market value of which was INR 600 each on that date. Mr. A sold these shares in the course of his business on 23<sup>rd</sup> June, 2024.

Further, on 1<sup>st</sup> November, 2024, Mr. A took possession of property (building) booked by him two years back at INR 20 lakh. Stamp duty value of the property as on 1<sup>st</sup> November, 2024 was INR 32 lakh and on the date of booking was INR 23 lakh. He had paid INR 1 lakh by account payee cheque as down payment on the date of booking.

On 1<sup>st</sup> March, 2025, he sold the plot of land at Faridabad for INR 7 lakh.

Compute the income of Mr. A chargeable under the head 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:

S. No	Particulars	Amount
1.	Cash gift is taxable under section 56(2)(x), since it exceeds INR 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 INR 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 INR 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.	Nil
5.	Difference between the stamp duty value of INR 23 lakh on the date of booking and the actual consideration of INR 20 lakh paid is taxable under section 56(2)(x) as difference between SDV and consideration exceeds 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	Amount
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as	5,00,000

per section 49(4)]	
<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.

### Concept Problem 2

Mrs. Rupali has furnished the following information pertaining to the year ended 31.3.2025:

- She bought 100 equity shares of a listed company from a friend for INR 80,000. The value of shares in the stock exchange on the date of purchase was INR 1,55,000.
- On her 25<sup>th</sup> wedding anniversary, she received cash gift of INR 1,01,000 from her friend Ms. Anjali.
- On the above occasion, she also received a platinum ring worth INR 2,50,000 from her brother.
- She got cash gifts in aggregate of INR 25,000 from her four friends on the occasion of her daughter's wedding on 11.11.2024.
- She also received INR 49,000 as gift by way of cheque from her maternal uncle, on her daughter's wedding.

Determine the Income from Other Sources chargeable to tax in the hands of Mr. Rupali for the A.Y. 2025-26.

### Solution

#### Computation "Income from Other Sources" in the hands of Mrs. Rupali for A.Y. 2025-26:

S. No	Particulars	Amount
1	Since shares are included in the definition of "property" and difference between the purchase value and fair market value of shares exceeds 50,000 i.e., 75,000 (1,55,000 – 80,000), the difference would be chargeable to tax under section 56(2)(x)	75,000
2	Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received on the occasion of wedding anniversary. The gift of 1,01,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Rupali.	1,01,000
3	The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of platinum ring received from her brother is not taxable u/s 56(2)(x), even though jewellery falls within the definition of "property".	Nil
4	To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case. Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds 50,000 in a year. Since, the aggregate value of cash gifts received by Mrs. Rupali exceeds 50,000 during the PY 2024-25, the cash gifts aggregating 25,000 received from her four friends would be chargeable to tax in her hands.	25,000
5	The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Since maternal uncle is a relative, the amount of 49,000 received by way of cheque from him would not be chargeable to tax.	Nil
<b>Amount chargeable to tax under the head "Income from other Sources"</b>		<b>2,01,000</b>

**Concept Problem 3**

Mr. Manek, a person of Indian origin and citizen of USA, got married to Ms. Anjali, an Indian citizen residing in USA, on 24<sup>th</sup> January, 2024 and came to India on 25-03-2024. He left for Country X on 10<sup>th</sup> July, 2024. He returned to India again on 24-02-2025 with his wife to spend some time with his parents-in law for 30 days and thereafter returned to USA. He stayed in India for 400 days during the 4 years preceding the PY 2024-25.

He received the following gifts from his relatives and friends of her wife during 01.04.2024 to 31.03.2025 in India:

Particulars	Amount
From wife's parents	1,51,000
From wife's sister	21,000
From very close friends of his wife	16,00,000

Determine his residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the Assessment Year 2025-26.

**Solution**

Under section 6(1), an individual, being a person of Indian origin and 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 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 P.Y. 2024-25 would be resident but not ordinarily resident.

Mr. Manek is a person of Indian origin who has come on a visit to India during the previous year. Since his total income other than income from foreign sources exceeds 15,00,000, he would be a resident in India if he stays in India during the previous year for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year.

His 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
<b>Total</b>	<b><u>131 days</u></b>

Since he stays in India is for 131 days during the P.Y. 2024-25 and for 400 days during the 4 years immediately preceding the P.Y. 2024-25, he is resident but not ordinarily resident in India for the P.Y. 2024-25.

In such case, his total income and tax liability would be computed in the following manner:

**Computation of total income and tax liability of Mr. Manek for the A.Y. 2025-26 under default tax regime:**

Particulars	Amount
<b>Income from Other Sources</b>	
Cash gifts received from non-relatives 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 wife would be exempt, since wife's parents fall within the definition of relatives and gifts from a relative are not chargeable to tax.	Nil
- 21,000 received from a married sister-in law is exempt, since sister of wife falls within the	Nil

Particulars		Amount
definition of relative and gifts from a relative are not chargeable to tax.		
- Gift received from close friend of his wife of 16,00,000 is taxable under section 56(2)(x) since the amount of cash gifts exceed 50,000.		16,00,000
<b>Total Income</b>		<b>16,00,000</b>
<b>Tax on total income of 16,00,000 u/s 115BAC</b>		
Upto 3,00,000	Nil	-
From 3,00,001 to 7,00,000	$3,00,000 \times 5\% =$	20,000
From 7,00,001 to 10,00,000	$3,00,000 \times 10\% =$	30,000
From 10,00,001 to 12,00,000	$3,00,000 \times 15\% =$	30,000
From 12,00,001 to 15,00,000	$3,00,000 \times 20\% =$	60,000
From 15,00,001 to 16,00,000	$1,00,000 \times 30\% =$	30,000
		<b>1,70,000</b>
Health and Education cess @ 4%		6,800
<b>Tax Liability</b>		<b>1,76,800</b>

# CHAPTER 10

## CLUBBING OF INCOME

### Concept Problem 1

Mr. Vaibhav started a proprietary business on 01.04.2023 with a capital of INR 5,00,000. He incurred a loss of INR 2,00,000 during the PY 2023-24. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of INR 5,00,000 on 01.04.2024, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of INR 4,00,000 during the PY 2024-25. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the AY 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 INR 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 (4,00,000 x 3/8)	2,50,000 (4,00,000 x 5/8)	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2025-26 is INR 2,50,000.

In case Mrs. Vaishaly gave the said amount of INR 5,00,000 as a bona fide loan, then, clubbing provision 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 INR 50,000 without consideration from a relative i.e., his wife.

### Concept Problem 2

Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is INR 2,000 p.a. each and that of the son is INR 1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2024 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is INR 10,000 p.m.

Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s 64(1A) (assuming that Mr. A's total income is higher than Mrs. A's total income, before including the income of minor children and both Mr. A and Mrs. A exercise the option of shifting out of the default tax regime provided under section 115BAC(1A)).

### Solution



**Taxable income, in respect of minor children, in the hands of Mr. A is**

Particulars	Amount	Amount
Twin minor daughters [INR 2,000 × 2]	4,000	
Less: Exempt under section 10(32) [INR 1,500 × 2]	3,000	1,000
Minor son	1,200	
Less: Exempt under section 10(32)	1,200	Nil
<b>Income to be clubbed in the hands of Mr. A</b>		<b>1,000</b>

**Note:** As per section 27(i), Mrs. A is the deemed owner of house property transferred to her minor son. Natural love and affection do not constitute adequate consideration for this purpose. Accordingly, the income from house property of ₹ 84,000 [i.e., ₹ 1,20,000 (-) ₹ 36,000, being 30% of ₹ 1,20,000] would be taxable directly in her hands as the deemed owner of the said property.

Consequently, clubbing provisions u/s 64(1A) would not be attracted in respect of income from house property, owing to which exemption u/s 10(32) cannot be availed by her.

### Concept Problem 3

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% 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% 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 INR 10,000. He had no other income. Mrs. A received salary of INR 20,000 per month from a part time job.

Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child assuming that they exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A).

### Solution

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

Particulars	Mr. A	Mrs. A	Minor Son
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	
<b>Income from Salary</b>	<b>70,000</b>	<b>1,90,000</b>	
<b>Income from House Property [Note (3)]</b>	<b>52,000</b>	-	-
<b>Income from other sources</b>			

Particulars	Mr. A		Mrs. A	Minor Son
Interest on Mr. A's fixed deposit with Bank of India (INR 5,00,000 × 9%) [Note (1)]	45,000		-	-
Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [Note (2)]	25,000	70,000	-	-
<b>Income before including income of minor son u/s 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 [Note (4)]		18,500	--	-
Income of the minor son through a business activity involving application of his skill and talent [Note (5)]	-	-	-	20,000
<b>Total Income</b>		<b>2,10,500</b>	<b>1,90,000</b>	<b>20,000</b>

#### Notes:

- 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.
- As per section 64(1), 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% share in the firm.

- According to section 27, 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.

- 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 INR 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 INR 2,42,000 (before including the income of the minor child) is greater than Mrs. A's income of INR 2,40,000.

Therefore, INR 18,500 (i.e., INR 20,000 – INR 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 INR 50,000 without consideration from a relative i.e., his father.

5. In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

Therefore, the income of 20,000 derived by Mr. A's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

#### Concept Problem 4

Details of Income of Mr. R and his wife Mrs. R for the previous year 2024-25 are as under:

- Mr R transferred his self-occupied property without any consideration to the HUF of which he is a member. During the previous year 2024-25, the HUF earned an income of 50,000 from such property.
- Mr. R transferred 4,00,000 to his wife Mrs R on 01.04.2006 without any consideration which was given as a loan by her to Mr. Girish. She earned 3,50,000 as interest during the earlier previous years which was also given as a loan to Mr. Girish. During the previous year 2022-23, she earned interest 11% per annum.
- Mr. R and Mrs. R both hold equity shares of 27% and 25% respectively in AMG Limited. They are also working as employees in AMG Limited. During the financial year 2024-25 they have withdrawn a salary of 3,20,000 and 2,70,000 respectively.
- Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17.09.2015 to Mr. R without any consideration. The company issued 3,000 bonus shares to Mr. R in 2018. On 04.03.2025, Mr. R sold entire share holdings and earned 5,20,000 as capital gains.

Apart from above income, Mr. R has income from commission 4,00,000 and Mrs. R has interest income of 3,30,000.

Compute Gross Total Income of Mr. R and Mrs. R for the assessment year 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

#### Solution

#### Computation of Gross Total Income of Mr. R & Mrs. R for A.Y. 2025-26 under Optional Tax regime:

	Particulars	Mr. R	Mrs. R
		Amount	Amount
<b>I.</b>	<b>Income from House Property</b>		
	<b>Income from property transferred to HUF without consideration</b>		
	Since Mr. R has transferred his property to his HUF without consideration, income of 50,000 from such property would be included in the total income of Mr. R as per section 64(2).	50,000	
<b>II.</b>	<b>Capital Gains</b>		
	<b>Income from equity shares transferred by Mrs. R to Mr. R without consideration</b>		
	Capita gain arising to Mr. R from transfer of equity shares of RSB Ltd., gifted shares would be included in the income of Mr. R and not Mrs. R, since income derived from accretion of the transferred asset cannot be dubbed with the income of transferor of the original asset i.e., Mrs. R [5,20,000 x 3,000/8,000]	1,95,000	3,25,000
<b>III.</b>	<b>Income from Other Sources</b>		

Particulars	Mr. R	Mrs. R
	Amount	Amount
Income from commission	4,00,000	
Interest income		3,30,000
<b>Interest income on 4 lakhs transferred by Mr. R to Mrs. R without consideration</b>		
Income of 44,000 i.e. 11% of 4,00,000, being the amount transferred by Mr. R to Mrs. R without any consideration and loaned by her to Mr. Girish, would be included in the income of Mr. R	44,000	
Income of 38,500 i.e. 11% of 3,50,000, being the interest earned by Mrs. R out of amount gifted by Mr. R and thereafter, given by her as loan to Mr. Girish, would be included in the income of Mrs. R, as income derived by Mrs. R from accretion of the amount gifted by Mr R (i.e., interest income) cannot be included in the income of Mr R.		38,500
<b>Total income</b> [before considering adjustment on account of item (iii) i.e., salary income from a company in which both Mr. R and Mrs. R have substantial interest]	<b>6,89,000</b>	<b>6,93,500</b>
<b>IV. Salary income from a company in which both Mr. R and Mrs. R have substantial interest</b>		
Since both Mr. R and Mrs. R have substantial interest in AMG Ltd, (on account of holding equity shares carrying 20% or more of voting power) and both are in receipt of income by way of salary from AMG Ltd., such salary income would be includible in the hands of spouse, whose total income, before including such income, is higher i.e. Mr. R.		
Salary income of Mr. R = 3,20,000 – 50,000 (standard deduction)		<b>2,70,000</b>
Salary income of Mrs. R = 2,70,000 – 50,000 (standard deduction)		<b>2,20,000</b>
<b>Gross Total Income</b>	<b><u>6,89,000</u></b>	<b><u>11,83,500</u></b>

### Concept Problem 5

Mr. Sarthak is a member of HUF. It consists of himself, his wife Juhi and his major son Arjun and his minor daughter Aditi. Mr. Sarthak transferred his house property acquired through his personal income to the HUF without any consideration.

On 01-10-2024, HUF is partitioned and such property being divided equally. Net annual value of the property for the Previous Year 2024-25 is 1,00,000. Determine the tax implications under optional tax regime.

### Solution

#### Tax Implication under Optional Tax regime:

	Amount
Since Mr. Sarthak, who is a member of the HUF, transfers the house property acquired by him out of his personal income of the HUF without any consideration, the income from such property would continue to be included in his total income upto the date of partition. Accordingly, income from such property for six months upto the date of partition i.e., 30.9.2024 (6/12 x 70,000 [Net Annual Value of 1,00,000 less deduction under section 24(a) @ 30% ] would be included in the total income of Mr. Sarthak.	35,000
Since the HUF was partitioned on 1.10.2024, the income derived from such converted house	

	Amount
property as is received by Mr. Sarthak's spouse, Juhi, on partition will be deemed to arise to Mr. Sarthak from house property transferred indirectly by him to her and consequently, such income would be included in the total income of MR. Sarthak. Accordingly, Mr. Sarthak's share (25% ) and Juhi's share (25%) would be included in the total income of Mr. Sarthak	
Sarthak's share [25% of 35,000 (70,000 x 6/12)]	8,750
Juhi's Share [25% of 35,000] included in the total income of Mr. Sarthak	8,750
<b>Income from house property includible in the income of Mr. Sarthak</b>	<b>52,500</b>

**Notes:**

- 25% share of Sarthak minor daughter, Aditi, i.e., 8,750, being 25% of 35,000, would be included in the total income of Mr. Sarthak or Juhi, whosever total income, before including Aditi's income, is higher.
- Such parent shall be entitled to an exemption of 1,500 under section 10(32).
- 25% share of Sarthak's major son, Arjun i.e., 8,750, being 25% of 35,000, would be included in Arjun's total income.
- Distribution of house property on partition of HUF is not a transfer for levy of capital gains tax.

**Concept Problem 6**

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

- Mr. Chaman's salary income - 11,00,000
- Mrs. Chaman's income from Kathak performances - 2,50,000. She is a professional Kathak dancer and pursue dancing as her profession.
- Mrs. Chaman earned long-term capital gains of 5,50,000 from sale of shares.
- Mrs. Chaman gifted 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2025, Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of 5,10,000.
- Miss Naina, their minor daughter, earned 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 15,000 during the year 2024-25.
- Master Neelabh, their minor son earned 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 under section 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 assuming that he opt to shift out of default tax regime u/s 115BAC.

**Solution**

**Computation of total income of Mr. Chaman, Mrs. Chaman & their minor children for A.Y.2025-26 under Optional Tax regime:**

Particulars	Mr. Chaman	Mrs. Chaman	Naina, minor daughter	Neelab minor son
<b>Income under the head "Salaries"</b>				
Salaries (computed)	11,00,000			



Particulars	Mr. Chaman	Mrs. Chaman	Naina, minor daughter	Neelab minor son
<b>Profits and gains from business or profession</b>				
Income from Kathak performances		250,000		
<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 2 lakhs would be included in the income of Mrs. Chaman, since the shares are purchased by Mr. Chaman from the amount of 2 lakhs gifted by Mrs. Chaman out of her Stridhan. Clubbing provisions would be attracted even if it is a loss and not income] <b>[Refer Note 1 and 2 below]</b>		2,00,000		
The balance short-term capital loss of 3,10,000 has to be carried forward by Mr. Chaman, since it cannot be set-off against salary income.				
<b>Income [before considering income of minor son and minor daughter]</b>	<b>11,00,000</b>	<b>6,00,000</b>		
Income of Naina, minor daughter, from performances in various quiz competitions would not be included in the hands of either parent, since			<b>3,56,000</b>	
such income arises from her own skills/talent. However, interest of 15,000 on saving bank account [after providing for deduction of 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 [15,000 - 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>11,13,000</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 75,000 to a person with disability. However, deduction would be restricted to GTI				35,000
<b>Total Income</b>	<b>11,03,000</b>	<b>6,00,000</b>	<b>3,56,000</b>	<b>Nil</b>

### Notes

- a) The question mentions that Mrs. Chaman gifted 2 lakh to Mr. Chaman out of her Stridhan on 1.4.2025 and that Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of 5,10,000. It is not possible to invest 2 lakhs and incur short-term capital loss of 5.10 lakhs. Accordingly, in the above solution, it has been assumed that the remaining 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 5,10,000 has to be set off against long-term capital gains of 5,50,000 in the hands of Mrs. Chaman. In which case the total income of Mrs. Chaman would be 2,90,000 instead of 6,00,000. Also, there would be no short-term capital loss in the hands of Mr. Chaman.

Since the relevant assessment year for May 2025 examination is A.Y. 2025-26, accordingly, the relevant previous year is P.Y. 2024-25. The above solution has been worked out considering the date of gift as 1.4.2024.

- b) Item (iv) mentions that the gift was made by Mrs. Chaman to Mr. Chaman on 1.4.2025, which falls outside the P.Y. 2024-25. Since the date of gift has been mentioned as 1.4.2025 in the question, as per the plain reading, such short-term capital loss cannot be set-off against long-term capital gains of 5,50,000. In such a case, the total income of Mr. Chaman would be 8,00,000.

### Concept Problem 7 [MTP Sep 24]

Mr. Jain and his wife Mrs. Jain are partners in a partnership firm holding 25% share each. During the F.Y. 2024-25, the firm paid 2,50,000 to each of them as remuneration. Apart from this, they provide you the following information in respect of F.Y. 2024-25:

- Salary received by Mr. Jain from his employer 12,50,000.
- Interest on fixed deposit earned by Mrs. Jain 14,00,000. (The fixed deposit was opened by using her "Stridhan")
- Income of their three minor children Neeta, Meeta and Seeta was 15,000; 10,000 and 2,000 respectively.

You are required to compute the gross total income of Mr. and Mrs. Jain as per the provisions of Income-tax Act for the A.Y. 2025-26 assuming that they have shifted out of the default tax regime.

### Solution

#### Computation of Gross Total Income of Mr. Jain and Mrs. Jain for A.Y. 2025-26 under Normal Provisions of Act

Particulars	Mr. Jain		Mrs. Jain	
	Amount	Amount	Amount	Amount
Salary	12,50,000			
Less: Standard deduction under section 16(ia)	<u>50,000</u>	12,00,000		
Interest on Fixed Deposit earned by Mrs. Jain				14,00,000
<b>Total income (before including remuneration from firm and minor's income)</b>		<b>12,00,000</b>		<b>14,00,000</b>
Remuneration from firm (assumed that the same is fully deductible in the hands of the firm)			2,50,000	
Remuneration of 2,50,000 received by Mr. Jain has to be included in the total income of Mrs. Jain, since both of them have substantial interest in the concern (i.e., each having 25% share in the firm, in the present case), and her total income of 14 lakh exceeds the total income of her spouse excluding this income (i.e., 12 lakh). It is assumed that such remuneration is fully deductible in the hands of the firm.			<u>2,50,000</u>	5,00,000
<b>Total Income (before including minor's income)</b>		12,00,000		19,00,000

Particulars	Mr. Jain		Mrs. Jain	
	Amount	Amount	Amount	Amount
Income of three minor children to be included in Mrs. Jain's income <sup>1</sup> , since her total income before including minor's income is higher than that of her husband.		-		
- Neeta			15,000	
- Meeta			10,000	
- Seeta			<u>2,000</u>	
			27,000	
Less: Exemption of 1,500 u/s 10(32) in respect of the income each child so included.			4,500	22,500
<b>Gross Total Income</b>		<b>12,00,000</b>		<b>19,22,500</b>

# CHAPTER 11

## SET OFF AND CARRY FORWARD OF LOSSES

### Concept Problem 1

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

Particulars	Amount
Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicles throughout the year)	3,20,000
Income from retail trade of garments (Computed as per books) (Sales turnover 1,35,70,000) Mr. A had declared income on presumptive basis u/s 44AD for the first time in AY 2024-25. Assume 10% of the turnover during the previous year 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
He has brought forward depreciation relating to A.Y. 2022-23	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 under OTR:

Particulars	Amount
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
	<b>10,70,000</b>
Less: Set off of brought forward depreciation relating to A.Y. 2023-24	1,00,000
<b>Gross total income</b>	<b>9,70,000</b>
Less: Deduction under Chapter VI A	Nil
<b>Taxable income</b>	<b>9,70,000</b>
Tax liability	1,06,500
Add: Health and education cess @ 4%	4,260
<b>Tax Payable</b>	<b>1,10,760</b>

#### Notes:

- Income from retail trade:** Presumptive business income under section 44AD is INR 8,41,340 i.e., 8% of INR 13,57,000, being 10% of the turnover received in cash and 6% of INR 1,22,13,000, being the amount of sales turnover received through A/c payee cheque.

However, the income computed as per books is INR 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of INR 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 opt for presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds INR 1 crore (the enhanced limit of INR 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 opt for section 44AD for next five A.Ys, if he does not opt for section 44AD this year.

- 2. Income from plying of vehicles:** Income calculated under section 44AE(1) would be INR 7,500 x 12 x 5 which is equal to INR 4,50,000. However, the income from plying of vehicles as per books is INR 3,20,000, which is lower than the presumptive income of INR 4,50,000 calculated as per section 44AE(1).

Hence, the Assessee can adopt the income as per books i.e. INR 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, had presumptive income provisions been opted, 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 the Assessee opted for income to be assessed on presumptive basis, his total income would be:**

Particulars	Amount
Income from retail trade under section 44AD [13,57,000 @ 8%] plus [1,22,13,000 @ 6%]	8,41,340
Income from plying of vehicles under section 44AE [7,500 x 12 x 5]	4,50,000
<b>Income from business</b>	<b>12,91,340</b>
Less: Set off of b/f depreciation not possible as its deemed that it has been allowed	Nil
<b>Gross total income</b>	<b>12,91,340</b>
Less: Deduction under Chapter VI A	Nil
<b>Total income</b>	<b>12,91,340</b>
<b>Tax thereon</b>	<b>1,99,902</b>
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>

### Concept Problem 2

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

Particulars	Amount
Income from Salary	3,40,000
Long term capital loss on sale of shares of Reliance Ltd. STT has paid has been paid both at the time of acquisition and sale	(1,15,000)
Loss from let out property in Delhi	(75,000)
Interest on self-acquired property in Mumbai	(50,000)
Winnings from lottery wickets	40,000
Cost of acquisition of lottery tickets	10,000
Profit and gains from manufacturing business (after deducting normal depreciation of 10,000 and additional depreciation of 4,000)	96,000



Particulars	Amount
Long term capital gains on sale of house property	1,40,000

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

Brought forward business loss from manufacturing business	(35,000)
Unabsorbed normal depreciation	(10,000)
Brought forward loss from the activity of owning and maintaining the race horses	(50,000)

Compute the Gross total income of Mr. Rajesh for the Assessment Year 2025-26 and the amount of loss, if any, that can be carried forward under default tax regime u/s 115BAC for the first time.

### Solution

**Computation of gross total income of Mr. Rajesh for A.Y. 2025-26 under default tax regime:**

Particulars	Amount	Amount
<b>Income from Salary</b>	3,40,000	
Less: Loss under the head “Income from house property” [Loss from house property is not allowed to be set off with any other head of income since Mr. Rajesh is opting for section 115BAC]	-	3,40,000
<b>Income from house property</b>		
[Self-occupied property [Interest u/s 24(b) is not allowed in case of self - occupied property since Mr. Rajesh is opting for section 115BAC]	-	
Loss from let out property [Carried forward to A.Y. 2026-27]	(75,000)	-
<b>Profit and gains from business or profession</b>		
Profit and gains from manufacturing business	96,000	
Add: Additional depreciation not allowable in case of section 115BAC	4,000	
	1,00,000	
Less: Brought forward loss from manufacturing business	35,000	
Less: Unabsorbed normal depreciation	10,000	55,000
<b>Capital Gains</b>		
Long term capital gains on sale of house property	1,40,000	
Less: Long term capital loss on sale of shares on which STT is paid can also be set-off as per section 74(1), since long term capital gain arising on sale of such shares is taxable under section 112A	(1,15,000)	25,000
<b>Income from Other Sources</b>		
Winnings from lottery tickets		40,000
<b>Gross Total Income</b>		<b>4,60,000</b>

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

Particulars	Amount
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Particulars	Amount
Loss from let out property in Delhi	75,000 Nil
Loss from the activity of owning and maintaining the race horses	50,000

#### Notes:

- As per section 74A(3), loss from the activity of owning and maintaining the race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horse.
- As per section 58, no expenditure is allowed from the lottery winnings.

#### Concept Problem 3

Mr. Suresh is Lawyer by profession and his income from profession for the year 2024-25 is 10,00,000. From the information given by him, you are required to compute his total income for A.Y. 2025-26 and the losses to be carried forward assuming that he files his income tax returns every year before due date.

Particulars	Amount
Income of minor son Raj from company deposit	1,60,000
Income from minor daughter Rashmi (Professional dancer) from her dance performances	15,00,000
Interest from Canara Bank received by Rashmi on deposited made out of income earned from her dance performance	15,000
Loss from House property (Computed)	2,50,000
Short term capital loss	6,00,000
Long term capital gain from equity shares under section 112A	1,20,000
Long term capital Gain under section 112	3,00,000
Short term capital loss under section 111A	5,00,000

Assume he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) and his income before considering clubbing provisions is higher than that of his wife.

#### Solution

#### Computation of Total Income of Mr. Suresh for A.Y. 2025-26 under Optional Tax regime:

Particulars	Amount	Amount	Amount
<b><u>Profit and gains from Business and Profession</u></b>			
Income from Profession		10,00,000	
Less: Loss from House Property (can be set-off to the extent of 2,00,000 as per section 71 (3A))		2,00,000	8,00,000
<b><u>Capital Gains</u></b>			
Long term capital gains on sale of equity shares under section 112A		1,20,000	
Long term capital gain under section 112		3,00,000	
Less: Short term capital loss set off against long term capital gains as per section 74		(4,20,000)	Nil
<b><u>Income from Other Sources</u></b>			
Income of minor son Raj			

Particulars	Amount	Amount	Amount
Income from company deposit includible in the hands of Mr. Suresh as per section 64(1A)	1,60,000		
<b>Less:</b> Exemption in respect of income of minor child u/s 10(32)	<u>1,500</u>	1,58,500	
<b>Income of minor daughter Rashmi</b>			
- Income of 15,00,000 of minor daughter Rashmi (Professional dancer) not included in the hands of parent, since such income is earned on account of her special skills	Nil		
- Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible as per section 64(1A), since interest income arises out of deposit made and not on account of her special skills	15,000		
<b>Less:</b> Exemption in respect of income of minor child u/s 10 (32)	<u>1,500</u>	13,500	<u>1,72,000</u>
<b>Total Income</b>			<b>9,72,000</b>

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

Particulars	Amount
Loss from house property [2,50,000 – 2,00,000]	50,000
Short term capital loss under section 111A	5,00,000
Short term capital loss (other than above) [6,00,000 – 4,20,000]	1,80,000

**Note** – Short-term capital loss under section 111A can be set-off against long-term capital gains under section 112 & 112A. In such a case, the losses to be carried forward to A.Y. 2026-27 would be as under:

Particulars	Amount
Loss from house property [2,50,000 – 2,00,000]	50,000
Short term capital loss under section 111A [5,00,000 – 4,20,000]	80,000
Short term capital loss (other than above)	6,00,000

**Concept Problem 4**

Mr. Kabir, a resident individual aged 45 years, furnishes the following particulars of his income and other details for the previous year 2024-25:

Particulars	Amount
Income from tea business	5,00,000
Losses from sugar business	4,00,000
Dividend from Indian company carrying on agricultural operations (gross)	1,00,000
Agricultural Income	55,000
Salary received as a partner from a partnership firm. The same was allowed to the firm.	4,50,000
Net annual value of house property	4,20,000
Loss from gambling	1,00,000
Short term capital gains on sale of land	75,000

Particulars	Amount
Loss on sale of shares listed in BSE. Shares were held for 15 months and STT paid on sale and acquisition	3,00,000
Life Insurance premium paid (10% of the capital sum assured)	80,000
Bank interest on fixed deposit (gross)	55,000
Interest on saving bank account	13,000

The other details of brought forward losses pertaining to A.Y. 2024-25 are as follow:

Particulars	Amount
Brought forward business loss form sugar business	1,00,000
Brought forward short-term capital loss	45,000
Brought forward loss from house property	3,00,000
Brought forward loss from maintenance of race horses	60,000

Compute the total income of Mr. Kabir for the AY 2025-26 and the amount of loss, if any, that can be carried forward, assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

### **Solution**

#### **Computation of total income of Mr. Kabir for A.Y. 2025-26 under Optional Tax regime:**

Particulars	Amount	Amount
<b>Income from House Property</b>		
Net Annual Value	4,20,000	
Less: Deduction under section 24 (30% of 4,20,000)	1,26,000	
	2,94,000	
Less: Brought forward loss of 3 lakhs from house property set off to the extent of 2,94,000	<u>2,94,000</u>	<b>Nil</b>
<b>Profit and gains from business or profession</b>		
Income from tea business (40% is business income)	2,00,000	
Salary received as partner from a partnership firm is taxable under the head "Profits and gains from business or profession"	<u>4,50,000</u>	
	6,50,000	
Less: Losses from sugar business	<u>4,00,000</u>	
	2,50,000	
Less: Brought forward business loss from sugar business	<u>1,00,000</u>	1,50,000
<b>Capital Gains</b>		
Short term capital gains on sale of land	75,000	
Less: Brought forward short-term capital loss	<u>45,000</u>	30,000
<b>Income from other Sources</b>		

Particulars	Amount	Amount
Dividend from Indian Company	1,00,000	
Agricultural income (exempt)	-	
Bank interest on fixed deposit	55,000	
Interest on saving bank account	13,000	1,68,000
<b>Gross Total Income</b>		<b>3,48,000</b>
Less: Deduction under section 80C (life insurance premium paid)	80,000	
Less: Interest on saving bank account under section 80TTA, to the extent of	<u>10,000</u>	<u>90,000</u>
<b>Total Income</b>		<b><u>2,58,000</u></b>

**Losses to be carried forward to A.Y. 2026-27:**

Particulars	Amount
Loss from house property of A.Y. 2024-25	6,000
Loss from maintenance of race horses of A.Y. 2024-25	60,000
Long term capital loss on sale of STT paid listed shares	3,00,000

**Notes:**

- 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax.
- Agricultural income is exempt under section 10(1).
- Loss from gambling can neither be set off against any other income, nor can be carried forward.
- Long term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set off against long term capital gain only. Since there is no long-term capital gain in A.Y. 2025-26, it has to be carried forward for set-off against long term capital gains, if any, during A.Y. 2026-27.
- As per section 74A(3), loss from maintenance of race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. Since there is no income from the activity of owning and maintaining race horses in A.Y. 2025-26, it has to be set off against the income from the activity of owning and maintaining race horses, if any, in A.Y. 2026-27.

**Concept Problem 5**

AB Light LLP consists of 2 working partners, Mr. Anand and Mr. Bheem with 60% and 40% share, respectively. As per the partnership deed, they are eligible for interest on capital @ 15% p.a. on their capital contribution of 15 lakhs each and remuneration of 50,000 p.m. to Anand and 40,000 p.m. to Bheem. The firm is engaged in manufacturing business. During the year ended 31.3.2024, the net profit as per profit and loss account was 25,86,000 before considering interest on capital and remuneration to partners as well as the following items:

	Particulars	Amount
(i)	Current year revenue expenditure on scientific research	2,40,000
(ii)	Unabsorbed capital expenditure on scientific research relating to P.Y. 2020-21	85,000
(iii)	Brought forward business loss of A.Y. 2014-15	40,000
(iv)	Unabsorbed depreciation of A.Y. 2011-12	52,000
(v)	Current year depreciation under section 32	4,70,000



	Particulars	Amount
(vi)	Brought forward business loss of A.Y. 2019-20	49,000
(vii)	Current year capital expenditure on scientific research	3,45,000

You are required to compute the total income of AB Light LLP for A.Y. 2024-25 after considering the above items. Also, determine the amount of remuneration taxable in the hands of Mr. Anand and Mr. Bheem.

### Solution

#### Computation of total income of AB Light LLP for the A.Y. 2025-26 under Optional Tax regime

Particulars	Amount	Amount
Net profit as per profit and loss account before interest on capital and remuneration to partners and other items		25,86,000
Less: Expenditure allowable from business income		
- Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (15,00,000 × 12% × 2)	3,60,000	
- Current year revenue expenditure on scientific research u/s 35(1)(i)	2,40,000	6,00,000
		19,86,000
- Current year depreciation under section 32(1)	4,70,000	
- Current year capital expenditure on scientific research u/s 35(1)(iv)	3,45,000	
- Unabsorbed depreciation of A.Y. 2013-14 under section 32(2)	52,000	
- Unabsorbed capital expenditure on scientific research relating to P.Y. 2021-22 under section 35(4)	85,000	9,52,000
<b>Book Profit</b>		10,34,000
Less: Partners' remuneration allowable under section 40(b)		
i) As per limit prescribed in section 40(b)		
On first 6,00,000 90%	5,40,000	20
On the balance 4,34,000 60%	2,60,400	
	8,00,400	
ii) Remuneration actually paid or payable [50,000 × 12 + 40,000 × 12]	10,80,000	
(i) or (ii) whichever is less, is deductible		8,00,400
<b>Profit from manufacturing business</b>		<b>2,33,600</b>
Less: Brought forward business loss of A.Y. 2016-17 [Not allowed to set off since 8 years have been already expired]	-	
Less: Brought forward business loss of A.Y. 2020-21	49,000	49,000
<b>Profits and gains of business or profession</b>		<b>1,84,600</b>

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

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

### Concept Problems 6

Mr. Vishal, aged 33 years, submits the information of following transaction/income during the P.Y. 2024-25

- i) Mr. Vishal had a house in Delhi. During financial year 2023-24, he had transferred the said house to Ms. Deepika, daughter of his brother without any consideration. House would go back to Mr. Vishal after the life time of Ms. Deepika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Vishal. Rent received by Ms. Deepika during the previous year 2024-25 from such house property is 5,50,000.
- ii) Mr. Vishal 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 lifetime of Chandni. Dividend received by Ms. Chandni during the previous year 2024-25 is 4,50,000.
- iii) Mr. Vishal has a short term capital loss of 16,000 from sale of property and long term capital gain of 15,000 from sale of property.
- iv) Other income/loss of Mr. Vishal includes
  - Interest from saving bank account of 1,75,000
  - Cash gift of 75,000 received from daughter of his sister on his birthday.
  - Income from betting of 25,000
  - Income from card games of 46,000
  - Loss on maintenance of race horses of 14,600

Mr. Vishal's wife, Shamita is employed with Ray Ltd., at a monthly salary of 25,000, where Mr. Vishal holds 21% of the shares of the company. Shamita is not adequately qualified for the post held by her in Ray Ltd.

Compute the total income of Mr. Vishal for the Assessment Year 2025-26 if he has opted out of the default tax regime and the losses to be carried forward.

### Solution

#### Computation of Total Income of Mr. Vishal for A.Y. 2025-26 under Normal Provisions of Act:

Particulars	Amount	Amount
<b>Income from house property</b>		
<b>House in Delhi</b> [Since Mr. Vishal receives direct or indirect benefit from income arising to his brother's daughter, Ms. Deepika, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Vishal, even though the transfer may not be revocable during lifetime of Ms. Deepika]		
Gross Annual Value	5,50,000	
Less: Municipal taxes	-	
Net Annual Value	5,50,000	
Less: Deductions from Net Annual Value		
a) 30% of Net Annual Value	1,65,000	
b) Interest on loan	-	3,85,000
<b>Capital Gains</b>		
Long term capital gain from sale of property	15,000	

Particulars	Amount	Amount
<b>Less:</b> Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains. Short term capital loss of 16,000 set off against long-term capital gains to the extent of 15,000. Balance short term capital loss of 1,000 to be carry forward to A.Y.2026-27	<u>15,000</u>	-
<b>Income from other sources</b>		
Dividend on preference shares [Taxable in the hands of Mr. Vishal as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	4,50,000	
Interest from saving bank account	1,75,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding 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]	25,000	
Income from card games [No loss is allowed to be set off against such income]	<u>46,000</u>	<u>7,71,000</u>
<b>Salaries</b>		
Shamita's salary (25,000 x 12) [See Note 1]	3,00,000	
Less: Standard deduction under section 16(ia) upto 50,000	<u>50,000</u>	2,50,000
<b>Gross Total Income</b>		<b>14,06,000</b>
<b>Less: Deduction under Chapter VI-A</b>		
Deduction under section 80TTA [Interest from savings bank account]	10,000	10,000
<b>Total Income</b>		<b>13,96,000</b>

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

Particulars	Amount
Short term capital loss [16,000 – 15,000]	1,000
Loss on maintenance of race horses [Loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses.	14,600

**Concept Problem 7**

Mrs. Roma, an Indian Citizen, is a government employee working for the Indian Government. She submits the following information for the previous year ending 31.03.2025:

S No.	Particulars	Amount
1	Salary income received in Malaysia for services rendered there	2,00,000
2	Profit from business carried on in Orissa	80,000
3	Loss from business carried on in Baroda	(20,000)
4	Profit from business carried on in Paris (income is earned and received in Sydney and business is controlled from Paris)	42,000
5	Loss from business carried on in Canada (though profits are not received in India, business is controlled from Dehradun)	(46,000)
6	Unabsorbed depreciation of business in Canada	16,000

S No.	Particulars	Amount
7	Profit from Indonesia business (controlled from Delhi) and 60% of profit deposited in a bank in Indonesia and 40% received in India	70,000
8	Rent from house property situated in Canada and received in Canada	1,92,000

Determine the gross total income of Roma for the A.Y. 2025-26 assuming that she has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) and on the assumption that she is:

- (1) Resident but not ordinarily resident in India
- (2) Non-resident in India.

### Solution

#### Computation of gross total Income of Mrs. Roma for the A.Y. 2025-26 under Optional Tax Regime:

Particulars of income		Resident but not ordinarily Resident	Non-Resident
1	Salary income received in Malaysia for services rendered there ( <b>Note 1</b> )	2,00,000	2,00,000
	Less: Standard deduction under section 16(ia)	50,000	50,000
		<b>1,50,000</b>	<b>1,50,000</b>
2	Profit from business carried on in Orissa [Since it accrues or arises in India]	80,000	80,000
3	Loss from business carried on in Baroda [Since it accrues or arises in India]	(20,000)	(20,000)
4	Profit from business carried on in Paris (income is earned and received in Sydney and business is controlled from Paris) [Since it accrues or arises outside India]	Nil	Nil
5	Loss from business carried on in Canada (business is controlled from Dehradun)	(46,000)	Nil
6	Unabsorbed depreciation of business in Canada	(16,000)	Nil
7	Profit from Indonesia business (business is controlled from Delhi)	70,000	28,000
8	Rent from property situated in Canada and received in Canada	Nil	Nil
<b>Gross Total Income</b>		<b>2,18,000</b>	<b>2,38,000</b>

**Note 1** - Income from "Salaries" payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Standard deduction under section 16(ia) is allowable, irrespective of residential status.

**Note 2** – In case of a non-resident, only income received or deemed to be received in India and income accruing or arising or deemed to accrue or arise in India is chargeable to tax. However, in case of a resident but not ordinarily resident, income derived from a business controlled in or profession set up in India is also taxable even though it accrues or arises outside India.

Therefore, income referred to in S. No. 1, 2 and 3 are taxable in the hands of Mrs. Roma in both cases if she is a resident but not ordinarily resident or if she is a non-resident.

Loss from business carried on in Canada, unabsorbed depreciation of business in Canada and Profit from Indonesia business would be fully chargeable to tax in India if she is a resident but not ordinarily resident as it derived from a business controlled in India. However, Profit from Indonesia business is taxable in case of non-resident to the extent of such profits received in India.

**Concept Problem 8 [ICAI Sep 24]**

Mr. Suraj, (39 years), his wife Megha (35 years) and minor son Dev (12 years), provide the following details of their income/losses for the previous year 2024-25:

**Mr. Suraj**

- i) Salary received as a partner from a partnership firm - 6,15,000  
He is a working partner in the firm and the salary is as per the limits prescribed under section 40(b).
- ii) Income (loss) from house property:  
Brought forward loss from House -A (let out) - 96,000  
Current year loss from House B (let out) - 2,30,000
- iii) Interest received on enhanced compensation - 2,00,000  
It relates to transfer of a piece of land in the financial year 2017-18.  
Out of the above 35,000 relates to previous year 2024-25 and the balance relate to preceding previous year.
- iv) Gift from grandfather's younger sister by cheque - 1,25,000
- v) Dividend on listed equity shares of domestic companies (Gross) - 50,000
- vi) On 1<sup>st</sup> December 2024, Mr. Suraj received 75 lakhs as maturity proceeds from his life insurance policy which was taken on 1<sup>st</sup> May 2012. He paid 6,00,000 as annual premium and the sum assured was 65 lakhs.

**Mrs. Megha**

- i) Current year loss from business. (She carried on this business with funds which Mr. Suraj gifted to her) - 8,10,000.
- ii) Mrs. Megha purchased a house property from her "Stridhan" and gifted the same to her minor son, Dev on 1<sup>st</sup> April, 2024 out of love and affection. The FMV of the house on the date of transfer was 51 lakhs.

**Master Dev**

Rent received from house property received from Mrs. Megha - 35,000 p.m.

Compute total income of Mr. Suraj, Mrs. Megha and Dev for the assessment year 2025-26 assuming Mr. Suraj has decided to pay tax under default tax regime provided under section 115BAC, whereas Mrs. Megha and Dev have opted out of the default tax regime. Briefly explain the reasons for the treatment of each item.

**Solution**
**Computation of total income of Mr. Suraj, Mrs. Megha and minor son Dev for A.Y. 2025-26:**

Particulars	Mr. Suraj [Under default tax regime]	Mrs. Megha [Under normal provisions]	Dev [Under normal provisions]
<b>Income from house property</b>			
Annual Value [As per section 27, Mrs. Megha is the deemed owner of the house property transferred to minor son, Dev without consideration though such property is acquired from her "Stridhan"] [35,000 x12]		4,20,000	
Less: Deduction @ 30% of NAV		1,26,000	
		2,94,000	
Brought forward loss from House A [Not allowed to be set-off against income from other heads]	-		



Particulars	Mr. Suraj [Under default tax regime]	Mrs. Megha [Under normal provisions]	Dev [Under normal provisions]
Current year loss of Mr. Suraj from House – B [Not allowed to be set-off against income from other heads since Mr. Suraj is paying tax under default tax regime]	-		
<b>Profits and gains from business or profession</b>			
Salary from partnership firm	6,15,000		
Less: As per section 70, set off of current year loss from business of 8,10,000 to the extent of [Current year loss from business of his wife is allowed to be set off in the hands of Mr. Suraj since funds for business is gifted by him]	6,15,000		
<b>Income from Other Sources</b>			
Interest on enhanced compensation [Taxable in the year it is received]	2,00,000		
Less: Deduction @ 50%	1,00,000		
	1,00,000		
Gift from grandfather's sister [Taxable under section 56(2)(x), since grandfather's sister is not a relative and the amount of gift exceeds 50,000]	1,25,000		
Dividend on shares (gross)	50,000		
Maturity proceeds from LIC [Exempt u/s 10(10D) as annual premium payable is upto 10% of sum assured]	-		
	2,75,000		
Less: Set off of remaining business loss of 1,95,000	1,95,000		
	80,000		
Gift of house property from Mrs. Megha to Dev [Exempt since the gift is from a relative]			Nil
<b>Taxable Income</b>	<b>80,000</b>	<b>2,94,000</b>	<b>-</b>

**Concept Problem 9 [ICAI May 25]**

Mr. Sanju, an individual assessee, aged 32 years, furnishes the following details for the year ended on 31<sup>st</sup> March, 2025:

- Loss from Future & Option: 75,000
- Profit from restaurant business (computed): 2,21,000
- Share of profit in partnership firm M/s XL & Co. (19% share): 38,000
- Income from salary (computed): 3,15,000
- Interest on loan paid for self-occupied house property: 1,75,000 (Principal amount paid: 1,20,000)
- Short-term capital gain: 82,000
- Long-term capital gain u/s 112A: 1,10,000
- Long-term capital loss u/s 112: 68,000

- ix) His wife received salary of 2,40,000 from a partnership firm XL & Co., where she is an accountant. She does not have any professional qualification related to accounting.
- x) He paid 21,000 for medical insurance premium and 9,000 for preventive health check-up.
- xi) Brought forward speculative business loss: 26,000 (this being 3<sup>rd</sup> year from the year of loss) and brought forward short-term capital loss: 52,000 (this being the 4<sup>th</sup> year from the year of loss).

Compute total income of Mr. Sanju for the A.Y. 2025-26 if he exercises the option to shift out of default tax regime u/s 115BAC(1A). Also state the losses eligible to carry-forward.

### Solution

#### Computation of Total Income of Mr. Sanju for the A.Y. 2025-26 as per the optional tax regime under the Income-tax Act, 1961

Particulars	Amount	Amount
<b>Income from Salary</b>		
Salary (computed)	3,15,000	
Add: Salary received by his wife from M/s XL & Co., partnership firm of 2,40,000 shall not to be clubbed in the income of Mr. Sanju even if his wife does not have any professional qualification since he does not have substantial interest in the firm as his share of profit in such firm is less than 20%	Nil	
	3,15,000	
Less: Loss from self-occupied house property	(1,75,000)	1,40,000
<b>Income from House Property (Self-occupied Property)</b>		
Annual Value	-	
Less: Deductions under section 24	(1,75,000)	
Interest on loan paid for self-occupied property	(1,75,000)	
<b>Profit and gains of business or profession</b>		
Profit from restaurant business	2,21,000	
Less: Loss from Future & Option	(75,000)	
	1,46,000	
Share of profit from M/s XL & Co., partnership firm [Exempt under section 10(2A)]	Nil	1,46,000
<b>Capital Gain</b>		
Short term capital gain	82,000	
Less: Brought forward short-term capital loss	(52,000)	30,000
Long-term capital gain u/s 112A	1,10,000	
Less: Long term capital loss u/s 112	(68,000)	42,000
<b>Gross Total Income</b>		<b>3,58,000</b>
Less: Deduction under Chapter VI-A		
- Under section 80C – Repayment of housing loan	1,20,000	
- Under section 80D – Medical premium for self of 21,000 and preventive health checkup fees of 9,000 restricted to 5,000 subject to overall limit of 25,000	25,000	1,45,000

Particulars	Amount	Amount
<b>Total Income</b>		<b>2,13,000</b>
<b>Losses to be carried forward to A.Y. 2026-27</b>		
<p>Loss from speculative business</p> <p>As per section 73(4), brought forward loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward to A.Y. 2026-27 for set-off against income from speculation business of that year.</p>		26,000

# CHAPTER 12

## DEDUCTIONS FROM GTI

### Concept Problem 1

The basic salary of Mr. A is INR 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 80CCD.

Explain the tax treatment in respect of such contribution in the hands of Mr. A if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

What would be your answer if Mr. A pays tax under the default tax regime under section 115BAC?

### Solution

**(i) Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD, where Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]**

- Employer's contribution to such pension scheme would be treated as salary in the hands of employee. It is specifically included in the definition of "salary" under section 17(i)(viii). Therefore INR 1,80,000, being 15% of basic salary of INR 12,00,000 will be included in Mr. A's salary.
- Mr. A's contribution to pension scheme is allowable as deduction under section 80CCD(1). However, the deduction is restricted to 10% of salary. Salary for this purpose means basic pay plus dearness allowance if it forms part of pay.

Therefore, "salary" for the purpose of deduction under section 80CCD for Mr. A would be –

Particulars	Amount
Basic salary = INR 1,00,000 x 12	12,00,000
Dearness allowance = 40% of INR 12,00,000 = INR 4,80,000 50% of Dearness Allowance forms part of pay = 50% of INR 4,80,000	2,40,000
<b>Salary for the purpose of deduction under section 80CCD</b>	<b>14,40,000</b>
Deduction under section 80CCD (1) is restricted to 10% of INR 14,40,000 (Basic salary 12,00,000 + DA forming part of salary 2,40,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto INR 50,000 is allowable. Therefore, deduction under section 80CCD (1B) is INR 36,000 (1,80,000 – 1,44,000)	36,000

INR 1,44,000 is allowable as deduction under section 80CCD(1). This would be taken in consideration and be subject to the overall limit of INR 1,50,000 under section 80CCE. INR 36,000 allowable as deduction under section 80CCD (1B) is outside the overall limit of INR 1,50,000 under section 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction under section 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000- ₹ 50,000) can be claimed as deduction under section 80CCD(1).

- Employer's contribution to pension scheme would be allowable as deduction u/s 80CCD (2) subject to a maximum of 10% of salary. Therefore, deduction u/s 80CCD (2) would also be restricted to INR 1,44,000, even though the entire employer's contribution of INR 1,80,000 is included in salary u/s 17(1)(viii).

However, this deduction of employer's contributions of INR 1,44,000 to pension scheme would be outside the overall limit of INR 1,50,000 u/s 80CCE i.e., this deduction would be over and above the other deduction which are subject to the limit of INR 1,50,000.

## (ii) Where Mr. A pays tax under the default tax regime under section 115BAC

Mr. A would not be eligible for deduction under section 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime under section 115BAC. However, he would be allowed deduction of 2,01,600, being 14% of salary [14,40,000, computed in (i) above] under section 80CCD(2) in respect of employer's contribution to pension scheme.

### Concept Problem 2

Mr. Shiva aged 58 years, has gross total income of INR 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 1.4.2020) (Assured value INR 1,80,000) – INR 20,000.
- Medical Insurance premium for self – INR 12,000; Spouse – INR 14,000
- Donation to a public charitable institution registered under 80G INR 50,000 by way of cheque.
- LIC Pension Fund – INR 60,000.
- Donation to National Children's Fund – INR 25,000 by way of cheque
- Donation to National Drought Fund – INR 25,000 by way of cheque
- Donation to approved institution for promotion of family planning – INR 40,000 by way of cheque
- 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	Amount	Amount
<b>Gross Total Income</b>		<b>7,75,000</b>
<b>Less: Deduction under section 80C</b>		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value INR 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	
As per section 80CCE, deduction under section 80C & 80CCC is restricted to		1,50,000
<b>Deduction under section 80D</b>		
Medical Insurance premium in respect of self and spouse = 26,000 Restricted to		25,000
<b>Deduction under section 80G (See Working Note below)</b>		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
National Children's Fund	25,000	100%	25,000
National Drought Fund	25,000	50%	12,500
Approved institution for promotion of family planning	40,000	100% subject of qualifying limit	40,000
Public Charitable Trust	50,000	50% subject to qualifying limit (note)	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., INR 6,00,000, in this case.

INR 60,000, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of INR 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 INR 50,000 to public charitable trust is restricted to INR 20,000 (being, INR 60,000 – INR 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 INR 10,000, which is 50% of INR 20,000.

**Concept Problem 3**

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:

S. No	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 INR 75 lakhs and his total turnover is INR 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 u/s 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2025-26 as his total turnover from business exceeds INR 2 crores and he has employed “additional employees” during the P.Y. 2024-25.

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

Additional employees' cost = INR 24,000 x 12 x 75 [See working Note below] = INR 2,16,00,000

Deduction under section 80JJAA = 30% of INR 2,16,00,000 = INR 64,80,000

**Working note:**

### Number of additional employees

Particulars	No. of workmen	
Total number of employees employed during the year		350
<b>Less:</b> 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 exceeds INR 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:

- (i) 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 INR 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.

- (ii) 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.

## II If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2024, since they have been employed for more than 150 days in the previous year 2024-25.

Additional employee cost = INR 2,16,00,000 + INR 24,000 × 7 × 100 = INR 3,84,00,000

Deduction under section 80JJAA = 30% of INR 3,84,00,000 = INR 1,15,20,000.

### Concept Problem 4

Mr. Aakash received royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30<sup>th</sup> September, 2025 is ₹ 2,30,000. The remaining amount was not remitted till 31<sup>st</sup> March, 2026.

Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 80QQB if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

#### Solution

The net royalty of ₹ 2,48,000 (i.e., royalty of ₹ 2,88,000 less ₹ 40,000, being expenditure to earn such income) is includible in gross total income. Deduction u/s 80QQB:

Particulars	Amount
Royalty ₹ 2,88,000 × 15/18 = ₹ 2,40,000	

Particulars	Amount
<b>Restricted to</b>	
Amount brought into India in convertible foreign exchange within prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	40,000
<b>Deduction u/s 80QQB</b>	<b>1,90,000</b>

### Concept Problem 5

Mr. A, a resident individual aged about 61 years, has earned business income (computed) of INR 1,35,000, a lottery income of INR 1,20,000 (gross) during the P.Y. 2024-25. He also has interest on Fixed Deposit of INR 30,000 with banks. He invested an amount of INR 1,50,000 in Public Provident Fund account.

What is the total income of Mr. A 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 of Mr. A for A.Y. 2025-26:

Particulars	Amount	Amount
<b>Profits and gains of business or profession</b>		1,35,000
<b>Income from other sources</b>		
- Interest on Fixed Deposit		30,000
- Lottery income		1,20,000
<b>Gross Total Income</b>		<b>2,85,000</b>
Less: Deductions under Chapter VIA [See Note below]		
<b>Under section 80C- Deposit in Public Provident Fund</b>	1,50,000	
<b>Under section 80TTB - Interest on Fixed Deposit with banks</b>	30,000	
	1,80,000	
Restricted to		1,65,000
<b>Total Income</b>		<b>1,20,000</b>

#### Notes:

- In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto 50,000 under section 80TTB.
- Though the value of eligible deductions is INR 1,80,000, however, deduction under Chapter VI-A cannot exceed the gross total income exclusive of long-term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings of lotteries of the Assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = 2,85,000 – 1,20,000 = 1,65,000.

### Concept Problem 6

Mr. Gurnam, aged 42 years, has salary income (computed) of INR 5,50,000 for the previous year ended 31.03.2025. He has earned interest of INR 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2025-26 from the following particulars, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

1. Life insurance premium paid to Birla Sunlife Insurance in cash amounting to INR 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2021 and the sum assured on life of his dependent parents is INR 1,25,000.
2. Life insurance premium of INR 19,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is INR 3,50,000 and the life insurance policy was taken on 30.3.2012.
3. Life insurance premium paid by cheque of INR 22,500 for insurance of his life. The insurance policy was taken on 08.09.2020 and the sum assured is INR 2,00,000.
4. Premium of INR 26,000 paid by cheque for health insurance of self and his wife.
5. INR 1,500 paid in cash for his health check-up and INR 4,500 paid in cheque for health check-up for his parents, who are senior citizens.
6. Paid interest of INR 6,500 on loan taken from bank for MBA course pursued by his daughter
7. A sum of INR 5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

### Solution

#### Computation of total income of Mr. Gurnam for the Assessment Year 2025-26:

Particulars	Amount	Amount	Amount
Income from salary			5,50,000
Interest on saving bank deposit			14,500
<b>Gross Total Income</b>			<b>5,64,500</b>
<b>Less: Deduction under Chapter VIA</b>			
<b>Under section 80C (See Note 1)</b>			
Life insurance premium paid for life insurance of:			
- major son	19,500		
- self INR 22,500 restricted to 10% of INR 2,00,000	20,000	39,500	
<b>Under section 80D (See Note 2)</b>			
Premium paid for INR 26,000 health insurance of self and wife by cheque, restricted to	25,000		
Payment made for health check-up for parents	4,500	29,500	
<b>Under section 80E</b>			
For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
<b>Under section 80TTA (See Note 4)</b>			
Interest on savings bank account INR 14,500 restricted to		10,000	85,500
<b>Total income</b>			<b>4,79,000</b>

#### Notes: -

1. As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable in respect of INR 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam.

In respect of insurance policy issued on or after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

Therefore, in the present case, deduction of 19,500 is allowable in full in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of INR 3,50,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of 2,00,000 since, the policy was issued on or after 01.04.2012 and the premium amount exceeds 10% of sum assured.

2. As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to INR 25,000. Further, deduction up to INR 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-checkup can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, in respect of premium of INR 26,000 paid for health insurance of self and wife, deduction would be restricted to INR 25,000. Since the limit of INR 25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check-up for self and wife. However, deduction of INR 4,500 is allowable in respect of health check-up of his parents, since it falls within the limit of INR 5,000.

3. No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding INR 2,000. Therefore, deduction under section 80G is not allowable in respect of cash donation of INR 5,000 made to an institution approved for the purpose of section 80G for promotion of family planning.
4. As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the Assessee's gross total income, subject to a maximum of INR 10,000. Therefore, deduction of INR 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is INR 14,500.

### Concept Problem 7

Examine the following statements with regard to the provisions of the Income- tax Act, 1961:

- a) During the financial year 2024-25, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.
- b) In order to be eligible to claim deduction under section 80C, investment/contribution/subsorption etc. in eligible or approved modes, should be made from out of income chargeable to tax.
- c) Where an individual repays a sum of INR 30,000 towards principal and INR 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is INR 44,000 irrespective of the tax regime.
- d) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received INR 7 lakhs on 1.5.2024, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y.2025-26.
- e) Mr. Vishal, a Central Government employee, contributed INR 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

### Solution

- a) **The statement is correct.**

The deduction under section 80E is available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative only if he exercises the option of shifting out of the



default tax regime provided under section 115BAC(1A). For this purpose, relative means, inter alia, spouse and children of the individual.

Therefore, Mr. Amit will get the deduction under section 80E in respect of interest on loan availed by him for his son's higher education, if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.

**b) The statement is not correct.**

There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.

**c) The statement is not correct.**

An individual would not be eligible for deduction u/s 80E if he pays tax under default tax regime under section 115BAC. If he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), deduction under section 80E would be available in respect of interest paid on education loan. Hence, the deduction will be limited to interest of 14,000, if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**d) The statement is not correct.**

The proviso to section 80CCD(3) provides that the amount received by the nominee, on closure of NPS account on the death of the Assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2025-26.

**e) The statement is not correct.**

Contribution to Tier II account of NPS would qualify for deduction under section 80C and not section 80CCD.

**Concept Problem 8**

Mrs. Sharma has let out one residential house property @ INR 1,00,000 p.m. and she has paid municipal tax of INR 1,00,000.

She has taken a Medi-claim policy on 17.07.2024 in the name of Mr. Sharma and paid premium of INR 18,000 by cheque.

She has also taken a Medi-claim policy on 15.10.2024 in the name of her Father-in-law who is aged 66 years and paid premium of INR 16,000 by cheque.

She has incurred INR 21,000 on the treatment of her brother who is dependent on her and suffering from severe disability.

She had purchased NSC in P.Y. 2022-23 and there is accrued interest of INR 30,000 and also there is accrued interest of PPF INR 10,000.

She has taken Jeevan Suraksha Policy in the name of Mr. Sharma and paid premium of INR 19,000.

She has taken loan in 2018-19 from SBI for the education of his son who is studying in B. Com (Hons) in SRCC and she had paid principal amount of INR 60,000 and interest INR 10,000 in PY 2024-25.

She has Agricultural Income INR 1,00,000.

Compute her Income Tax Liability for the AY 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

**Solution**

**Computation of Total Income of Mrs. Sharma for AY 2025-26 under Optional Tax regime:**

Computation of income under the head House property	Amount
Gross Annual value	12,00,000

Computation of income under the head House property	Amount
Less: Municipal Tax	(1,00,000)
<b>Net Annual value</b>	<b>11,00,000</b>
Less 30% of NAV u/s 24 (a)	(3,30,000)
Less: Interest on capital borrowed u/s 24 (b)	NIL
<b>Income under the head House Property</b>	<b>7,70,000</b>
Income under the head other sources	30,000
<b>Gross Total Income</b>	<b>8,00,000</b>
Less: Deductions	
Deduction u/s 80C for NSC	(30,000)
Deduction u/s 80CCC for Jeevan Suraksha Policy	Nil
Deduction u/s 80D for medi-claim policy	(18,000)
Deduction u/s 80DD for Severe Disability	(1,25,000)
Deduction u/s 80E for Education Loan Interest	(10,000)
<b>Total Income</b>	<b>6,17,000</b>
<b>Agricultural Income</b>	<b>1, 00 000</b>

#### Computation of Tax Liability

Particulars	Amount
<b>Step 1:</b> Tax on (6,17,000 + 1,00,000) at slab rates	55,900
<b>Step 2:</b> Tax on (2,50,000 + 1,00,000) at slab rates	(5,000)
<b>Deduct Tax at Step 2 from step 1</b>	<b>50,900</b>
<b>Tax before Health and education cess</b>	<b>50,900</b>
Add: Health and education cess @ 4%	2,036
<b>Tax Liability rounded off u/s 288B</b>	<b>52,940</b>

#### Concept Problem 9

Compute the deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y. 2025-26. Mr. Dhyanchand, aged 65 years, is working with ABC Ltd. His income comprises of salary of Rs. 18,50,000 and interest on fixed deposits of Rs. 75,000. He submits the following particulars of investments and payments made by him during the previous year 2024-25.

- Deposit of Rs. 1,50,000 in public provident fund.
- Payment of life insurance premium of Rs. 62,000 on the policy taken on 01.4.2021 to insure his life (Sum assured – Rs. 4,00,000).
- Deposit of Rs. 45,000 in a five-year term deposit with bank.
- Contributed Rs. 2,10,000, being 15% of his salary (basic salary plus dearness allowance, which forms part of retirement benefits) to the NPS of the Central Government. A matching contribution was made by ABC Ltd.
- On 1.4.2024, Mediclaim premium of Rs. 1,08,000 and Rs. 80,000 paid as lumpsum to insure his and his wife (aged 58 years) health, respectively for four years.
- Incurred Rs. 46,000 towards medical expenditure of his father, aged 85 years, not dependent on him. No

insurance policy taken for his father.

vii) He spent Rs. 6,000 for the preventive health-checkup of his wife.

viii) He has incurred an expenditure of Rs. 90,000 for the medical treatment of his mother, being a person with severe disability.

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

### Solution

**Deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y. 2025-26 under Optional Tax regime:**

Section	Particulars	Amount	Amount
<b>80C</b>	Deposit in public provident fund	1,50,000	
	Life insurance premium paid Rs. 62,000 (deduction restricted to Rs. 40,000, being 10% of Rs. 4,00,000, which is the sum assured, since the policy was taken on or after 01.04.2012)	40,000	
	Five-year term deposit with bank	45,000	
		2,35,000	
	<b>Restricted to</b>	<b>1,50,000</b>	
<b>80CCD(1)</b>	Contribution to NPS of Central Government, Rs. 1,60,000 [Rs. 2,10,000 – Rs. 50,000, being deduction u/s 80CCD(1B)], restricted to 10% of salary [Rs. 2,10,000 x 10/15] <b>[See Note 1]</b>	1,40,000	
		2,90,000	
<b>80CCE</b>	Aggregate deduction u/s 80C and 80CCD(1), Rs. 2,90,000, but restricted to		1,50,000
<b>80CCD(1B)</b>	Rs. 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
<b>80CCD(2)</b>	Employer contribution to NPS, restricted to 10% of salary <b>[See Note 2]</b>		1,40,000
<b>80D</b>	a. <b>Medical insurance premium for self and his wife</b> Deduction would be equal to Rs. 47,000 (Rs. 27,000 + Rs. 20,000), being 1/4 <sup>th</sup> of lumpsum premium, since policies would be in force for four previous years.	47,000	
	b. Preventive health checkup Rs. 6,000 for wife restricted to Rs. 3,000 (Rs. 50,000 - Rs.47,000, since maximum allowable deduction is Rs. 50,000 in case Assessee or one of the family members is senior citizen)	3,000	
	<b>(i)</b>	<b>50,000</b>	
	Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name <b>(ii)</b>	46,000	
	<b>Total of (i) and (ii)</b>		<b>96,000</b>
<b>80DD</b>	Deduction of Rs. 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is Rs. 90,000		1,25,000

Section	Particulars	Amount	Amount
<b>80TTB</b>	Interest on fixed deposits with bank of Rs. 75,000, deduction restricted to		50,000
	<b>Deduction under Chapter VI-A</b>		<b>6,11,000</b>

#### Notes:

- The deduction u/s 80CCD(1B) would not be subject to overall limit of Rs. 1.5 lakh u/s 80CCE. Therefore, it is more beneficial for Mr. Dhyanchand to claim deduction u/s 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of Rs. 1,60,000 can be claimed as deduction u/s 80CCD(1), subject to a maximum limit of 10% of salary i.e. Rs. 1,40,000.
- The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction u/s 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction u/s 80CCD(2) is also not subject to the overall limit of Rs. 1,50,000 u/s 80CCE.

#### Concept Problem 10

Mr. X, an employee of the Central Government is posted at New Delhi. He joined the service on 1<sup>st</sup> February, 2021. Details of his income for the previous year 2024-25, are as follows:

- Basic salary: 3,80,000
- Dearness allowance: 1,20,000 (40% forms part of pay for retirement benefits)
- Both Mr. X and Government contribute 20% of basic salary to the pension scheme referred to in section 80CCD.
- Gift received by X's minor son on his birthday from friend: 70,000. (No other gift is received by him during the previous year 2024-25).
- During the year 2016-17, Mr. X gifted a sum of 6,00,000 to Mrs. X. She started a business by introducing such amount as her capital. On 1<sup>st</sup> April, 2024, her total investments in business was 10,00,000. During the previous year 2024-25, she has loss from such business 1,30,000.
- Mr. X deposited 70,000 in Sukanya Samridhi account on 23.01.2025. He also contributed 40,000 in an approved annuity plan of LIC to claim deduction u/s 80CCC.
- He has taken an educational loan for his major son who is pursuing MBA course from Gujarat University. He has paid 15,000 as interest on such loan which includes 5,000 for the financial year 2023-24.

Determine the total income of Mr. X for the assessment year 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

#### Solution

#### Computation of Total Income of Mr. X for A.Y. 2025-26 under Optional Tax regime:

Particulars	Amount	Amount
<b>Salaries</b>		
Basic Salary	3,80,000	
Dearness allowance	1,20,000	
Employer contribution to NPS = 20% of 3,80,000	<u>76,000</u>	
	5,76,000	
Less: Standard deduction [50,000 or 5,76,000, whichever is lower]	<u>50,000</u>	5,26,000

Particulars	Amount	Amount
<b>Profit and gains of business or profession</b>		
Where the amount gifted by Mr. X (6 lakh, in this case) is invested by Mrs. X in a business as her capital, proportionate share of profit or loss, as the case may be, computed by taking into account the value of the investment, as on 1.4.2024 the total investment in the business (10 lakh) would be included in the income of Mr. X [loss of 1,30,000 x 6/10]	(78,000)	
<b>Income from Other Sources</b>		
All income of the minor son would be included in the income of the parent Mr. X, since his income is higher than the income of Mrs. X (loss of 52,000, based on the information given in the question). Accordingly, 70,000 being amount of gift received by minor son during the P.Y. 2024-25, would be included in the income of Mr. X as the amount of gift exceeds 50,000.	70,000	
Less: Exemption u/s 10(32) in respect of income of minor child included in Mr. X's income	1,500	
	68,500	
Less: Business loss of 78,000 set-off to the extent of	68,500	
(Balance business loss of 9,500 to be carried forward to the next year, since the same cannot be set-off against salary income)		Nil
<b>Gross Total Income</b>		<b>5,26,000</b>
<b>Less: Deductions under Chapter VI-A</b>		
<b>Under section 80C – Deposit in Sukanya Samridhi Account</b>	70,000	
<b>Under section 80CCC – Contribution to LIC Annuity Plan</b>	40,000	
<b>Under section 80CCD(1) – Employee contribution to NPS (76,000 - 50,000 deduction claimed u/s 80CCD(1B)), since it is lower than 42,800, being 10% of salary (3,80,000 + 48,000)</b>	26,000	
Allowable in full, since less than 1,50,000, being the maximum permissible deduction u/s 80C, 80CCC & 80CCD(1)	1,36,000	
<b>Under section 80CCD ((1B) – Employee contribution to NPS</b>	50,000	
<b>Under section 80CCD(2) – Employer contribution to NPS restricted to 14% of basic salary + DA Forming part of pay, since employer is Central Government = 14% x (3,80,000 + 48,000)</b>	59,920	
<b>Under section 80E – Interest paid on loan taken for higher education</b>	15,000	
		2,60,920
<b>Total Income</b>		<b>2,65,080</b>

**Notes:**

The following assumptions have been made while solving the question –

Loan is taken from a financial institution or approved charitable institution, and hence, interest paid on such loan qualifies for deduction under section 80E.

The question mentions that gift of 6 lakhs is given by Mr. X to Mrs. X during the P.Y. 2017-18. However, the date of investment in business is not given. It has been assumed that it was invested between 2.4.2023 to 1.4.2024 for solving the problem, in the absence of other information in the question.



### Concept Problem 11

Mr. Jain, a resident individual, aged 40 years, suffers from severe disability as certified by medical authority. He gives the following information for the previous year 2024-25:

- He has paid life insurance premium by cheque 27,000 to insure his life. The insurance policy was taken on 27.8.2020 and the sum assured is 2,20,000.
- He had written a literary book for Rochak Publication. A lump sum amount of royalty income earned in the previous year 2024-25 amounted to 9,00,000. Expenses incurred for writing the book amounted to 40,000.
- His friends gifted a statue of Goddess Saraswati to his daughter Ms. Diya (aged 14 years) on the successful completion of her secondary school. Fair market value of the statue is 65,000.
- He received a gold chain worth 68,000 from his in-laws on the occasion of his marriage anniversary
- He had deposited 70,000 in fixed deposit with SBI in the name of his minor son in September 2024. Interest earned on such deposit 5,500.
- He donated 5,000 in cash to a NGO (the NGO was registered under section 80G of the Income-tax Act, 1961).
- He had taken a loan of 38,00,000 for the purchase of a house property valuing 45,00,000 for self-occupation from a financial institution on 1<sup>st</sup> May 2022. He repaid 1,80,000 during the P.Y. 2024-25 out of which 1,05,000 is towards principal payment and the balance is for interest on loan.
- Contribution to ULIP 1971 plan for spouse = 10,000

Compute the total income of Mr. Jain for the A.Y. 2025-26 assuming that he opt to shift out of default tax regime u/s 115BAC.

### Solution

#### Computation of total income of Mr. Jain for the A.Y.2025-26 under Optional Tax regime

Particulars	Amount	Amount
<b>Income from house property</b>		
NAV	Nil	
Less: Interest on loan	75,000	(75,000)
		(75,000)
<b>Income from Other Sources</b>		
Royalty	9,00,000	
Less: Expenses incurred for writing book	40,000	8,60,000
Value of statue of Goddess Saraswati [The fair market value of the statue (sculpture) received by his minor daughter as gift (not on account of her skill) from his friends would be taxable, since its value exceeds 50,000. It would be included in the hands of Mr. Jain, assuming his income before considering clubbing provisions is higher than his wife].	65,000	
Less: Exemption under section 10(32)	1,500	63,500
Value of Gold Chain [The Fair market value of 68,000 of gold chain received on occasion of his marriage anniversary would be exempt, since it is received from a relative.]		-
Interest on fixed deposit in the name of his son [It would be included in the hands of Mr. Jain, assuming his income before considering clubbing provisions is higher than his wife]	5,500	

Particulars	Amount	Amount
Less: Exemption under section 10(32)	1,500	4,000
<b>Gross Total Income</b>		<b>8,52,500</b>
Less: Deduction under Chapter VI-A		
<b>Deduction under section 80C</b>		
Life insurance premium [Since Mr. Jain suffers from severe disability, premium upto 15% of the sum assured 2,20,000 would be allowed, as the policy is taken after 31.3.2012]	27,000	
Repayment of principal amount for housing loan	1,05,000	1,32,000
Contribution to ULIP 1971 plan for spouse	10,000	1,42,000
<b>Deduction under section 80G</b>		
Donation to an NGO registered under section 80G [Not allowable since the donation is made in cash of a sum exceeding 2,000]		-
<b>Deduction under section 80QQB</b>		
Royalty income of a resident from literary book		3,00,000
<b>Deduction under section 80U</b> [Since Mr. Jain suffers from severe disability]		1,25,000
<b>Total income</b>		<b>2,85,500</b>

# CHAPTER 13

## TAX DEDUCTION/COLLECTION AT SOURCE

### Concept Problem 1

Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to INR 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at INR 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

### Solution

Particulars	Amount
Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	<u>1,20,000</u>
<b>Gross Salary</b>	<b>8,50,000</b>
Less: Standard deduction under section 16(ia)	<u>50,000</u>
	<b>8,00,000</b>
<b>Tax Liability</b>	<b>75,400</b>
<b>Average rate of tax (75,400 / 8,00,000 × 100)</b>	<b>9.425%</b>

Mr. A can deduct INR 75,400 at source from the salary of the General Manager at the time of payment.

Alternatively, Mr. A can pay tax on non-monetary perquisites as under – Tax on non-monetary perquisites = 9.425% of 1,20,000 = 11,310

Balance to be deducted from salary = 64,090

If Mr. A pays tax of INR 11,310 on non-monetary perquisites, the same is not a deductible expenditure as per section 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per section 10(10CC).

### Concept Problem 2

Mr. X, a salaried individual, pays rent of INR 55,000 per month to Mr. Y from June, 2024. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.

Would your answer change if Mr. X vacated the premises on 31<sup>st</sup> December, 2024?

Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

### Solution

Since Mr. X pays rent exceeding 50,000 per month in the F.Y. 2024-25, he is liable to deduct tax at source @ 5% till 30.09.2024 and thereafter @ 2%. The tax is to be deducted in the last month of the P.Y. 2024-25 i.e., March 2025 or in the last month of tenancy, if the property is vacated during the year. Since property is not vacated during the year, 11,000 [(55,000 × 2% × 10)] has to be deducted from rent payable for March, 2025.

If Mr. X vacated the premises in December, 2024, then tax of 7,700 [(55,000 × 2% × 7)] has to be deducted from rent

payable for December, 2024.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @ 20%, instead of 2%.

In case 1 above, this would amount to 1,10,000 [55,000 x 20% x 10], but the same has to be restricted to 55,000, being rent for March, 2025.

In case 2 above, this would amount to 77,000 [55,000 x 20% x 7], but the same has to be restricted to 55,000, being rent for December, 2024.

### Concept Problem 3

Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases:

- Mr. X, a resident, is due to receive INR 4.50 lakhs on 31.3.2025, towards maturity proceeds of LIC policy taken on 1.4.2022, for which the sum assured is INR 4 lakhs and the annual premium is INR 1,25,000.
- Mr. Y, a resident, is due to receive INR 3.95 lakhs on 31.3.2025 on LIC policy taken on 31.3.2012, for which the sum assured is INR 3.5 lakhs and the annual premium is INR 26,100.
- Mr. Z, a resident, is due to receive INR 95,000 on 1.8.2024 towards maturity proceeds of LIC policy taken on 1.8.2018 for which the sum assured is INR 90,000 and the annual premium was INR 10,000.

### Solution

- Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of INR 4.50 lakhs due on 31.3.2025 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @ 2% under section 194DA on the amount of income comprised therein i.e., on INR 75,000 (INR 4,50,000, being maturity proceeds - INR 3,75,000, being the entire amount of insurance premium paid).
- Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of INR 3.95 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.
- Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of INR 95,000 due on 1.8.2024 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than INR 1 lakh.

### Concept Problem 4

Mr. Sharma, a resident Indian aged 77 years, INR 52,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest @ 8% on fixed deposit of 20 lakh with the said bank. Out of the deposit of 20 lakh, 2 lakh represents five-year term deposit made by him on 1.4.2024. Interest on savings bank credited to his SBI savings account for the P.Y.2024-25 is 9,500.

- From the above facts, compute the total income and tax liability of Mr. Sharma 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).
- What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y.2025-26, if tax deductible at source has been fully deducted? Examine.
- Is Mr. Sharma required to file his return of income for A.Y. 2025-26, if the fixed deposit of INR 20 lakh was with Canara Bank instead of SBI, other facts remaining the same?

### Solution

#### (1) Computation of total income of Mr. Sharma for A.Y.2025-26:

Particulars		Amount	Amount
<b>I</b>	<b>Salaries</b>		
	Pension (52,000 x 12)	6,24,000	
	Less: Standard deduction u/s 16(ia)	50,000	
<b>II</b>	<b>Income from Other Sources</b>		5,74,000
	Interest on fixed deposit (20 lakh x 8%)	1,60,000	
	Interest on savings account	9,500	1,69,500
<b>Gross total income</b>			<b>7,43,500</b>
Less:	<b>Deductions under Chapter VI-A</b>		
	<b>Under Section 80C</b>		
	Five-year term deposit (2 lakh, restricted to 1.5 lakh)	1,50,000	
	<b>Under section 80TTB</b>		
	Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years.	50,000	2,00,000
<b>Total Income</b>			<b>5,43,500</b>

Computation of tax liability for A.Y. 2025-26	
Tax payable [ 43,500 x 20% + 10,000]	18,700
Add: Health and Education Cess @ 4%	748
<b>Tax liability</b>	<b>19,448</b>
<b>Tax liability (rounded off)</b>	<b>19,450</b>

- (2) SBI, being a specified bank, is required to deduct tax at source u/s 194P (after considering the tax, if any, deducted on pension u/s 192) and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.
- (3) If the fixed deposit of INR 20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a “specified senior citizen”. In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI-A) exceeds the basic exemption limit.

### Concept Problem 5

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.

- Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
- Would your answer be different if Mr. Gupta’s turnover for F.Y. 2023-24 was ₹ 8 crores, all other facts remaining the same?
- 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.

### Concept Problem 6

Examine and compute the liability for deduction of tax at source, if any, in the cases stated hereunder, for the financial year ended 31<sup>st</sup> March, 2025:

- i) Mr. Tandon received a sum of INR 1,75,000 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.
- ii) A sum of INR 42,000 has been credited as interest on recurring deposit by a banking company to the account of Mr. Hasan (aged 63 years).
- iii) Ms. Kaul won a lucky draw prize of 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer.
- iv) Finance Bank Ltd. sanctioned and disbursed a loan of INR 10 crores to Borrower Ltd. on 31-3-2024. Borrower Ltd. paid a sum of INR 1,00,000 as service fee to Finance Bank Ltd. for processing the loan application.
- v) Mr. Marwah, aged 80 years, holds 6 ½ % Gold Bonds, 1977 of 2,00,000 and 7% Gold Bonds 1980 of 3,00,000. He received yearly interest on these bonds on 28.02.2025.
- vi) Rashi Limited is engaged by Jigar Limited for the sole purpose of business of operation of call centre. On 18-03-2025, the total amount credited by Jigar Limited in the ledger account of Rashi Limited is Rs. 70,000 regarding service charges of call centre. The amount is paid through cheque on 28-03-2025 by Jigar Limited.
- vii) Vikas, an Indian resident and salaried individual, makes payments of 15 lakh in January 2025, 30 lakhs in February 2025 and 15 lakhs in March 2025 to Naveen, a contractor for reconstruction of his residential house.
- viii) Mr. Ram, an individual carrying on business, reported a turnover of 89 lakhs for the F.Y. 2023-24. In April 2024, he entered into an agreement to hire machinery for use in his business operations for a monthly rent of

50,000.

- ix) XYZ Limited, having an idle parking lot, opted to lease it through a public bidding process. PQR Ltd, a PSU, emerged as the highest bidder and will utilize the premises for its business operations under the lease arrangement.

**Solution**

- i) On pre-mature withdrawal from EPF, no tax is deductible under section 192A even though the employee, Mr. Tandon, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health.
- ii) On credit of interest on recurring deposit by a banking company, no tax is deductible at source under section 194A since the interest on recurring deposit credited to the account of Mr. Hasan, a senior citizen, does not exceed INR 50,000 in the P.Y. 2024-25.
- iii) On payment of prize winnings of INR 21,000, Tax is deductible @ 30% under section 194B by M/s. Maximus Retail Ltd., from the prize money of INR 21,000 payable to the customer, since the winnings exceed INR 10,000.
- iv) Even though service fee is included in the definition of “interest” as defined under section 2(28A), no tax is deductible at source u/s 194A, since the service fee are paid to a banking company, i.e., Finance Bank Ltd.
- v) Tax @ 10% under section 193 is to be deducted on interest on 6 ½ Gold Bonds, 1977 and 7% Gold Bonds 1980, since the nominal value of the bonds held by Mr. Marwah i.e., 5,00,000 exceed 10,000.

Interest on 6 ½ Gold Bonds, 1977 = 2,00,000 x 6.5% = 13,000

Interest on 7% Gold Bonds 1980 = 3,00,000 x 7% = 21,000

Tax to be deducted at source = 34,000 x 10% = 3,400

- vi) **On payment of call centre service charges** - Since Rashi Limited is engaged only in the business of operation of call centre, Jigar Limited is required deduct tax at source @ 2% on the amount of Rs. 70,000 u/s 194J on 18.3.2025 i.e., at the time of credit of call centre service charges to the account of Rashi Limited, since the said date is earlier than the payment date i.e., 28.3.2025.
- vii) Since Vikas is a salaried person and does not have business or profession income, TDS u/s 194C is not attracted in his case. In any case, the contractor is engaged for reconstruction of residential house, hence, the amount paid to him is exclusively for personal purposes of Mr. Vikas. Consequently, section 194C would not be attracted.
- Tax is deductible @ 2% under section 194M, since payments to Mr. Naveen, a contractor, for reconstruction of his residential house exceeds 50 lakhs in aggregate during the F.Y. 2024-25.
- Amount of tax to be deducted = 2% of 60 lakhs = 1,20,000
- viii) The provisions of section 194-I are not applicable in this case since Mr. Ram's turnover from business does not exceed 1 crore in the P.Y. 2023-24.

Further, Mr. Ram is not required to deduct tax at source under section 194-IB since Mr. Ram has paid rent for hiring of machinery for his business operation and section 194-IB covers only rent on land or building or both.

Accordingly, Mr. Ram is not required to deduct tax at source on rent paid for hiring machinery for his business purpose.

- ix) Section 206C(1C) requires to collect tax by every person who grants a lease or a licence or enters into a contract or otherwise transfers any right or interest in any parking lot to another person (other than a public sector company) for the use of such parking lot for the purposes of business. The tax under section 206C(1C) shall be collected at the rate of 2%.

In the present case, since PQR Ltd. is a public sector company, M/s XYZ Ltd. is not required to collect tax at source under section 206C(1C).

**Concept Problem 7**

State Government of Madhya Pradesh grants a lease of coal mine to ABC Co. Ltd., an Indian company, on 1.10.2024 and charged 8 crores for the lease. ABC Co. Ltd. sold coal for 2 crores to Mahapower Ltd., another Indian company, during the previous year 2024-25. Mahapower Ltd. furnishes a declaration to ABC Co. Ltd. that the coal is to be utilized for the purpose of generation of power. The turnover of ABC Co. Ltd. and Mahapower Ltd. for the F.Y. 2023-24 amounted to 11 crores and 12 crores, respectively. What is the amount of tax required to be deducted or collected at source in respect of the above transactions, if any?

### Solution

Section 206C(1C) provides for collection of tax @ 2% by every person who grants a lease in any mine or a quarry to another person for the use of such mine or quarry for the purposes of business. Accordingly, State Government of Madhya Pradesh is required to collect tax at source of 16,00,000, being 2% on 8 crores, being the charges for lease of coal mine.

Under section 206C(1), seller of certain goods, *inter alia*, coal is required to collect tax from the buyers @ 1%. However, no collection would be made under section 206C(1), in case of a resident buyer, if such buyer furnishes to the person responsible for collecting tax, a declaration to the effect that goods are to be utilized for the purpose of generation of power.

In the present case, ABC Co. Ltd. is not required to collect tax at source u/s 206C(1) in respect of coal sold to Mahapower Ltd. since Mahapower Ltd. has furnished a declaration to ABC Co. Ltd. that the coal is to be utilized for the purpose of generation of power.

As per section 206C(1H), tax is to be collected in respect of sale of goods other than the goods which have been covered under section 206C(1). In case of goods which are covered under section 206C(1) but exempted under section 206C(1A), tax will not be collectible under either section 206C(1) or section 206C(1H).

Section 194Q requires any person, being a buyer who is responsible for paying any sum to resident for purchase of any goods of the value exceeding 50 lakhs in any previous year, to deduct tax @ 0.1% of such sum exceeding INR 50 lakhs. The provisions of section 194Q do not apply in respect to those transactions where tax is collectible under section 206C [except under section 206C(1H)].

Buyer means a person whose turnover from the business carried on by him exceeds 10 crores during the financial year preceding the financial year in which goods are purchased.

In this case, since Mahapower Ltd.'s turnover for P.Y. 2023-24 exceeds 10 crores, it is a buyer as per section 194Q. Since, tax is not required to be collected on sale of coal to Mahapower Ltd., the provisions of section 194Q would apply and Mahapower Ltd. is required to deduct tax of 15,000 under section 194Q, being 0.1% of 1.5 crores, being the sum exceeding 50 lakhs.

### Concept Problem 8

Mr. Krishna (aged 65 years), a furniture manufacturer, reported a profit of 5,64,44,700 for the PY 2024-25 after debiting/ crediting the following items:

#### Debits:

- 20,000 paid to a Gurudwara registered u/s 80G of the Income-tax Act, in cash where no cheques are accepted.
- 48,000 contributed to a university approved and notified u/s 35(1)(ii) to be used for scientific research.
- Interest paid 1,67,000 during PY 2024-25 on loan taken for purchase of E-Vehicle on 15-05-2023 from a bank. The E- vehicle was purchased for the personal use of his wife.
- His firm has purchased timber under a forest lease of 20,00,000 for the purpose of business.

#### Credits:

- Income of 4,00,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.

2. He received 3,00,000 from a debtor which was written off as bad in the year 2020-21. Amount due from the debtor (which was written off as bad) was 5,00,000, out of which tax officer had only allowed 3,00,000 as deduction in computing the total income for assessment year 2021-22.
3. He sold some furniture to his brother for 7,00,000. The fair market value of such furniture was 9,00,000.

#### Other information:

1. Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.
2. Mr. Krishna purchased a new car 12,00,000 on 1<sup>st</sup> September, 2024 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account in PY 2024-25.
3. Mr. Krishna had sold a house on 30<sup>th</sup> March, 2024 and deposited the long-term capital gains of 25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1<sup>st</sup> March, 2025, he sold another house property in which he resided for 1 crore. He earned a long-term capital gain of 50,00,000 on sale of this property. On 25<sup>th</sup> March, 2025, he withdraws money out of his capital gain account and invested 1 crore on construction of one house.
4. Mr. Krishna also made the following payments during the previous year 2024-25.
  - Lump sum premium of 30000 paid on 30<sup>th</sup> March, 2025 for the medial policy taken for self and spouse. The policy shall be effective for five years i.e., from 30<sup>th</sup> March, 2025 to 29<sup>th</sup> March, 2029.
  - 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable by Mr. Krishna for the assessment year 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

#### Solution

#### Computation of total income of Mr. Krishna for A.Y. 2025-26 under Optional Tax regime:

	Particulars	Amount	Amount	Amount
<b>I.</b>	<b>Income from business or profession</b>			
	Net profit as per profit and loss account		5,64,44,700	
	<b>Add: Items of expenditure debited but not allowable while computing business income</b>			
	1. Donation to Gurudwara in cash [Not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income]	20,000		
	2. Interest on loan taken for purchase of e-vehicle [Interest on loan for purchase of e- vehicle for personal is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income]	1,67,000		
	3. Sale of furniture to brother at less than FMV [The provisions of section 40A(2) are not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of 2 lakh]		1,87,000	
			5,66,31,700	



	Particulars	Amount	Amount	Amount
	Less: <b>Items of income credited but not taxable or taxable under any other head of income</b>			
	4. Royalty on patent [Not taxable as business income since Mr. Krishna is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income]	4,00,000		
	5. Bad debt recovered [Actual bad debt is 2 lakhs, i.e., 5 lakhs less 3 lakhs, being the amount of bad debt recovered. Bad debt written off is 3 lakhs. Bad debt recovered to the extent of 1 lakh being excess of bad debt recovered over actual bad debt would be deemed to be business income. Since the entire 3 lakhs is credited to the profit and loss account, 2 lakhs has to be reduced]	<u>2,00,000</u>	<u>6,00,000</u>	
			5,60,31,700	
	Less: <b>Allowable expenditure</b>			
	6. Contribution to a university approved and notified u/s 35 for scientific research [Eligible for deduction @ 100%. Since 100% of the expenditure is already debited to profit and loss account, no treatment]		-	
	7. Depreciation on car [(Dep @ 15% since car is put to use for more than 180 days in PY 2024-25)]		<u>1,80,000</u>	5,58,51,700
<b>II.</b>	<b>Capital Gain</b>			
	Long term capital gain on sale of house property		50,00,000	
	Less: Exemption under section 54 [Since whole amount of long-term capital gain is invested in construction of house within the stipulated time limit]		<u>50,00,000</u>	-
	[Capital gain of 25 lakhs in capital gain account scheme is not taxable in P.Y. 2024-25, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of 75 lakhs invested in construction of house is eligible for exemption u/s 54, subject to a maximum of 50 lakhs being long term capital gain on sale of house property during the P.Y. 2024-25]			
<b>III.</b>	<b>Income from Other Sources</b>			
	Royalty on patent [Taxable as “income from other sources”, since he is engaged in business of manufacturing furniture]			4,00,000
	<b>Gross Total Income</b>			<b>5,62,51,700</b>
	<b>Less: Deduction under Chapter VI-A</b>			
	<b>Deduction under section 80D</b>			
	- Mediciam premium for self and spouse [In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant previous year. [30,000/6 years, being relevant previous years in which the insurance is in force]	5,000		



	Particulars	Amount	Amount	Amount
	- Preventive health checkup of self and spouse [Preventive health checkup paid in cash allowed to the extent of 5,000]	5,000	10,000	
	<b>Deduction under section 80EEB</b> [Since the loan is sanctioned by Bank during the P.Y. 2023-24, interest on loan taken for purchase of e-vehicle is allowed to the extent of 1,50,000]		1,50,000	
	<b>Deduction under section 80G</b> [Donation of 20,000 to Gurudwara not allowable as deduction since amount exceeding 2000 paid in cash]		-	
	<b>Deduction under section 80RRB</b> [Deduction in respect of royalty on patent registered under the patent Act subject to a maximum of 3 lakhs]		3,00,000	4,60,000
	<b>Total Income</b>			<b>5,57,91,700</b>

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

Particulars	Amount	Amount
<b>Tax on total income of INR 5,57,91,700</b>		
Upto 3,00,000	Nil	
3,00,0001 – 5,00,000 [@ 5% of 2 lakh]	10,000	
5,00,001 – 10,00,000 [@ 20% of 5,00,000]	1,00,000	
10,00,001 – <b>5,57,91,700</b> [@ 30% of <b>5,47,91,700</b> ]	1,64,37,510	1,65,47,510
Add: Surcharge @ 37%, since total income exceeds 5,00,000		61,22,579
		2,26,70,089
Add: Health and education cess @ 4%		9,06,804
<b>Total Tax Liability</b>		<b>2,35,76,892</b>
Less: TCS u/s 206C(1) @ 2.5% on 20 lakhs i.e., timber	50,000	
Less: TCS u/s 206C(1F) @ 1% of 12 lakhs i.e., sale of motor car where consideration exceeds 10 lakhs	12,000	
Less: TDS u/s 194IA @ 1% of 1 crore i.e., sale of immovable property where consideration is 50 lakh or more	1,00,000	1,62,000
<b>Tax Payable</b>		<b>2,34,14,892</b>
<b>Tax Payable (rounded off)</b>		<b>2,34,14,890</b>

**Concept Problem 9**

- i) Miss Tara, resident individual aged 32 years, is a social media influencer. She makes videos reviewing various electronic items and posts those videos on social media. On 1<sup>st</sup> December 2024, XYZ Ltd., an Indian company manufacturer of electronic cars gave her a brand new car having fair market value of 6 lakhs to promote on her social media page. She used that car for 7 months for her personal purposes, recorded a video reviewing the car and then returned the car to the company. You are required to discuss the applicable provisions in the Income-tax Act regarding the deduction of tax at source in respect of such transaction.

- ii) Ms. Aruna is a Chief Executive Officer of a multi-national company. She hires Mr. Suresh for supply of her housing staff (like gardener, chefs and drivers etc.) and makes the following payments to him:  
25,00,000/- on 10<sup>th</sup> August, 2024 and 30,00,000 on 22<sup>nd</sup> November, 2024. Determine the amount of tax to be deducted/ collected at source, if any.
- Would your answer be different, if Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year and payment to Mr. Suresh is for business purposes.
- iii) By virtue of an agreement with Nationalized Bank, M/s ABC Pvt Ltd., a company engaged in catering business received 60,000 p.m. towards supply of food, water, snacks, etc. during office hours to the employees of the bank. Discuss the TDS implication of this transaction/agreement.
- iv) Mr. Harish bought an overseas tour programme package for Switzerland for himself and his family of 10 lakhs on 01-11-2024 from an agent who is engaged in organising foreign tours in course of his business. He made the payment by an account payee cheque and provided the permanent account number to the seller. Discuss TCS treatment.
- v) ABC Ltd is a producer of natural gas. During the year it sold natural gas worth 26,50,000 to M/s Deep Co., a partnership firm. It also incurred 1,70,000 as freight for the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges. Discuss TDS treatment.
- vi) ABC LLP paid job charges to XYZ, a partnership firm for doing embroidery work on the fabric supplied by the ABC LLP during the previous year 2024-25 as under:

Bill No.	Date	Amount
1	30-04-2023	27,000
57	30-06-2023	25,000
105	30-09-2023	28,000
151	30-12-2023	32,000

- vii) Mr. Chetan, a pensioner, pays 55,00,000 during F.Y. 2024-25 to Mr. Gopi, for contract payment for reconstruction of his residential house.

### **Solution**

- i) Under section 194R, the person who is responsible for providing to a resident, any benefit or perquisite whether convertible into money or not, arising from business or the exercise of a profession by such resident, has to first ensure deduction of tax @ 10% of the value of such benefit or perquisite, if the same exceeds 20,000.
- However, in case of benefit or perquisite being a product like car, mobile etc. if the product is returned to the manufacturing company after using for the purpose of rendering service, then it will not be treated as a benefit/perquisite for the purposes of section 194R.
- Accordingly, in the present case, since Miss Tara has returned the car to XYZ Ltd., TDS provisions under section 194R would not apply.
- ii) The provisions of section 194C would not apply in the hands of Ms. Aruna since the amount paid to Mr. Suresh is for supply of her housing staff. Hence, it is used exclusively for her personal purposes.
- In this case, tax is required to be deducted at source from such amount under section 194M @ 5%, since the aggregate payment made to Mr. Suresh for the said contract exceeds 50 lakhs during the P.Y. 2024-25.
- Accordingly, 2,75,000, being 5% of 55,00,000 [25,00,000 + 30,00,000], is required to be deducted at source.
- In case Ms. Aruna made payment to Mr. Suresh for business purposes and she is not required to get her books of account audited [assuming her turnover from such business does not exceed 1 crore in P.Y. 2023-24], she is not required to deduct tax at source under section 194C. In such case also, she is required to deduct tax at source of 2,75,000 under section 194M.

Note – In the question, it is mentioned that Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year. However, whether the provisions of section 194C would be attracted are dependent on whether the turnover of business carried on by her during the financial year immediately preceding the financial year in which the sum credited or paid exceeds 1 crore. In the absence of this information, it is possible that audit may not be required in her case due to the following reasons-

- her turnover exceeds 1 crore but does not exceed 10 crores and receipts and payments in cash does not exceed 5% of such receipts or payments, respectively.
- her turnover exceeds 1 crore but does not exceed 2 crore and she is declaring profits under the presumptive provisions of section 44AD.

Accordingly, following alternate answer is also possible based on the assumption that turnover of Ms. Aruna's business exceeds 1 crore.

**Alternative answer** - In case Ms. Aruna made payment to Mr. Suresh for business purposes during the P.Y. 2023-24, she would be required to deduct tax at source @ 1% under section 194C amounting to 55,000 (since payment is made to Mr. Suresh, an individual) of 55,00,000.

- iii) According to section 194C, the definition of “work” include catering. In the present case, nationalized bank is required to deduct tax source @ 2% on 7,20,000 [60,000 x 12] paid to ABC Pvt. Ltd. for providing catering services to the bank, since amount of 60,000 paid every month exceeds the threshold of 30,000.

Therefore, nationalized bank is required to deduct tax at source of 1,200 per month amounting to 14,400 for the year.

- iv) Since overseas tour package is taken on or after 1.10.2024, tax @ 5% till 7 lakhs and 20% thereafter, is required to be collected u/s 206C(1G) by the seller of an overseas tour programme package, from Mr. Harish, being the buyer of an overseas tour package, even if payment is made by account payee cheque.

Accordingly, tax has to be collected @ 5% on 7 lakh and 20% on 3 lakhs.

TCS = 95,000

- v) Since ABC Ltd., being the producer of the natural gas, sells as well as transports the gas to M/s. Deep Co., the purchaser, till the point of delivery, where the ownership of gas is simultaneously transferred to M/s. Deep Co, the manner of raising the invoice (whether the transportation charges are embedded in the cost of gas or shown separately) does not alter the basic nature of such contract which remains essentially a ‘contract for sale’ and not a ‘works contract’ as envisaged in section 194C.

Therefore, in such circumstances, the TDS provisions would not be attracted on 1,70,000, being the component of gas transportation charges paid by M/s. Deep Co. to ABC Ltd.

- vi) In this case, the individual contract payments (through the bills dated 30.4.2024, 30.6.2024 and 30.9.2024) made by ABC LLP to XYZ does not exceed 30,000. However, since the aggregate amount paid to XYZ during the P.Y. 2024-25 exceeds 1,00,000 (on account of the last payment of 32,000, due on 30.12.2024, taking the total from 80,000 to 1,12,000), the TDS provisions under section 194C would get attracted on the entire sum of 1,12,000.

Tax has to be deducted @ 2% (since payment is to a firm, XYZ) on the entire amount of 1,12,000, from the last payment of 32,000 on 30.12.2024.

Hence, TDS u/s 194C = 2,240.

- vii) TDS provisions under section 194C are not attracted in this case, since Mr. Chetan is a pensioner. However, Mr. Chetan has to deduct tax at source @ 5% u/s 194M, since the payment to contractor, Mr. Gopi, exceeds 50 lakhs.

### Concept Problem 10 [ICAI Jan 25]

Mr. Ganesh whose Professional Receipts for the year ended 31.03.2024 were 1.25 crores has made payment to Mr. Rajesh (a Chartered Accountant) during P.Y. 2024-25 who has multi faced activities.

Examine whether TDS Provisions re applicable for following payments made by Mr. Ganesh to CA Rajesh :

- i) Professional Fee for consultation - 32,450 on 15.06.2024 including GST paid @ 18%.
- ii) Royalty Payment for Use of Computer Software by various clients of Mr. Rajesh - 2,50,000 on 03.03.2025.
- iii) Fees for teaching accountancy to his Son - 40,000 on 31.10.2024.
- iv) Provided a luxury car worth 15 lakh to its agent, Mr. A, as an incentive for achieving high sales targets.

**Solution**

**i) Professional Fees for consultation**

As per section 194J, tax is required to be deducted at source @ 10% on fees for professional services, if the amount paid exceeds 30,000.

In the present case, since the amount of professional fees of 27,500 ( $32,450 \times 100/118$ ) excluding GST is not exceeding 30,000, no tax is required to be deducted at source on such payment by Mr. Ganesh.

**ii) Royalty payment for use of computer software**

No tax is deductible at source by Individuals and HUFs on royalty payment. Hence this payment is not liable for TDS under section 194J.

**iii) Fees for teaching accountancy to his son**

No tax is required to be deducted at source u/s 194J in respect of fees for teaching, since it does not fall within the scope of professional services. Moreover, TDS also not required to be deducted at source since such fees is paid by Mr. Ganesh for his personal purposes.

- iv) As per section 194R, if any person (other than an individual or HUF whose total sales or gross receipts does not exceed 1 crore or 50 lakhs, as the case may be, during the immediately preceding previous year) provides any benefit or perquisite to a resident arising from his business or profession and the total value of such benefits exceeds 20,000 in a financial year, then such person is required to deduct tax at source @ 10% of the total value of the benefit or perquisite.

Where the benefit or perquisite is in kind, the person has to ensure before releasing such benefit or perquisite that the tax required to be deducted has been paid in respect of such benefit or perquisite.

In the present case, Ganesh provided a luxury car worth 15 lakh to Mr. A, as an incentive which qualifies as a perquisite u/s 194R. Therefore, Ganesh has to ensure before releasing the car that the tax of 1,50,000 i.e., 10% of 15 lakhs has been paid by Mr. A.

**Concept Problem 11 [ICAI May 25]**

Discuss the relevant provisions of Income-tax Act, 1961 with respect to tax deduction at source (TDS) and calculate amount of TDS also for the A.Y. 2025-26 in the following independent situations:

- a) Marks Pictures Ltd. is a movie and short films production house having turnover of 15.22 crores during the previous year 2023-24. Solar Varanasi LLP also produces short films and clippings and it has already produced a short film namely 'Maha Kumbh'. On 16-10-2024, Marks Pictures Ltd. acquired television rights in consideration of 52 lakhs from Solar Varanasi LLP. (Both have valid PAN)
- b) Mr. Mayank, a salaried individual, paid rent for his residential house at Mumbai to the house owner Mr. Nikhil in the following manner:

From April, 2024 to September, 2024: 75,000 per month; and From October, 2024 to March, 2025: 1,00,000 per month.

**Solution**

**a) Acquisition of television rights**

Payment made by Marks Pictures Ltd. for acquisition of television rights of the content already produced by the Solar Varanasi LLP, a production house would not be liable for tax deduction at source under section 194C, since there is no contract for "carrying out any work", as required in section 194C.

However, consideration for acquiring television right in respect of film would fall within the definition of royalty as defined in Explanation 2 to section 9(1)(vi). Accordingly, tax is required to be deducted u/s 194J @ 10% on 52 lakhs or 5,20,000.

**b) Rent paid by a Salaried individual**

Since Mr. Mayank pays rent exceeding 50,000 per month in the F.Y. 2024-25, he is liable to deduct tax at source under section 194-IB @ 5% till 30.09.2024 and thereafter @ 2%.

The tax is to be deducted in the last month of the P.Y. 2024-25 i.e., March 2025 or in the last month of tenancy, if the property is vacated during the year.

Since property is not vacated during the year, 21,000 {10,50,000 [(75,000 x 6) + (1,00,000 x 6)] x 2%} has to be deducted from rent payable for March 2025.



# CHAPTER 14

## ADVANCE TAX & INTEREST

### Concept Problem 1

Mr. Jay having total income of INR 8,70,000, did not pay any advance tax during the previous year 2024-25. He wishes to pay the whole of the tax, along with interest if any, on filing the return in the month of July, 2025. What is total tax which Mr. Jay has to deposit as self-assessment tax along with interest, if he files the return on 29.07.2025? Assume that he shift out default tax regime under section 115BAC.

### Solution:

Obligation to pay advance tax arises in every case, where the advance tax payable is INR 10,000 or more. As a consequence of such failure, assessee may be charged with interest under section 234B and 234C.

In the given case, since Mr. Jay did not deposit any amount of advance tax during the previous year, he will need to pay the total tax due on his income along with interest on default of payment of advance tax (section 234B) and interest for deferment of advance tax (section 234C) before filing of his return.

Total tax due on returned income of INR 8,70,000 is INR 89,960 [(20% of 3,70,000 + 12,500) + cess @ 4%]

### Interest under section 234B

Interest under section 234B is attracted - a) When the assessee, who is liable to pay advance tax has failed to pay such tax; or b) Where the advance tax paid by the assessee is less than 90% of the assessed tax.

Since, Mr. Jay did not pay any amount as advance tax, interest under section 234B at 1% per month or part of the month will be levied beginning from 1<sup>st</sup> April of the following year i.e., 01.04.2025 till the time he deposits the whole tax under self-assessment.

Interest will be levied on tax liability of INR 89,900 (rounded off to nearest hundred, ignoring fraction) at 1% for four months i.e., from 1<sup>st</sup> April to 29<sup>th</sup> July.

The interest under section 234B amount to INR 3,596

### Interest under section 234C

Assessee, other than assessee who declares profits and gains in accordance with provision of section 44AD(1) or section 44ADA(1), are liable to pay advance tax in 4 instalments during the previous year. Section 234C is attracted, if the actual instalment paid by the assessee is the less than the amount required to be paid by him on such instalments. The interest shall be calculated at 1% per month or part of the month for short payment or non-payment of each instalment.

In the given scenario, since Mr. Jay, did not deposit any amount as advance tax, the interest under section 234C is calculated as under:

Date	Tax payable (1) (rounded off to nearest 100, ignoring fraction)	Cumulative Tax paid (2)	Default (2-1)	Interest
15.06.2024	89,900*15% = 13,400	0	13,400	13,400 x 1% x 3 = 402
15.09.2024	89,900*45% = 40,400	0	40,400	40,400 x 1% x 3 = 1,212

15.12.2024	$89,900 \times 75\%$ $= 67,400$	0	67,400	$67,400 \times 1\% \times 3 = 2,022$
15.03.2025	$89,900 \times 100\%$ $= 89,900$	0	89,900	$89,900 \times 1\% \times 1 = 899$
<b>Total interest under section 234C</b>				<b>4,535</b>

Mr. Jay needs to pay INR 98,091 as total of tax and interest on or before filing of return in month of July, 2025.

### Concept Problem 2

Mr. Ayaansh (aged 35 years), a resident individual, is a dealer of garments. During the previous year 2024-25, total turnover of his business was 105 lakhs (out of which 15 lakhs was received by way of account payee cheques and balance in cash). Mr. Ayaansh opts of shifting out of default tax regime u/s 115BAC.

What would be your advice to Mr. Ayaansh relating to the provisions of advance tax with its due date along with the amount payable, assuming that he wishes to make maximum tax savings without getting his books of account audited.

### Solution

#### Computation of advance tax of Mr. Ayush under presumptive Income Scheme as per section 44AD.

The total number of Mr. Ayaansh, a dealer of garments, is 105 lakhs. Since his total turnover from such business is less than 200 lakhs and he does not wish to get his books of account audited, he can opt for presumptive tax scheme under section 44AD.

Profits and gains from business computed under section 44AD.

Particulars	Amount
6% of 15 lakhs, being turnover effected through account payee cheque	90,000
8% of 90 lakhs, being cash turnover	7,20,000
	<b>8,10,000</b>

An eligible assessee option for computation of profits and gains of business on presumptive basis under section 44AD in respect of eligible business is required to pay advance tax of the whole amount on or before 15<sup>th</sup> March of the financial year.

#### Computation of tax liability for Mr. Ayaansh as per normal provisions of Income-tax Act, 1961

Particulars	Amount	Amount
Total Income	8,10,000	
Tax on 8,10,000		
Upto 2,50,000	Nil	
2,50,001 – 5,00,000 @ 5%	12,500	
5,00,001 – 8,10,000 @ 20%	62,000	74,500
Add: Health and Education cess @ 4%		2,980
<b>Tax Liability</b>		<b>77,480</b>

Accordingly, he is required to pay advance tax of 77,480 on or before 15<sup>th</sup> March of the financial year. However, any amount by way of advance tax on or before 31<sup>st</sup> March of the financial year shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of the act.

**Concept Problem 3**

Mr. Jay is having total income of 6,90,000 during the P.Y. 2024-25 consisting of Income from business of 40,000, lottery winnings (gross) 5,60,000, income by way of salary (computed) 1,20,000 and loss from house property 30,000. Compute his tax liability and advance tax obligations for A.Y. 2025-26 assuming Mr. Jay opts of shifting out of default tax regime u/s 115BAC.

**Solution**

**Computation of tax liability and advance tax obligations of Mr. Jay for A.Y. 2025-26 under Optional Tax regime:**

Particulars	Amount
Income under the head PGBP	40,000
Income under the head Other Sources	5,60,000
Income under the head Salary	1,20,000
Less: Loss under the head House Property	(30,000)
<b>Total Income</b>	<b>6,90,000</b>
Tax @ 30% u/s 115BB [5,60,000 x 30%]	1,68,000
Normal Income taxable at slab [6,90,000 – 5,60,000] = 1,30,000	Nil
<b>Tax before health and education cess</b>	<b>1,68,000</b>
Health and education cess @ 4%	6,720
<b>Tax Liability</b>	<b>1,74,720</b>
Less: TDS	1,68,000
<b>Tax payable</b>	<b>6,720</b>

**Note:** Since tax payable is less than 10,000, liability to pay advance tax does not arise.

**Concept Problem 4**

Mr. Chandra Prakash, a resident individual aged 54, is planning to pay self-assessment tax and furnish his return of income on 15.12.2025. He furnishes the following details of his income, the amount of tax deducted at source and advance tax paid for the previous year 2024-25 as under:

- Retail Toy business, whose turnover is INR 185 lakhs [received INR 90 lakhs by Account payee cheque, INR 50 lakhs through ECS and balance in cash]. He opts for presumptive taxation scheme under section 44AD.
- Income from other sources INR 3,05,000.
- Tax deducted at source INR 55,000.
- Advance tax paid INR 1,45,000 on 14-3-2025.

Calculate the interest payable under section 234B of the Income-tax Act, 1961. Assume Mr. Chandra opts of shifting out of default tax regime u/s 115BAC.

**Solution**

**Computation of interest payable under section 234B by Mr. Chandra Prakash under Optional Tax regime:**

Particulars	Amount
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Particulars	Amount
Tax on total income of INR 15,05,000 [Business income of INR 12,00,000 (See Note below) + Income from other sources of INR 3,05,000]	2,64,000
Add: Health and Education cess @ 4%	10,560
<b>Tax on total income</b>	<b>2,74,560</b>
Less: Tax deducted at source	55,000
<b>Assessed Tax</b>	<b>2,19,560</b>
90% of assessed tax	1,97,604
Advance tax paid on 14-3-2025	1,45,000
Interest under section 234B is leviable since advance tax of INR 1,45,000 paid is less than INR 1,97,604, being 90% of assessed tax	
Number of months from 1 <sup>st</sup> April, 2025 to 15 <sup>th</sup> December, 2025, being the date of payment of self-assessment tax	9
Interest under section 234B @ 1% per month or part of a month for 9 months on INR 74,500 [i.e., difference between assessed tax of INR 2,19,560 and advance tax of INR 1,45,000 paid being INR 74,560 which is rounded off to INR 74,500]	6,705
<b>Interest under section 234B rounded off</b>	<b>6,710</b>

**Note:** The presumptive income computed under section 44AD would be INR 12 lakhs, being 8% of INR 45 lakhs and 6% of INR 140 lakhs.

### Concept Problem 5

Ms. Priya, aged 61 years, has total income of INR 7,50,000, including income from profession, for A.Y. 2025-26, and has paid advance tax of INR 10,000 on 13.12.2024. She has filed her return of income on 15.06.2025.

Calculate the self-assessment tax payable and the interest thereon u/s 234A, 234B and 234C, if any, by Ms. Priya under both tax regimes

### Solution

#### Self-assessment tax payable under default tax regime u/s 115BAC

Particulars	Amount
<b>Tax on INR 7,50,000 at slab rate</b>	
Upto 3,00,000	Nil
3,00,000 – 7,00,000 @ 5%	20,000
7,00,000 – 7,50,000 @ 10%	5,000
<b>Tax</b>	<b>25,000</b>
Add: Health and education cess @ 4%	1,000
	<b>26,000</b>
Less: Advance tax	10,000
<b>Tax Payable</b>	<b>16,000</b>
Add: Interest u/s 234A would not be attracted, since Ms. Priya has furnished her return of income on 15.06.2025 which is before the due date of filing return of income]	-

Particulars	Amount
Add: Interest under section 234B would be levied on 21,200 at 1% for 3 months i.e., From April to June. The interest under section 234B amount to 636	480
Add: Interest under section 234C (Working note)	913
<b>Self-assessment tax payable and interest thereon</b>	<b>17,393</b>
<b>Self-assessment tax payable and interest thereon (rounded off)</b>	<b>17,390</b>

#### Working Note: Interest u/s 234C

Date	Tax payable (1)	Cumulative Tax paid (2)	Default (1-2)	Interest
15.06.2024	26,000*15% = 3,900	0	3,900	3,900 x 1% x 3 = 117
15.09.2024	26,000*45% = 11,700	0	11,700	11,700 x 1% x 3 = 351
15.12.2024	26,000*75% = 19,500	10,000	9,500	9,500 x 1% x 3 = 285
15.03.2025	26,000*100% = 26,000	10,000	16,000	16,000 x 1% x 1 = 160
<b>Total Interest u/s 234C</b>				<b>913</b>

#### Self-assessment tax payable [If Ms. Priya is opts to shift out of default tax regime u/s 115BAC]

Particulars	Amount
<b>Tax on INR 7,50,000 at slab rate</b>	
Upto 3,00,000	Nil
3,00,000 – 500,000 @ 5%	10,000
500,000 – 7,50,000 @ 20%	50,000
<b>Tax</b>	<b>60,000</b>
Add: Health and education cess @ 4%	2,400
	<b>62,400</b>
Less: Advance tax	10,000
<b>Tax Payable</b>	<b>52,400</b>
Add: Interest u/s 234A would not be attracted, since Ms. Priya has furnished her return of income on 15.06.2025 which is before the due date of filing return of income]	-
Add: Interest under section 234B would be levied on 52,400 at 1% for 3 months i.e., From April to June. The interest under section 234B amount to 1,572	1,572
Add: Interest under section 234C (Working note)	<b>2,747</b>
<b>Self-assessment tax payable and interest thereon</b>	<b>56,719</b>
<b>Self-assessment tax payable and interest thereon (rounded off)</b>	<b>56,720</b>

#### Working Note: Interest u/s 234C

Date	Tax payable (1)	Cumulative Tax paid (2)	Default (1-2)	Interest
15.06.2024	62,400*15% = 9,300	0	9,300	9,300 x 1% x 3 = 279
15.09.2024	62,400*45% = 28,000	0	28,000	28,000 x 1% x 3 = 840



Date	Tax payable (1)	Cumulative Tax paid (2)	Default (1-2)	Interest
15.12.2024	$62,400 \times 75\% = 46,800$	10,000	36,800	$36,800 \times 1\% \times 3 = 1,104$
15.03.2025	$62,400 \times 100\% = 62,400$	10,000	52,400	$52,400 \times 1\% \times 1 = 524$
<b>Total Interest u/s 234C</b>				<b>2,747</b>

**Concept Problem 6 [RTP Jan 25]**

Mr. Sameer, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2024-25.

Estimated tax liability for the financial year 2024-25	80,000
Tax deducted at source for this year	12,000

**Solution**

**Determination of Advance Tax Liability of Mr. Sameer**

Particulars	Amount
Estimated tax liability for the financial year 2024-25	80,000
<b>Less:</b> Tax deducted at source	<u>12,000</u>
<b>Tax payable</b>	<b><u>68,000</u></b>

Date of installment	Amount payable	Amount
On or before 15 <sup>th</sup> June, 2024	Not less than 15% of advance tax liability	10,200
On or before 15 <sup>th</sup> September, 2024	Not less than 45% of advance tax liability less amount paid in earlier installment	20,400 45% of (30,600, being 68,000 - 10,200)
On or before 15 <sup>th</sup> December, 2024	Not less than 75% of advance tax liability less amount paid in earlier installment(s)	20,400 75% of (51,000, being 68,000 - 30,600)
On or before 15 <sup>th</sup> March, 2025	Whole of the advance tax liability less amount paid in earlier installment(s)	17,000 (68,000, being 100% of 68,000 - 51,000)

# CHAPTER 15

## FILING OF RETURN

### Concept Problem 1 [MTP Sep 25]

Mr. Shahid, an individual who is a resident and ordinarily resident in India, has earned a salary income of 8,25,000 during the Financial Year 2024-25. He is eligible to claim deductions under section 80C, 80D and 80G amounting to 2,75,000. On 30th July, 2025, he approaches you for assistance in filing his return of income.

As a tax consultant, what would be your advice regarding the filing of his return of income?

What will be your advice if he approaches you on 1st August, 2025.

**Note** - The due date of filing return of income for A.Y. 2025-26 is 31st July, 2025. Ignore interest u/s 234A, 234B and 234C.

### Solution

Mr. Shahid approaches on 30th July 2025, which is before the due date for filing the return under section 139(1).

Mr. Shahid has an option to pay tax under default tax regime or to opt out of the default tax regime and pay tax under normal provisions of the Act. However, under the default tax regime, he will not be able to claim deductions under section 80C, 80D and 80G.

Under default tax regime, Mr. Shahid's total income would be 7,50,000 after providing standard deduction of 75,000 and tax liability will be 26,000.

Under optional tax regime, Mr. Shahid's total income would be 5,00,000 after providing standard deduction of 50,000 and deduction under Chapter VI-A of 2,75,000. Since Mr. Shahid is resident in India, he is eligible of rebate under section 87A and his tax liability would be Nil.

Accordingly, Mr. Shahid should file his return of income on or before 31st July, 2025 and opt out of the default tax regime.

In case Mr. Shahid approaches on 1st August, 2025, he has to file his return of income and pay tax under default tax regime. In which case his tax liability will be 26,000 and he has to pay fee of 5,000 under section 234F for late filing of return of income.

### Concept Problem 2

Paras aged 55 years is a resident of India. During the F.Y. 2024-25, interest of INR 2,88,000 was credited to his Non-resident (External) Account with SBI. INR 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned INR 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 INR 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 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 under default tax regime u/s 115BAC:**

Particulars	Amount
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<b>Income from other sources</b>	
Interest earned from Non-resident (External) Account INR 2,88,000 [Exempt u/s 10(4)(ii), assuming that Mr. Ram 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
<b>Gross Total Income</b>	<b>33,000</b>
Less: Deduction under section 80TTA (not available under the default tax regime u/s 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 INR 3,000 under section 80TTA. Accordingly, his total income would be INR 30,000. However, in both regimes, total income of INR 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 INR 2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account.

However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect, inter alia, to the deductions under Chapter VI-A, would be INR 3,21,000 (30,000 + 2,88,000 + 3,000), which is higher than the basic exemption limit of INR 3,00,000 or INR 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.

### Concept Problem 3

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 INR 160 lakhs (100 lakhs received in cash) for the year ended 31.03.2025, whether or not opting to offer presumptive income under section 44AD, is 31<sup>st</sup> October 2025.
- The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.
- Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.
- A Limited Liability Partnership with business loss of INR 130,000 is not required to file ROI.

### Solution

- 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.

**ii) Disagree:**

In case Mr. A opts to offer his income as per the presumptive taxation provisions of section 44AD (INR 11.60 lakhs or more), then, the due date u/s 139(1) for filing of return of income for the year ended 31.03.2025, shall be 31<sup>st</sup> July, 2025.

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

**iii) True:**

Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.

**iv) False:**

Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

**v) False:**

As per third proviso to section 139(1), every Company or Firm shall furnish on or before the due date the return in respect of its income or loss in every previous year.

Since LLP is included in the definition of “Firm” under the Income-tax Act, 1961, it has to file its return mandatorily, even though it has incurred a loss.

**Concept Problem 4**

Mr. Aakash has undertaken certain transactions during the F.Y.2024-25, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents:

S.No.	Transaction
1.	Payment of life insurance premium of INR 45,000 in the F.Y. 2024-25 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of INR 1,00,000 to a five-star hotel for stay for 5 days with family, out of which INR 60,000 was paid in cash
3.	Payment of INR 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company
4.	Payment of INR 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives
5.	Applied to SBI for issue of credit card.
6.	Mr. Suresh, in a single transaction, makes contract of Rs. 1,85,000 for sale/purchase of securities (other shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956.
7.	Payment to Mutual Funds of Rs. 57,000 for purchase of its units.
8.	Makes a payment for the purchase of immovable property valued at 9,50,000. Stamp duty value of the property is 9,75,000.

**Solution**

Transaction	Is quoting of PAN mandatory in related documents?
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	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of INR 45,000 in the F.Y. 2024-25 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed INR 50,000 in the F.Y.2024-25.
2.	Payment of INR 1,00,000 to a five-star hotel for stay for 5 days with family, out of which INR 60,000 was paid in cash	Yes, since the amount paid in cash exceeds INR 50,000
3.	Payment of INR 80,000, by ECS through bank account, for acquiring the debentures of A Ltd., an Indian company	Yes, since the amount paid for acquiring debentures exceeds INR 50,000. Mode of payment is not relevant in this case.
4.	Payment of INR 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds INR 50,000
5.	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.
6.	Mr. Suresh, in a single transaction, makes contract of Rs. 1,85,000 for sale/purchase of securities (other than shares)	Yes, since amount of the transaction exceeds Rs. 1,00,000.
7.	Payment to Mutual Funds of Rs. 57,000 for purchase of its units.	Yes, since such payment exceeds Rs. 50,000
8.	Payment of 9,50,000 towards purchase of immovable property,	No, since such payment does not exceed 10,00,000.

### Concept Problem 5

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:

- Manish & Sons (HUF) sold a residential house on which there arose a long-term capital gain of 12 lakhs which was invested in Capital Gain Bonds u/s 54EC so that no long-term capital gain was taxable.
- 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 parent place in that country.
- Sudhakar has incurred an expenditure of 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels.
- Mr. Deepak has savings bank account in SBI and HDFC and a current account in Axis Bank with opening balance of 20 lakhs, 10 lakhs and 30 lakhs, respectively. He deposited 40 lakhs in SBI account, 25 lakhs in HDFC account and 75 lakhs in Axis account during the P.Y. 2024-25.
- Mr. Kumar, aged 50 years, has withdrawn cash of 1,20,00,000 during the P.Y. 2024-25 from his saving account in HDFC Bank. Mr. Kumar regularly filed his return of income till A.Y. 2024-25.
- The gross receipts of Mr. Ajit, aged 45 years, an architect for the previous year 2024-25 was 12,00,000, but his profit from profession was only 2,25,000 and he has no other income.

### Solution

- A HUF whose total income without giving effect to, inter alia, section 54EC, exceeds the basic exemption limit of 2,50,000, is required to file a return of its income on or before the due date under section 139(1).



In this case, since the total income without giving effect to exemption under section 54EC is 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.

- iii) If an individual has incurred expenditure exceeding 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since Mr. Sudhakar has incurred expenditure of 1,20,000 in the 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).
- iv) Even though the total income of an individual does not exceed the basic exemption limit, he would be required to file his return of income if
- he has deposited an amount or aggregate of the amounts exceeding 1 crore in one or more current accounts maintained with a banking company or a co-operative bank during the previous year; or
  - the deposit in one or more savings bank account of the person, in aggregate, is 50 lakhs or more during the previous year.

In this case, he has deposited only 75 lakhs in current account in Axis account during the P.Y. 2024-25 but has deposited 65 lakhs in savings bank account (40 lakhs in SBI and 25 lakhs in HDFC) during the P.Y. 2024-25, hence, he is required to file a return of income for A.Y. 2025-26 on or before the due date under section 139(1).

- v) If an individual has aggregate TDS and TCS credit of 25,000 or more 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.

In this case, TDS of 40,000 i.e., @ 2% on 20 lakhs, would have been deducted by HDFC Bank under section 194N on cash exceeding 1 crore withdrawn by Mr. Kumar during the P.Y. 2024-25. Hence, he is required to file his return of income for A.Y. 2025-26 on or before the due date under section 139(1).

- vi) In this case, since Mr. Ajit's gross receipts from the profession of architect was 12,00,000 for the P.Y. 2024-25, which is in excess of 10 lakhs, hence, he is required to file his return of income though his total income is 2,25,000 which does not exceed the basic exemption limit.

### **Concept Problem 6**

Mr. Mukesh born on 1.4.1964 furnished his original return for Assessment Year 2025-26 on 30.07.2025. He has shown salary income of 7.30 lakhs (computed) and interest from his savings bank of 12,700 and from his fixed deposits of 43,000. He also claimed deduction under section 80C of 1.50 lakhs. He had claimed deduction u/s 80D of 25,000. He also claimed deduction u/s 80TTA of 10,000. His employer had deducted TDS of 33,950 from his salary, which he adjusted fully against tax payable.

He paid health insurance premium of 38,000 by account payee cheque for self and wife. He paid 1,500 in cash for his health check-up and 4,000 by cheque for preventive health check-up of his parents. He also paid medical insurance premium of 33,000 during the year to insure the health of his mother, aged 80 years, staying with his younger brother. He further incurred medical expenditure of 25,000 on his father, aged 81 years, who is staying with him. His father is not covered under any Mediciclaim policy.

He seeks your advice about possibility of revising his return and if possible, file his revised return. Analyze the above narrated facts as per applicable provisions of the Income-tax Act, 1961. Does he need to revise his return and for what reasons? Please advise him suitably and if needed, re-compute his income and tax payable or refund due for the Assessment Year 2025-26.

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

### Solution

**Computation of total income of Mr. Mukesh for A.Y.2025-26 under Optional Tax Regime [As per original return filed by him]**

	Particulars	Amount	Amount
i.	<b>Salaries (Computed)</b>		7,30,000
ii.	<b>Income from Other Sources</b>		
	Interest on savings bank account	12,700	
	Interest on fixed deposits	43,000	55,700
	<b>Gross Total Income</b>		<b>7,85,700</b>
	<b>Less: Deductions under Chapter VI – A</b>		
i.	Deduction u/s 80C	1,50,000	
ii.	Deduction u/s 80D	25,000	
iii.	Deduction u/s 80TTA	10,000	1,85,000
	<b>Total Income</b>		<b>6,00,700</b>

**Computation of tax liability of Mr. Mukesh for A.Y. 2025-26 (As per original return)**

Particulars	Amount
Tax on total income [20% of 1,00,700 (i.e., 6,00,700 – 5,00,000) + 12,500]	32,640
Add: HEC @ 4%	1306
Tax payable on total income	33,946
<b>Tax payable on total income (rounded off)</b>	<b>33,950</b>
Less: Tax deducted at source u/s 192	33,950
<b>Tax Payable</b>	<b>Nil</b>

### Need for filing revised return – Analysis

Since Mr. Mukesh's birthday falls on 1.4.2025, he would be treated as having completed 60 years of age in the P.Y. 2024-25, and hence, he would be eligible for the benefit of higher deduction u/s 80D, higher deduction of up-to 50,000 u/s 80TTB (instead of 10,000 u/s 80TTA) while computing his total income as well as for higher basic exemption limit of 3,00,000 in the P.Y. 2024-25 itself while computing his tax liability. Also, he would be entitled to deduction in respect of medical insurance premium paid to insure the health of his mother and medical expenses incurred on his father who is not covered under any Medclaim policy.

Accordingly, having discovered such omissions in the original return, he has to file his revised return of income u/s 139(5) on or before 31.12.2025 to avail these benefits which he has not availed while filing his original return of income.

The computation of total income and tax liability (refund due) as per revised return are worked out here under:

**Computation of Total Income of Mr. Mukesh for the A.Y. 2025-26 under Optional Tax Regime [As per the Revised Return]**

	Particulars	Amount	Amount
i.	<b>Salaries (Computed)</b>		7,30,000

	Particulars	Amount	Amount
ii.	<b>Income from Other Sources</b>		
	Interest on savings bank account	12,700	
	Interest on fixed deposits	43,000	55,700
	<b>Gross Total Income</b>		<b>7,85,700</b>
	<b>Less: Deductions under Chapter VI –A</b>		
i.	<b>Deduction u/s 80C</b>	1,50,000	
ii.	<b>Deduction u/s 80D</b>		
	Medical insurance premium for self and spouse	38,000	
	Preventive health check-up for self (allowable even if paid in cash)	1,500	
	<b>Fully allowed as it is within overall limit of 50,000 for family</b>	<b>39,500</b>	
	Medical insurance premium for mother	33,000	
	Medical expenditure for father not covered under any policy	25,000	
	Preventive health check-up for parents (4,000, restricted to 3,500, being 5,000 -1,500 claimed for self and spouse)	3,500	
		<u>61,500</u>	
	<b>Restricted to maximum of 50,000 for parents</b>	<b>50,000</b>	
		<b>89,500</b>	
iii.	<b>Deduction u/s 80TTB</b>		
	Interest on saving bank account	12,700	
	Interest on fixed deposits	43,000	
		55,700	
	Restricted to maximum of 50,000	50,000	2,89,500
	<b>Total Income</b>		<b>4,96,200</b>

**Computation of tax liability of Mr. Mukesh for A.Y. 2025-26 [As per the Revised Return]**

Particulars	Amount
Tax on total income [5% of 1,96,200 (i.e., 4,96,200 – 3,00,000 basic exemption limit)]	9,810
Less: Rebate u/s 87A (Since his total income does not exceed 5 lakh) – 12,500 or tax on total income, whichever is lower	9,810
<b>Tax payable on total income</b>	<b>Nil</b>
Less: Tax deducted at source u/s 192	33,950
<b>Refund due</b>	<b>33,950</b>

Therefore, Mr. Mukesh has to file a revised return showing the above revised computation of total income and tax liability on or before 31.12.2025 to claim the enhanced deductions which he had not claimed in the original return and get refund of the entire income-tax of 33,950 deducted at source by his employer.

**Concept Problem 7**

Mrs. Shivani is a US Citizen. She got married to Mr. Sriram, an Indian citizen and resident of India, in the year 2017. Since then, she has been staying in India. She has a Bank account in US. She sold a residential house in US and earned a long-term capital gain of 2 lakhs. She invested the whole sales consideration in Capital Gain bonds under section 54EC so that no long-term capital gain is taxable. She does not have any source of income in India during the P.Y. 2024-25. Is she required to furnish her return of income? If yes, can she furnish a belated return?

### Solution

An individual whose total income without giving effect to, *inter alia*, section 54EC exceeds the maximum amount not chargeable to tax i.e., 2,50,000, is required to file a return of income on or before the due date under section 139(1) i.e., 31<sup>st</sup> July, 2025.

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, even if his 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 or has a signing authority in any account located outside India.

In this case, Mrs. Shivani is a resident and ordinarily resident in India for A.Y. 2025-26 since she has been staying in India since the year 2017. Total income of Mrs. Shivani without giving effect to, *inter alia*, section 54EC is 2 lakhs, which is below the basic exemption limit.

However, since she has a bank account in US, she has to furnish her return of income for A.Y. 2024-25 on or before 31.07.2025.

Yes, she can furnish a belated return under section 139(4), if she has not furnished her return on or before 31.7.2025, at any time before the –

- i) three months prior to the end of the relevant assessment year i.e., 31.12.2025; or
- ii) completion of the assessment

whichever is earlier.

### Concept Problem 8

Mr. Vikas, a resident in India aged 80 years, is having a house property in Mumbai. He has let out the house property to ABC Ltd. for a rent of 50,000 per month from 1.4.2024. He does not have any other source of income. Is Mr. Vikas required to file his return of income for A.Y. 2025-26. If yes, why?

### Solution

An individual whose total income exceeds the maximum amount not chargeable to tax i.e., 5,00,000 in this case since Mr. Vikas is of 80 years, is required to file a return of income on or before the due date under section 139(1) i.e., 31<sup>st</sup> July, 2025.

Also, a person (other than a company or a firm) who is not required to furnish a return u/s 139(1) has to furnish return on or before the due date if the person fulfills such other conditions as may be prescribed.

Accordingly, vide Notification no. 3/2022 dated 21.4.2024, the CBDT inserted Rule 12AB which prescribes, *inter alia*, that in case of resident individual who is aged **60 years** or more at any time during the relevant P.Y. is required to file his return of income if the aggregate of tax deducted at source and tax collected at source, in his case, during the P.Y. is 50,000 or more.

In this case, Mr. Vikas's total income would comprise of only income from house property from let out of house property in Mumbai. His total income would be 4,20,000 [6,00,000 – 30% under section 24(a)], which is below the basic exemption limit of 5,00,000.

ABC Ltd. is required to deduct tax at source u/s 194-I @ 10% of 6,00,000. Tax deductible would be 60,000. Since tax deducted at source in case of Mr. Vikas is more than 50,000, he has to furnish his return of income for A.Y. 2025-26 on or before 31.07.2025, even though his total income is below the basic exemption limit of 5,00,000.

**Note** – It is assumed that Mr. Vikas has neither made an application to the Assessing Officer u/s 197 nor furnished declaration to ABC Ltd. u/s 197A for non-deduction of tax. In case, he has obtained the certificate u/s 197 or



furnished declaration to ABC Ltd. u/s 197A, no tax would have been deducted by ABC Ltd. on rental income. Consequently, Mr. Vikas would not be required to file his return of income.

### Concept Problem 9

Mr. X would like to furnish his updated return for the A.Y. 2023-24. In case he furnished his updated return of income, he would be liable to pay INR 2,50,000 towards tax and INR 35,000 towards interest after adjusting tax and interest paid at the time filing earlier return. You are required to examine whether Mr. X can furnish updated return

- as on 31.3.2025
- as on 28.2.2026
- as on 31.5.2026

If yes, compute the amount of additional income-tax payable by Mr. X at the time of filing his updated return assuming he exercised the option of shifting out of default tax regime u/s 115BAC.

### Solution

Mr. X may furnish an updated return of his income for A.Y. 2023-24 at any time within 24 months from the end of the relevant assessment year i.e., 31.3.2026.

Accordingly, Mr. X can furnish updated return for A.Y. 2023-24 as on 31.3.2025 and on 28.2.2026. However, he cannot furnish such return as on 31.5.2026, since such date falls after 31.3.2026.

Mr. X would be liable to pay additional income-tax

- @ 25% of tax and interest payable, if updated return is furnished after the expiry of the time limit available under section 139(4) or 139(5) i.e., 31<sup>st</sup> December 2024 and before the expiry of 12 months from end of relevant assessment year i.e., 31.3.2025.
- @ 50% of tax and interest payable, if updated return is furnished after the expiry of 12 months from end of relevant assessment year i.e., 31.3.2025 and before the expiry of 24 months from end of relevant assessment year i.e., 31.3.2026.

Accordingly, Mr. X is liable to pay additional income-tax in case he furnished his updated return as on

- 31.3.2025 – INR 71,250 [25% of 2,85,000, being tax of INR 2,50,000 plus interest of INR 35,000]
- 28.2.2026 of INR 1,42,500 [50% of 2,85,000, being tax of INR 2,50,000 plus interest of INR 35,000]

### Concept Problem 10 [MTP Jan 25]

Mr. Prince, a senior citizen, has reported a Total Income 1,90,000. He has claimed exemption of 50,000 under section 54EC in respect of long term capital gain on sale of house property and deductions under Chapter VI-A amounting to 1,50,000 for the previous year 2024-25. Is he liable to file his return of income under section 139(1) for the Assessment year 2025-26? If so why?

### Solution

As per sixth proviso to section 139(1), every person, being an individual whose total income without giving effect to the provisions of, *inter alia*, section 54EC and Chapter VI-A exceeds the basic exemption limit, is compulsorily required to furnish return of income on or before the due date.

Therefore, in the present case, Mr. Prince, a senior citizen is required to file return of income, since his total income of 3,90,000 before giving effect to the exemption under section 54EC and deduction of 1,50,000 under Chapter VI-A, exceeds the basic exemption limit of 3,00,000 applicable in his case.

### Concept Problem 11 [ICAI Sep 24]

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.Y.-



**A.Y. 2022-23**

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

**A.Y. 2023-24**

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

**A.Y. 2024-25**

- i) Tax payable on the total income of Rani - 6,30,000
- ii) TDS deducted - 2,00,000
- iii) Interest payable under section 234A, 234B and 234C - 90,000 (calculated till 31<sup>st</sup> May 2025)
- iv) Self-assessment tax paid - 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, A.Y. 2023-24 and A.Y. 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 5,60,000, interest and late fee of 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 5,60,000 is before adjusting TDS of 10,00,000. In such case, since the refund of 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 1,80,000 i.e., 25% of 7,20,000 (6,30,000 + 90,000) in addition to tax payable of 6,30,000, interest payable of 90,000 and late fees of 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 6,30,000 is before adjusting TDS of 2,00,000 and self-assessment tax paid of 1,00,000. In such case, Rani is required to pay additional income-tax of 1,05,000 i.e., 25% of 4,20,000  $[3,30,000 (6,30,000 - 2,00,000 - 1,00,000) + 90,000]$  in addition to tax payable of 3,30,000, interest payable of 90,000 and late fees of 5,000.

# CHAPTER 16

## COMPUTATION OF TOTAL INCOME AND TAX LIABILITY

### Concept Problem 1

Mr. Kadam is entitled to a salary of INR 41,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was INR 7,000 per month. The rent for the hired accommodation was INR 6,000 per month at New Delhi. Advise Mr. Kadam whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of “Net Take Home Cash benefits”. Assume Mr. Kadam exercises the option to shift out of the default tax regime under section 115BAC.

### Solution

#### Computation of tax liability of Kadam under both the options

Particulars	Option I- HRA	Option II- RFA
Basic Salary (41,000 x 12 Months)	4,92,000	4,92,000
Perquisite value of rent-free accommodation (10% of 4,92,000)	N.A.	49,200
House rent Allowance (7,000 x 12 Months) 84,000	61,200	
Less: Exempt u/s 10(13A) – least of the following - 22,800		
- 50% of Basic Salary 2,46,000		
- Actual HRA received 84,000		
- Rent paid less 10% of salary 22,800		
<b>Gross Salary</b>	<b>5,53,200</b>	<b>5,41,200</b>
Less: Standard deduction u/s 16(ia)	50,000	50,000
<b>Net Salary</b>	<b>5,03,200</b>	<b>4,91,200</b>
Less: Deduction under Chapter VI-A	-	-
<b>Total Income</b>	<b>5,03,200</b>	<b>4,91,200</b>
<b>Tax on total income</b>	13,140	12,060
Less: Rebate under section 87A - Lower of 12,500 or income-tax of 12,000, since total income does not exceed 5,00,000	Nil	12,060
	<b>13,140</b>	<b>Nil</b>
Add: Health and Education cess@4%	526	Nil
<b>Tax liability</b>	<b>13,666</b>	<b>Nil</b>
<b>Tax liability (Rounded off)</b>	<b>13,670</b>	<b>Nil</b>

#### Cash Flow Statement

Particulars	Option I- HRA	Option II- RFA
Inflow: Salary	5,76,000	4,92,000
Less: Outflow: Rent paid	(72,000)	-
Tax on total income	(13,670)	Nil
<b>Net Flow</b>	<b>4,90,330</b>	<b>4,92,000</b>

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

### Concept Problem 2

Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2025 revealed the following information:

- The net profit was INR 11,20,000.
- The following incomes were credited in the profit and loss account:
  - Dividend from UTI INR 22,000. (Gross)
  - Interest on debentures INR 17,500. (Gross)
  - Winnings from races INR 15,000. (Gross)
- It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:  
 Opening stock INR 8,000.  
 Closing stock INR 12,000.
- INR 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
- Salary includes INR 20,000 paid to his brother which is unreasonable to the extent of INR 2,500.
- Advertisement expenses include 15 gift packets of dry fruits costing INR 1,000 per packet presented to important customers.
- Total expenses on car was INR 78,000. The car was used both for business and personal purposes.  $\frac{3}{4}$ th is for business purposes.
- Miscellaneous expenses included INR 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2025 for distribution of the company's product to the warehouses.
- Depreciation debited in the books was INR 55,000. Depreciation allowed as per Income-tax Rules, 1962 was INR 50,000.
- Drawings INR 10,000 debited in the books.
- Investment in NSC INR 15,000 debited in the books.

Compute the total income of Mr. Y for the assessment year 2025-26 under optional tax regime as per normal provisions of the Act.

### Solution

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

Particulars	Amount
Profits and gains of business or profession ( <b>Working Note 1</b> )	11,21,500

Income from Other Sources ( <b>Note 2</b> )	54,500
<b>Gross Total Income</b>	<b>11,76,000</b>
Less: Deduction under section 80C (Investment in NSC)	15,000
<b>Total Income</b>	<b>11,61,000</b>

**Working Notes:**
**Computation of profits and gains of business or profession**

<b>Particulars</b>		<b>Amount</b>	<b>Amount</b>
<b>Net profit as per profit and loss account</b>			<b>11,20,000</b>
Add:	<b>Expenses debited to profit and loss account but not allowable as deduction</b>		
	Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
	Motor car expenses attributable to personal use not allowable ( $78,000 \times \frac{1}{4}$ )	19,500	
	Depreciation debited in the books of account	55,000	
	Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	
	Investment in NSC [See Note (iii)]	15,000	1,02,000
			12,22,000
Add:	Under statement of closing stock		12,000
			12,34,000
Less:	Under statement of opening stock		8,000
Less:	Contribution to a University approved and notified under section 35(1)(ii) is eligible for weighted deduction @ 100%. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required.		-
			12,26,000
Less:	<b>Incomes credited to profit and loss account but not taxable as business income</b>		
	Income from UTI [taxable under the head Income from other sources]	22,000	
	Interest on debentures [taxable under head Income from other sources]	17,500	
	Winnings from races (taxable under head "Income from other sources")	15,000	54,500
			11,71,500
Less:	Depreciation allowable under the Income-tax Rules, 1962		50,000
			<b>11,21,500</b>

**Notes:**

- Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- Disallowance under section 40A(3) is not attracted in respect of cash payment exceeding INR 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages,



an increased limit of INR 35,000 is applicable (i.e., payment of upto INR 35,000 can be made in cash without attracting disallowance under section 40A(3))

- c) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.
- d) In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is INR 50,000. It has been assumed that, in the said figure of INR 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car

### Computation of “Income from other sources”

Particulars	Amount
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	<b>54,500</b>

### Concept Problem 3

Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2024-25.

### Receipts and Payments Account

Receipts	Amount	Payments	Amount
Opening balance (1.4.2024) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI (includes interest of INR 88,000)	1,88,000
		Life insurance premium (10% of sum assured)	24,000
		Motor car (acquired in Jan 2025 by account payee cheque)	4,25,000
		Medical insurance premium (for self and wife) (paid by A/c Payee cheque)	18,000
		Books bought on 01.07.2024 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1.11.2024 by A/c payee cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2025) Cash on	19,15,000

Receipts	Amount	Payments	Amount
		hand and at Bank	
	62,50,000		62,50,000

Following further information is given to you:

- He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of INR 5,000. The building was constructed during the year 1997-98, when the housing loan was taken.
- Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- The written down value of assets as on 1-4-2024 are given below:

Furniture & Fittings	INR 60,000
Plant & Machinery	INR 80,000
(Air-conditioners, Photocopiers, etc.)	
Computers	INR 50,000

**Note:** Mr. Rajiv follows cash system of accounting.

Compute the total income of Mr. Rajiv for the A.Y. 2025-26 assuming that he has shifted out of the default tax regime under section 115BAC.

### Solution

**Computation of total income of Mr. Rajiv for the assessment year 2025-26:**

Particulars	Amount	Amount	Amount
<b>Income from house property</b>			
<b>Self-occupied</b>			
Annual value	Nil		
Less: Deduction under section 24(b) Interest on housing loan 50% of INR 88,000 = 44,000 but limited to	30,000		
Loss from self-occupied property		(30,000)	
<b>Let out property</b>			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions under section 24			
30% of Net Annual Value	18,000		
Interest on housing loan (50% of INR 88,000)	44,000	62,000	(2,000)
<b>Loss from house property</b>			<b>(32,000)</b>
<b>Profits and gains of business or profession</b>			
Fees from professional services		59,38,000	
Less: Expenses allowable as deduction			
Staff salary, bonus and stipend	21,50,000		
Other administrative expenses	11,48,000		

Particulars	Amount	Amount	Amount
Office rent	30,000		
Motor car maintenance (10,000 x 4/5)	8,000		
Car loan interest – not allowable (since the same has not been paid and the Assessee follows cash system of accounting)	Nil	33,36,000	
		<b>26,02,000</b>	
Less: Depreciation			
Motor car INR 4,25,000 x 7.5% x 4/5	25,500		
Books being annual publications @ 40%	8,000		
Furniture and fittings @ 10% of INR 60,000	6,000		
Plant and machinery @ 15% of INR 80,000	12,000		
Computer @ 40% of INR 50,000	20,000		
Computer (New) INR 30,000 @ 40% x 1/2 thereon	6,000	77,500	<b>25,24,500</b>
<b>Gross Total income</b>			<b>24,92,500</b>
<b>Less: Deduction under Chapter VI-A</b>			
<b>Deduction under section 80C</b>			
- Housing loan principal repayment	1,00,000		
- PPF subscription	20,000		
- Life insurance premium	24,000		
- Total amount of INR 1,44,000 is allowed as deduction since it is within the limit of INR 1,50,000		1,44,000	
<b>Deduction under section 80D</b>			
- Medical insurance premium paid INR 18,000		18,000	1,62,000
<b>Total income</b>			<b>23,30,500</b>

#### Concept Problem 4

Ramdin, aged 33, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2025:

Basic Salary	INR 15,000 p.m.
DA (50% of it is meant for retirement benefits)	INR 12,000 p.m.
Commission as a percentage of turnover of the Company	0.5 %
Turnover of the Company	INR 50 lacs
Bonus	INR 50,000
Gratuity	INR 30,000
Own Contribution to R.P.F.	INR 30,000
Employer's contribution to R.P.F.	20% of basic salary
Interest credited in the R.P.F. account @ 15% p.a.	INR 15,000

Gold Ring worth INR 10,000 was given by employer on his 25 <sup>th</sup> wedding anniversary.
Music System purchased on 01.04.2024 by Company for INR 85,000 and was given to him for personal use.
Two light goods vehicles owned by him were leased to a transport company against the fixed charges of INR 6,500 p.m. Books of account are not maintained.
Received interest of INR 5,860 on bank FDRs on 24.04.2024 and interest of INR 6,786 (Net) from the debentures of Indian Companies on 05.05.2024.
Made payment by cheques of INR 15,370 towards premium of Life Insurance policies and INR 22,500 for Mediclaim Insurance policy for self and spouse.
Invested in NSC INR 30,000 and in FDR of SBI for 5 years INR 50,000.
Donations of INR 11,000 to an institution approved u/s 80G and of INR 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute his total income and tax payable thereon for the A.Y. 2025-26. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime under section 115BAC.

**Solution**

**Computation of Total Income of Mr. Ramdin for A.Y.2025-26 under normal provisions of the Act:**

Particulars	Amount	Amount
<b>Income from Salaries</b>		
Basic Salary (INR 15,000 x 12)		1,80,000
Dearness Allowance (INR 12,000 x 12)		1,44,000
Commission on Turnover (0.5% of INR 50 lacs)		25,000
Bonus		50,000
Gratuity ( <b>Note 1</b> )		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of INR 1,80,000]	36,000	
Less: Exempt (Note 2)	33,240	2,760
Interest credited in recognized provident fund account @ 15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth INR 10,000 on 25 <sup>th</sup> wedding anniversary by employer ( <b>See Note 3</b> )		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of INR 85,000		8,500
		<b>4,55,760</b>
Less: Standard deduction u/s 16(ia)		50,000
		<b>4,05,760</b>
<b>Profits and Gains of Business or Profession</b>		
Lease of 2 trucks on contract basis against fixed charges of INR 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. INR 7,500 p.m. for each of the two trucks (INR 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000

Particulars	Amount	Amount
<b>Income from Other Sources</b>		
Interest on bank FDRs	5,860	
Interest from debentures (6786 x 100/90)	7,540	13,400
<b>Gross total Income</b>		<b>5,99,160</b>
Less: Deductions under Chapter VI-A		
<b>Section 80C</b>		
- Premium on life insurance policy	15,370	
- Investment in NSC	30,000	
- FDR of SBI for 5 years	50,000	
- Employee's contribution to recognized provident fund	30,000	1,25,370
<b>Section 80D - Mediclaim Insurance</b>		22,500
<b>Section 80G (Note 4)</b>		10,600
<b>Total Income</b>		<b>4,40,690</b>
<b>Tax on total income</b>		
Income-tax [5% of 1,90,690 (i.e., 4,40,690 – 2,50,000)]		9,535
Less: Rebate u/s 87A		9,535
<b>Tax Liability</b>		<b>Nil</b>
Less: Tax deducted at source (INR 7,540 - INR 6,786)		754
<b>Net Tax refundable</b>		<b>754</b>
<b>Tax refundable (rounded off)</b>		<b>750</b>

**Notes:**

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)  

$$= 12\% \text{ of } (1,80,000 + (50\% \text{ of } 1,44,000) + 25,000)$$

$$= 12\% \text{ of } 2,77,000 = 33,240$$
- An alternate view possible is that only the sum in excess of INR 5,000 is taxable in view of the language of Circular No. 15/2001 dated 12.12.2001 that such gifts upto INR 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be INR 5,000. In such a case the Income from Salaries would be INR 4,00,760.
- Deduction under section 80G is computed as under:**

Particulars	Amount
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved u/s 80G (50% of INR 11,000) (amount contributed INR 11,000 or 10% of Adjusted Gross Total Income i.e., INR 45,129, whichever is lower)	5,500



Particulars	Amount
Total deduction	10,600

Adjusted Gross Total Income = Gross Total Income – Deductions under section 80C and 80D

$$= 5,99,160 - 1,47,870 = 4,51,290.$$

### Concept Problem 5

Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2023-24, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to INR 75 lakhs (including cost of land INR 10 lakhs). The warehouse became operational with effect from 1<sup>st</sup> April, 2024 and the expenditure of INR 75 lakhs was capitalized in the books on that date.

Relevant details for the financial year 2024-25 are as follows:

Particulars	Amount
Profit of unit located in SEZ	40,00,000
Export sales of above unit	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction u/s 35 AD)	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for A.Y. 2025-26 both as per section 115BAC and as per regular provisions of the Income-tax Act, 1961 for A.Y. 2025-26. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

### Solution

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

Particulars	Amount	Amount
<b>Profits and gains of business or profession</b>		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction under section 32	6,50,000	
On building @ 10% of 65 lakhs <sup>4</sup> (normal depreciation u/s 32 is allowable)		
		98,50,000
<b>Total Income</b>		<b>1,38,50,000</b>
<b>Computation of tax liability as per section 115BAC</b>		
Tax on INR 1,38,50,000		38,45,000
Add: Surcharge @ 15%		5,76,750
		<b>44,21,750</b>
Add: Health and Education cess @ 4%		1,76,870
<b>Total tax liability</b>		<b>45,98,620</b>

Notes:

- a) Deductions u/s 10AA and 35AD are not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- b) Mr. X is **not** liable to alternate minimum tax u/s 115JC under default tax regime under section 115BAC.

### Computation of total income and tax liability of Mr. X for A.Y.2025-26 (under the regular provisions of the Income-tax Act, 1961)

Particulars	Amount	Amount
<b>Profits and gains of business or profession</b>		
Profit from unit in SEZ	40,00,000	
Less: Deduction under section 10AA [See Note (1) below]	16,00,000	
<b>Business income of SEZ unit chargeable to tax</b>		24,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction under section 35AD [See Note (2) below]	65,00,000	
<b>Business income of warehousing facility chargeable to tax</b>		40,00,000
<b>Total Income</b>		<b>64,00,000</b>
<b>Computation of tax liability (under the normal/ regular provisions)</b>		
Tax on INR 64,00,000		17,32,500
Add: Surcharge @ 10%		1,73,250
		<b>19,05,750</b>
Add: Health and Education cess @ 4%		76,230
<b>Total tax liability</b>		<b>19,81,980</b>

### Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

Particulars	Amount	Amount
<b>Total Income (as computed above as per normal provisions of Act)</b>		<b>64,00,000</b>
Add: Deduction under section 10AA		16,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32 on building @ 10% of INR 65 lakhs	6,50,000	58,50,000
<b>Adjusted Total Income</b>		<b>1,38,50,000</b>
Alternate Minimum Tax @ 18.5%		25,62,250
Add: Surcharge @ 15% (since adjusted total income > INR 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess @ 4%		1,17,863
		30,64,451
<b>Tax liability under section 115JC (rounded off)</b>		<b>30,64,450</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 @ 15% and cess @ 4%. Therefore, tax liability as per section 115JC is 30,64,450.

Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him **to opt out of the default tax regime under section 115BAC for A.Y. 2025-26**. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

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

	Amount
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income- tax Act, 1961	19,81,980
	<b>10,82,470</b>

#### Notes:

##### 1) Deduction under section 10AA in respect of Unit in SEZ =

Profit of the Unit in SEZ × Export turnover of the Unit in SEZ X 50%

Total turnover of the Unit in SEZ

INR 40,000 × INR 80,00,000 X 50% = 16,00,000

INR 1,00,00,000

##### 2) Deduction @ 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 agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the Assessee on the date of commencement of its operations.

Deduction under section 35AD would, however, not be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of INR 65 lakhs (i.e., 75 lakhs – 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y. 2023-24 and capitalized in the books of account on 1.4.2024, being the date when the warehouse became operational, INR 65,00,000, being 100% of INR 65 lakhs would qualify for deduction under section 35AD.

#### Concept Problem 6

Mr. Manohar, a resident individual, age 53 years provides consultancy services in the field of Taxation. His Income and Expenditure account for the year ended 31<sup>st</sup> March, 2025 is as follows:

Expenditure	Amount	Income	Amount
To Salary	4,00,000	By Consulting fees	58,00,000
To Motor car expenses	88,000	By Share of Profit from HUF	55,000
To Depreciation	87,500	By Interest on bank fixed deposits	25,000
To Medical expenses	70,000	By Interest on income tax refund	26,000
To Purchase of computer	90,000		
To Bonus	25,000		
To General expenses	1,05,000		
To Office & administrative	1,15,000		

Expenditure	Amount	Income	Amount
To Excess of income over Expenditure	49,25,500		
	<b>59,06,000</b>		<b>59,06,000</b>

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

- (1) Salary includes a payment of INR 22,000 per month to his sister-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is ₹ 18,000 per month
- (2) Written down value of the assets as on 1<sup>st</sup> April, 2024 are as follows:
 

Motor car (25 % used for personal use)	INR 3,50,000
Furniture & Fittings	INR 80,000
- (3) Medical expenses include:
  - Family planning expenditure INR 15,000 incurred for the employees which was revenue in nature.
  - Medical expenses for his father INR 55,000. (Father's age is 65 years and he is not covered under any medical insurance policy). INR 2,500 incurred in cash and remaining by credit card.
- (4) The computer was purchased on 5<sup>th</sup> June, 2024 on credit. The total invoice was paid in the following manner:
  - INR 18,000 paid in cash as down payment on the date of purchase
  - Remaining amount was paid through account payee cheque on 10<sup>th</sup> August, 2024.
- (5) Bonus was paid on 30<sup>th</sup> September, 2025.
- (6) General expenses include commission payment of INR 42,000 to Mr. Mahesh for the promotion of business on 17<sup>th</sup> September, 2024 without deduction of tax at source.
- (7) He also received gold coins from a family friend on the occasion of marriage anniversary on 15<sup>th</sup> November, 2024. The market value of the coins on the said date was INR 85,000.

The consultancy fees for the previous year 2023-24 was INR 52,50,300. Compute the total income and the tax liability of Mr. Manohar for the assessment year 2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

### Solution

#### Computation of Total Income of Mr. Manohar for the A.Y. 2025-26 under Optional Tax regime:

Particulars	Amount	Amount
<b>Profits and gains from business or profession</b>		
Net income as per Income and Expenditure Account		49,25,500
Add: Expenses debited but not allowable		
- Excess salary of INR 4,000 per month to sister-in-law [not disallowed since sister-in-law does not fall within the definition of 'relative' under section 2(41)]	-	
- Motor car expenses attributable to personal use not allowable (88,000 x 25%)	22,000	
- Depreciation as per books of account	87,500	
- Medical expenses of 15,000 for family planning expenditure for the employees [disallowed, since such expenditure is allowable to company Assessee only]	15,000	

Particulars	Amount	Amount
- Medical expenditure of INR 55,000 incurred for his father, not allowable, since it is personal in nature]	.55,000	
- Purchase of computer (not allowable since it is capital in nature)	90,000	
- Bonus (allowed since it is paid on the due date of filing of return of income i.e., on 31.10.2025) [For the P.Y.2024-25, the gross receipts i.e., fees of Mr. Manohar from consultancy services is exceeding INR 50 lakhs), he has to get his books of account audited under section 44AB, in which case, his due date for filing return of income would be 31.10.2025]		
- Commission paid without deduction of tax at source [Mr. Manohar would be liable to deduct tax at source under section 194-H on commission paid during the P.Y. 2024-25, since his gross receipts from profession during the P.Y.2023-24 exceeded the monetary limit of INR 50 lakhs. Thus, 30% disallowance would be attracted since he has not deducted tax at source on the commission.	12,600	2,82,100
		<b>52,07,600</b>
Less: Income credited but not taxable or taxable under any other head		
- Share of profit from HUF [Exempt u/s 10(2)]	55,000	
- Interest on bank fixed deposit	25,000	
- Interest on income tax refund	26,000	
		1,06,000
		<b>51,01,600</b>
Less: Depreciation allowable under the Income- tax Act, 1961 [See Working Notes]		76,175
		<b>50,25,425</b>
<b>Income from other sources</b>		
- Interest on bank fixed deposits	25,000	
- Interest on income- tax refund	26,000	
- Value of gold coins received from a family friend on the occasion of marriage anniversary (taxable u/s 56(2)(x), as fair market value of coins exceeds 50,000)	85,000	<b>1,36,000</b>
<b>Gross Total Income</b>		<b>51,61,425</b>
<b>Less: Deductions under chapter VI-A</b>		
<b>Section 80 D</b> Medical expenses for father (Deduction allowable to the extent of INR 50,000 since father, aged 65 years, is a senior citizen and is not covered under any medical insurance policy)		50,000
<b>Total Income</b>		<b>51,11,425</b>
<b>Total Income (Rounded off)</b>		<b>51,11,425</b>

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

Particulars	Amount	Amount
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Particulars	Amount	Amount
Tax on total income of INR 51,11,430		
Upto INR 2,50,000	Nil	
INR 2,50,001 – INR 5,00,000 @ 5%	12,500	
INR 5,00,001 – INR 10,00,000 @ 20%	1,00,000	
Above INR 10,00,001 i.e. 41,11,430 @ 30%	12,33,429	13,45,929
Add: Surcharge @ 10% [Since his total income exceed INR 50,00,000]		1,34,593
Less: Marginal Relief:		14,80,522
Excess tax payable [14,80,522 - 13,12,500, being the amount of tax payable on total income of INR 50 lakhs]	1,68,022	
Amount of income in excess of INR 50,00,000	1,11,430	56,592
		<b>14,23,930</b>
Add: Health & Education cess @ 4%		56,957
<b>Tax liability</b>		<b>14,80,887</b>
<b>Tax liability (rounded off)</b>		<b>14,80,890</b>

**Working note:**

**Computation of depreciation allowable as per Income-tax Act, 1961**

Particulars	Amount
On Motor Car [INR 3,50,000 x 15% x 75%]	39,375
On Furniture and fittings [INR 80,000 x 10%]	8,000
On Computer INR 72,000 x 40% [Actual cost of the computer is 72,000 (i.e., 90,000 – 18,000). INR 18,000 paid otherwise than by way of account payee cheque/bank draft, ECS or other specified method is not includible in actual cost.	28,800
	<b>76,175</b>

### Concept Problem 7

Mr. Dheeraj, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2025:

- He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of 3,34,000. He has paid municipal taxes of 30,000 for the current financial year. Both these floors are of equal size.
- As per interest certificate from ICICI bank, he paid 1,80,000 as interest and 95,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2024.
- He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was 400 lakhs, which includes 120 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is 45 lakhs.
- He employed 20 new employees for the said industrial undertaking during the previous year 2024-25. Out of 20 employees, 12 were employed on 1<sup>st</sup> May 2024 on monthly emoluments of 18,000 and remaining were employed on 1<sup>st</sup> August 2024 on monthly emoluments of 12,000. All these employees participate in

recognised provident fund and they are paid their emoluments directly to their bank accounts.

- e. He earned 30,000 and 45,000 as interest on saving bank deposits and fixed deposits respectively.
- f. He also sold his vacant land on 01.12.2024 for 13 lakhs. The stamp duty value of land at the time of transfer was 14 lakhs. The FMV of the land as on 1<sup>st</sup> April, 2001 was 4.8 lakhs and Stamp duty value on the said date was 4 lakhs. This land was acquired by him on 15.9.1997 for 2.80 lakhs. He had incurred registration expenses of 12,000 at that time.

The cost of inflation index for the financial year 2024-25 and 2001-02 are 363 and 100 respectively.

- g. He paid insurance premium of 49,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute his total income and tax liability of Mr. Dheeraj for the Assessment Year 2025-26, in the manner so that he can make maximum tax savings.

### Solution

#### Computation of total income of Mr. Dheeraj for A.Y. 2025-26 under Default Tax regime:

S No	Particulars	Amount	Amount	Amount
<b>I.</b>	<b>Income from house property</b>			
	<b>Let out portion [First Floor]</b>			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		3,34,000	
	Less: Municipal taxes paid by him in the P.Y. 2024-25 pertaining to let out portion [30,000/2]		15,000	
	<b>Net Annual Value (NAV)</b>		3,19,000	
	Less: Deduction u/s 24			
	a. 30% of 3,19,000	95,7000		
	b. Interest on housing loan [1,80,000/2]	90,000	1,85,700	
			1,33,300	
	<b>Self-occupied portion [Ground Floor]</b>			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes]			
	Less: Interest on housing loan		Nil	
	<b>Income from house property</b>			1,33,300
<b>II.</b>	<b>Profits and gains of business or profession</b>			
	Income from SEZ unit			45,00,000
<b>III.</b>	<b>Capital Gains</b>			
	<b>Long – term capital gains on sale of land (since held for more than 24 months)</b>			
	Full value of Consideration [Actual consideration of 13 lakhs, since stamp duty value of 14 lakhs does not exceed actual consideration by more than 10%]	13,00,000		
	Less: Cost of acquisition	4,00,000	9,00,000	9,00,000

	Cost of acquisition			
	<b>Higher of –</b> a. Actual cost 2.80 lakhs + 0.12 lakhs = 2.92 lakhs and b. Fair market value (FMV) as on 1.4.2001 = 4.8 lakhs but cannot exceed stamp duty value of 4 lakhs			
<b>III.</b>	<b>Income from Other Sources</b>			
	Interest on savings bank deposits		30,000	
	Interest on fixed deposits		45,000	75,000
	<b>Gross Total Income</b>			<b>56,08,300</b>
	<b>Less: Deduction u/s 10AA</b>			Nil
	<b>Less: Deduction under Chapter VI-A</b>			
	<b>Deduction under section 80JJAA</b>		9,43,200	
	30% of the employee cost of the new employees employed during the P.Y. 2024-25 allowable as deduction [30% of 31,44,000 [23,76,000 (12 x 18,000 x 11) + 7,68,000 (8 x 12,000 x 8)]]			
	<b>Total Income</b>			<b>46,65,100</b>

**Computation of tax liability of Mr. Dheeraj for A.Y. 2025-26 under the Default Tax Regime**

Particulars	Amount	Amount
Tax on LTCG u/s 112 of 9,00,000 x 12.5%		1,12,500
<b>Tax on LTCG with indexation benefits</b>		
Full value of Consideration	13,00,000	
Less: Indexed Cost of acquisition [4,00,000/100*363]	14,52,000	
LTCL	1,52,000	
Tax on LTCL		Nil
Since it is beneficial for Assessee to opt for indexation, Tax on LTCL shall be Nil. However, this benefit is only for paying Tax. LTCG for the purpose of calculating GTI remains 9,00,000		
<b>Tax on Normal Income of 37,65,100 at slab</b>		
Upto 15,00,000	1,40,000	
15,00,001 – 37,65,100 [@ 30% of 22,65,100]	6,79,530	
		8,19,530
Add: Health and education cess @ 4%		32,781
<b>Total Tax Liability</b>		<b>8,52,311</b>
<b>Tax Liability (rounded off)</b>		<b>8,52,310</b>

**Computation of total income of Mr. Dheeraj as per Normal Provisions of Act**

Particulars	Amount	Amount
<b>Gross Total Income as per DTR</b>		<b>56,08,300</b>
Less: Interest on borrowing in respect of self – occupied house property		90,000
<b>Gross Total Income as per as per Normal Provisions of Act</b>		<b>55,18,300</b>
<b>Less: Deduction u/s 10AA</b>		6,75,000
[Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA @ 50% of export profits, since P.Y. 2024-25 being the 6 <sup>th</sup> year of operations] [Profits of the SEZ x Export Turnover/ Total Turnover] x 100% [45 lakhs x 120 lakhs / 400 lakhs x 50%]		
<b>Less: Deduction under Chapter VI-A</b>		
<b>Deduction under Section 80C</b>		
Repayment of principal amount of housing loan	95,000	
Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Dheeraj	49,000	
<b>Less: Deduction under section 80JJAA</b>		
30% of the employee cost of the new employees employed during the P.Y. 2024-25 allowable as deduction [30% of 31,44,000 [23,76,000 (12 x 18,000 x 11) + 7,68,000 (8 x 12,000 x 8)]	9,43,200	
<b>Deduction under section 80TTA</b>		
Interest on savings bank account, restricted to 10,000	10,000	<b>10,97,200</b>
<b>Total Income</b>		<b>37,46,100</b>

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

Particulars	Amount	Amount
Tax on LTCG u/s 112 of 9,00,000 x 12.5%		1,12,500
<b>Tax on LTCG with indexation benefits</b>		
LTCL	1,52,000	
Tax on LTCL		Nil
Since it is beneficial for Assessee to opt for indexation, Tax on LTCL shall be Nil. However, this benefit is only for paying Tax. LTCG for the purpose of calculating GTI remains 9,00,000		
<b>Tax on Normal Income of 28,46,100 at slab</b>		
Upto 2,50,000	Nil	
2,50,001 – 5,00,000 [@ 5% of 2.50 lakh]	12,500	
5,00,001 – 10,00,000 [@ 20% of 5,00,000]	1,00,000	
10,00,001 – 28,46,100 [@ 30% of 18,46,100]	5,53,830	
		<b>6,66,330</b>

Particulars	Amount	Amount
Add: Health and education cess @ 4%		26,653
<b>Total Tax Liability</b>		<b>6,92,983</b>
<b>Tax Liability (rounded off)</b>		<b>6,92,980</b>

**Computation of tax liability of Mr. Dheeraj for A.Y. 2025-26 under the special provisions of the Act (Alternate Minimum Tax)**

Particulars	Amount
<b>Computation of adjusted total income</b>	
Total income as per the normal provisions of the Act	<b>37,46,100</b>
<b>Add: Deduction u/s 10AA</b>	6,75,000
<b>Deduction u/s 80JJAA</b>	9,43,200
<b>Adjusted total income</b>	<b>53,64,300</b>
<b>AMT @ 18.5%</b>	<b>9,92,396</b>
<b>Surcharge @ 10%</b>	<b>99,239.6</b>
	<b>10,91,636</b>
Add: HEC @ 4%	43,665
<b>AMT Liability</b>	<b>11,35,301</b>
<b>AMT Liability (rounded off)</b>	<b>11,35,300</b>

Since tax liability as per section 115BAC 8,52,310 is less than higher of tax liability of 11,35,300 being higher of AMT liability and tax liability computed as per normal provisions of the Income tax Act, 1961, it is beneficial for Mr. Dheeraj to pay tax under default tax regime u/s 115BAC.

### Concept Problem 8

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

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



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

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

Professional Books 90,000

Computers 35,000
- (vi) The new Furniture as appearing in the Income & Expenditure A/c was purchased on 31<sup>st</sup> August, 2024 and was put to use on the same day. The payment was made as under:
  - 18,000 paid in cash at the time of purchase of new furniture on 31.08.2024.
  - 19,000 paid by account payee cheque on 05.09.2024 as balance cost of new furniture and
  - 11,000 paid in cash on 31.08.2024 to the transporter as freight charges for the new furniture.
- (vii) Mr. Samar purchased a car on 02.04.2023 for 3,35,000 for personal use. However, on 30.04.2024 he brought the said car for use in his profession. The fair market value of the car as on 30.04.2024 was 2,50,000.
- (viii) Mr. Samar made a contribution of 1,00,000 in his PPF A/c on 31.01.2025.
- (ix) The Gross Professional Receipts of Mr. Samar for P.Y. 2023-24 was 52,00,000.

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

Ignore provisions under section 14A relating to disallowance of expenditure incurred in relation to income not includible in total income.

### **Solution**

#### **Computation of total income of Mr. Samar for A.Y. 2025-26 under Optional Tax regime:**

	Particulars	Amount	Amount	Amount
	<b>Income from business or profession</b>			
	Excess of income over expenditure		39,43,000	
	<b>Add: Items debited but not allowable while computing business income</b>			
	- Family planning expenditure incurred for employees [not allowable as deduction since expenditure on family planning for employees is allowed only to a company Assessee / not	20,000		

	Particulars	Amount	Amount	Amount
	allowed in case of individuals. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]			
	- Salary payment to sister-in-law in excess of market rate [Any expenditure incurred for which payment is made to a relative, to the extent it is considered unreasonable is disallowed. However, sister-in-law is not included in the definition of “relative” <sup>1</sup> for the purpose of section 40A(2). Therefore, no adjustment is required for excess salary paid to Mr. Samar’s sister-in-law]	Nil		
	- Medical expenses for the treatment of father [Not allowed as deduction since it is a personal expenditure / not an expenditure incurred for the purpose of business of Mr. Samar. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	80,000		
	- Commission to Ms. Anjaleen without deduction of tax at source [Mr. Samar would be liable to deduct tax at source on commission since his gross receipts from profession exceeded 50 lakhs during F.Y. 2023-24. Since commission has been paid without deduction of tax at source, hence 30% of 25,000, being commission paid without deducting tax at source, would be disallowed under section 40(a)(ia) while computing the business income of A.Y. 2025-26]	7,500		
	- Depreciation as per books of account	90,000		
	- Purchase of Furniture [not allowable, since it is a capital expenditure]	48,000	2,45,500	
			41,88,500	
	Add: Employees’ Contribution to EPF [Sum received by the Assessee from his employees as contribution to EPF is income of the employer. Since the amount is not credited to Income and Expenditure Account, the same has to be added for computing business income. Deduction in respect of such sum is allowed only if such amount is credited to the employee’s account on or before due date under the relevant Act. Since, the employee’s contribution to EPF for February 2025 is deposited after the due date under the relevant Act, no deduction would be available]		10,000	
			41,98,500	
	Less: Depreciation as per Income-tax Rules			
	- On Professional Books [90,000 x 40%]	36,000		
	- On Computers [35,000 x 40%]	14,000		
	- On Furniture [19,000 x 10%, since it has been put to use for more than 180 days during the year] [Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person, otherwise than by an A/c payee cheque/ bank draft or use of ECS or through	1,900		

	Particulars	Amount	Amount	Amount
	prescribed electronic mode, exceeds 10,000 in a day, such expenditure would not form part of actual cost of such asset. Hence, 18,000 and 11,000 paid on 31.8.2024 in cash would not be included in the actual cost of furniture]			
	- On Car [3,35,000 x 15%] [Actual cost of car would be the purchase price of the car to Mr. Samar, i.e., 3,35,000]	50,250	1,02,150	
			40,96,350	
	<b>Less: Items of income credited but not taxable or taxable under any other head of income</b>			
	- Interest on Public Provident Fund [Exempt]	60,000		
	- Interest on savings bank account [Taxable under the head “Income from other sources”]	20,000		
	- Interest on National Savings Certificates VIII Issue (3 <sup>rd</sup> Year) [Taxable under the head “Income from other sources”]	21,000	1,01,000	
				39,95,350
<b>II.</b>	<b>Income from Other Sources</b>			
	Interest on savings bank account		20,000	
	Interest on National Savings Certificates VIII Issue (3 <sup>rd</sup> Year)		21,000	41,000
	<b>Gross Total Income</b>			<b>40,36,350</b>
	<b>Less: Deduction under Chapter VI-A</b>			
	<b><u>Deduction under section 80C</u></b>			
	Contribution to PPF	1,00,000		
	Interest on NSC (3 <sup>rd</sup> Year) (Reinvested)	21,000	1,21,000	
	<b><u>Deduction under section 80D</u></b>		50,000	
	Medical expenses for the treatment of father [Since Mr. Samar’s father is a senior citizen and not covered by any health insurance policy, payment for medical expenditure by a mode other than cash would be allowed as deduction to the extent of 50,000]			
	<b><u>Deduction under section 80TTA</u></b> Interest on savings bank account to the extent of 10,000		10,000	1,81,000
	<b>Total Income</b>			<b>38,55,350</b>

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

Particulars	Amount	Amount
Tax on total income of 38,55,350		
Upto 2,50,000	Nil	
2,50,001 - 5,00,000 [@ 5% of 2.50 lakhs]	12,500	
5,00,001 - 10,00,000 [@ 20% of 5 lakhs]	1,00,000	
10,00,001 - 38,55,350 [@ 30% of 28,55,350]	8,56,605	
		9,69,105

Add: Health and education cess @ 4%		38,764
<b>Tax liability</b>		<b>10,07,869</b>
<b>Tax liability (rounded off)</b>		<b>10,07,870</b>

### Concept Problems 9

Mr. Rajesh is a working partner in M/s Sunflower Associates, a partnership firm. Mr. Rajesh has contributed 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, 2018. The total turnover, export turnover and net profit for the year ended 31.3.2025 were 120 lakhs, 45 lakhs and 7.5 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. 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 7,50,000. The following items are debited to Profit & Loss Account:

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

The following items are credited to Profit & Loss account:

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

He has paid the premium of 60,000 on life insurance policy in the name of her married daughter. The policy was taken on 1.10.2019 and the sum assured being 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. 2025-26 under default tax regime under section 115BAC

	Particulars	Amount	Amount
<b>I</b>	<b>Profits and gains of business and profession</b>		
	<b>Income from firm M/s Sunflower 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. Rajesh 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>Profit from SEZ unit</b>		
	Net profit from SEZ unit		7,50,000
	<b>Income from warehousing facility for storage of edible oil</b>		
	Net profit as per profit and loss account	7,50,000	

	Particulars	Amount	Amount
	<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)	<u>32,000</u>	
		6,83,000	
	<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	<u>10,00,000</u>	
		18,53,000	
	Less: Depreciation on building [10,00,000 x 10%]	<u>1,00,000</u>	17,53,000
<b>II</b>	<b>Income from Other Sources</b>		
	Interest on savings bank A/c with post office	15,000	
	Less: Exempt under section 10(15)	<u>3,500</u>	11,500
	Interest on fixed deposit with SBI	20,000	
	Dividend from Indian companies (Gross)	<u>32,000</u>	<u>63,500</u>
	<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. 2025-26

	Amount	Amount
<b>Tax on total income of 29,86,500</b>		
On first 15,00,000	1,40,000	
15,00,001 - 29,86,500 [@ 30% of 14,86,500]	<u>4,45,950</u>	5,85,950
Add: Health and Education cess @4%		<u>23,438</u>
		<b>6,09,388</b>
Less: TDS u/s 194		3,200
Less: Advance income-tax paid		1,00,000
<b>Tax payable</b>		<b>5,06,188</b>
<b>Tax Payable (Rounded off)</b>		<b>5,06,190</b>

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

Particulars	Amount	Amount
<b>Gross Total Income as per section 115BAC</b>	29,86,500	
<b>Less: Deduction under section 10AA</b>	<u>1,25,000</u>	<b>28,61,500</b>
[7,50,000 x 40,00,000 / 1,20,00,000 x 50%, being seventh year of operation]		



Particulars	Amount	Amount
<b>Less: 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	<u>10,000</u>	<u>60,000</u>
<b>Total Income</b>		<b><u>28,01,500</u></b>

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

Particulars	Amount	Amount
<b>Tax on total income of 28,01,500</b>		
Upto 2,50,000	Nil	
2,50,001 – 5,00,000 [@ 5% of 2.50 lakhs]	12,500	
5,00,001 – 10,00,000 [@ 20% of 5 lakhs]	1,00,000	
10,00,001 - 28,01,500 [@ 30% of 18,01,500]	<u>5,40,450</u>	6,52,950
Add: Health and education cess@4%		26,118
<b>Total tax liability</b>		<b>6,79,068</b>
Less: TDS u/s 194		3,200
Less: Advance income-tax paid		1,00,000
<b>Tax payable</b>		<b>5,75,868</b>
<b>Tax payable (rounded off)</b>		<b>5,75,870</b>

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

	Amount
<b>Total Income (computed above as per regular provisions of income tax)</b>	<b>28,01,500</b>
Add: Deduction under section 10AA	<u>1,25,000</u>
<b>Adjusted Total Income</b>	<b><u>29,26,500</u></b>
Alternative Minimum Tax @ 18.5%	5,41,403
Add: Health and education cess@4%	<u>21,656</u>
<b>Total tax liability</b>	<b>5,63,059</b>
Less: TDS u/s 194	3,200
Less: Advance income-tax paid	<u>1,00,000</u>
<b>Tax payable</b>	<b>4,59,859</b>
<b>Tax payable (rounded off)</b>	<b><u>4,59,860</u></b>

Since alternate minimum tax payable is less than the regular income-tax payable, tax payable under normal provisions of the Act is 5,75,870.

#### Concept Problem 10 [ICAI Nov 22]

Dr. Rohan, 82 years old resident surgeon, having his Nursing Home in Mumbai, gives the following particulars for the year ended on 31.03.2025.

Receipts	Amount	Payments	Amount
Opening Balance b/d	1,25,000	Salary to Staff	3,50,000
Fees from visits to other hospitals (net)	5,85,000	Taxes & Insurance	26,000
Fees for March, 2024 received in April, 2024		Entertainment Expenses	1,10,000
IPD 40,000		Purchase of Television	48,000
OPD 45,000	85,000	Gift to daughter-in law	60,000
Dividend from shares (net)	18,900	Interest on loan for repairs to property	65,000
Fees received during the year	10,25,000	Personal medical expenses	70,000
Gifts received from relatives of patients	45,000	Deposits in PPF A/c	55,000
Honorarium for painting services in Jai Hind Art School (net)	22,500	Nursing Home expenses	3,75,000
Income-tax Refund (Including interest 1,500)	12,100	Prof. fees paid for consulting services	1,20,000
		Purchase of furniture at home	1,35,000
		Personal Expenses	3,00,000
		Balance c/f	2,04,500
	<b>19,18,500</b>		<b>19,18,500</b>

Other Information:

- He keeps his books of accounts on cash basis and has not opted for the provisions of section 44ADA.
- Salary includes 60,000 paid to his sister who is a qualified nurse paid in cash.
- Entertainment expenses include 25,000 for dinner to doctors in a five-star hotel.
- Interest on loan for repairs to property includes 40,000 for his residential property.
- His daughter in law earned income of 10,000 from the amount received as gift.
- Fixed Assets values as on 01.04.2024 are as under :

Nursing Home Equipments 2,20,000, Medical Books (incl. annual publications 10,000) 35,000, Laptop 40,000.

- Television purchased for nursing home purpose on 21.09.2024 is put to use on 03.10.2024.
- He has donated 10,000 towards PM CARES Fund on 15.08.2024.

You are required to

- Compute the total income and tax payable by him for A.Y. 2025-26 as per the regular provisions of the Income-tax Act, 1961.
- What will be his total income and tax payable, if he opts for the provisions of section 44ADA? Will it be more beneficial for him to adopt 44ADA?

### Solution

**Computation of total income and tax payable by Dr. Rohan for A.Y. 2025-26 as per Regular provisions of the Act**

Particulars	Amount	Amount	Amount
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	Particulars	Amount	Amount	Amount
<b>I.</b>	<b><u>Income from House Property</u></b>			
	Annual value [Assuming residential property self-occupied]		Nil	
	Less: Deduction under section 24(b) Interest on loan for repairs to property, 40,000, restricted to		30,000	
	Loss from self-occupied property [can be set-off against Profits and gains of business or profession or Income from other sources]			(30,000)
<b>II.</b>	<b><u>Profits and gains from business and profession</u></b>			
	<b>Gross Receipts</b>			
	Fees from visits to other hospitals [5,85,000/90%]	6,50,000		
	Fees for March 2024 received in April 2024 [Fees for March 2024 is chargeable to tax during P.Y. 2024-25, since Dr. Rohan is following cash system of accounting] [40,000 + 45,000]	85,000		
	Fees received during the year	10,25,000		
	Gifts received from relatives of patients [taxable as business income]	45,000	18,05,000	
	<b>Less: Permissible deductions</b>			
	Salary to staff [Salary paid to his sister who is a qualified nurse in cash disallowed under section 40A(3), since such cash payment exceeds 10,000] [3,50,000 – 60,000]	2,90,000		
	Taxes and insurance	26,000		
	Entertainment expenses, including dinner to doctors [Assuming that the entire sum was incurred wholly and exclusively for business purpose]	1,10,000		
	Interest on loan for repair to property [to the extent relating to business] = 65,000 – 40,000, relating to residential property	25,000		
	Nursing home expenses	3,75,000		
	Professional fees paid for consulting services	1,20,000	9,46,000	
			8,59,000	
	Less: Depreciation under section 32			
	Nursing home equipment's [2,20,000 x 15%] <b>Note:</b> Nursing home equipment would be eligible for depreciation @ 15%, being the general rate for plant and machinery. The main solution has, accordingly, been worked out applying 15%. However, if such equipment are in the nature of life saving medical equipment, they would be eligible for higher depreciation @ 40%. If 40% rate is applied, depreciation would be 88,000.	33,000		
	Medical books [35,000 x 40%]	14,000		
	Laptop [40,000 x 40%]	16,000		
	Television [48,000 x 15%, since the television is put to use for	7,200	70,200	

	Particulars	Amount	Amount	Amount
	180 days during the P.Y. 2024-25] <b>Note</b> - Television would be eligible for depreciation @ 15%. However, television connected to laptop or other medical equipment and used by Doctor may be classified as plant and machinery eligible for depreciation @ 40%. If 40% rate is applied, depreciation for TV would be 19,200.  Also, it is possible to take a view that Television is furniture and fixtures qualifying for depreciation @ 10%. If 10% rate is applied, depreciation for TV would be 4,800.			
				7,88,800
III.,	<b><u>Income from Other Sources</u></b>			
	Dividend from shares [18,900/90%]		21,000	
	Honorarium for painting services in Jai Hind Art School [22,500/90%]		25,000	
	Honorarium (Alternative without TDS) - 22,500 <b>Note</b> - In the question, it is mentioned that Dr. Rohan has received Honorarium for painting services in Jai Hind Art School (Net) of 22,500. Since the threshold limit for deducting tax at source under section 194J is 30,000, there is no requirement to deduct tax at source on such income. Accordingly, question can be answered without grossing up the amount of honorarium of 22,500.			
	Interest on income-tax refund		1,500	
	Income earned from gift to daughter in law [Income earned by daughter in law from asset gifted without consideration to her by Dr. Rohan is includible in the hands of Dr. Rohan]		10,000	57,500
	<b>Gross Total Income</b>			<b>8,16,300</b>
	<b><u>Less: Deduction under Chapter VI-A</u></b>			
	<b><u>Deduction under section 80C</u></b> Deposits in PPF		55,000	
	<b><u>Deduction under section 80D</u></b> Medical expenses to the extent of 50,000 since Dr. Rohan is a senior citizen (assuming he has not taken any medical insurance policy)		50,000	
	<b><u>Deduction under section 80G</u></b> Donation towards PM CARES Fund		10,000	1,15,000
	<b>Total Income</b>			<b>7,01,300</b>
	<b>Tax Payable</b>			
	Upto 5,00,000 [since Dr. Rohan is aged 80 years or above]		Nil	
	5,00,001 to 7,01,300 [2,01,300 @ 20%]		40,260	40,260
	Add: HEC @ 4%			<u>1,610</u>
	<b>Tax liability</b>			<b>41,870</b>
	<b><u>Less: TDS on fees from visits to other hospitals</u></b>		65,000	

	Particulars	Amount	Amount	Amount
	TDS on dividend from shares		2,100	
	TDS on honorarium for painting services in Jai Hind art School		2,500	<b>69,600</b>
	<b>Tax Refundable</b>			<b>27,730</b>

**Computation of total income and tax payable by Dr. Rohan for A.Y. 2025-26 if he opts for section 44ADA**

	Particulars	Amount
I	<b>Income from house property</b>	
	Loss from self-occupied property	(30,000)
II	<b>Income from business or profession</b>	
	Income from profession [18,05,000 x 50%] [No other expenditure or depreciation is allowed]	9,02,500
III	<b>Income from Other Sources</b>	57,500
	<b>Gross Total Income</b>	<b>9,30,000</b>
	Less: Deduction under Chapter VI-A	1,15,000
	<b>Total Income</b>	<b>8,15,000</b>
	<b>Tax Payable</b>	
	Upto 5,00,000	Nil
	5,00,001 to 8,15,000 [3,15,000 @ 20%]	<u>63,000</u>
		63,000
	Less: HEC @ 4%	2,520
	<b>Tax liability</b>	<b>65,520</b>
	Less: TDS	69,600
	<b>Tax Refundable</b>	<b>4,080</b>
	Since tax refundable in case Dr. Rohan opts for the provisions of section 44ADA is lower than the regular provisions of the Act, it would be beneficial for him <b>not to opt for section 44ADA</b> and get his books of account audited and declare income under the regular provisions.	

**Concept Problem 11 [MTP Nov 23]**

Mr. Rohit, working as Finance Manager in ABC Ltd., Kanpur, retired from the company on 31.10.2024 at the age of 60. The following amounts were received from the employer from 1<sup>st</sup> April, 2024 to 31<sup>st</sup> October, 2024:

Basic Salary	30,000 p.m.
Dearness Allowance	20,000 p.m. (40% reckoned for superannuation benefits)
Ex-gratia (lump sum)	65,000

In addition to the above:

- The company had taken on lease a residential house at Kanpur, paying a lease rent of 9,000 p.m. Mr. Rohit, who was paying to the company 4,000 p.m. towards aforesaid rent, vacated the said premises on 31.10.2024.
- The company had also provided to Mr. Rohit a cooking range and micro-wave oven owned by it. The original cost of these assets was 40,000 and the written down value as on 1.4.2024 was 22,000.



- iii) Mr. Rohit has two sons. His second son was studying in a school run by the employer-company throughout the financial year 2024-25. The education facility was provided free of cost. The cost of such education in a similar school is 1,800 p.m.
- iv) The employer-company was contributing 7,000 p.m. to Central Government Pension Scheme. Mr. Rohit contributed an equal amount.
- v) Professional tax paid by the employer 2,400.
- vi) Subsequent to his retirement, Mr. Rohit started his own business on 15-11-2024. The results of the said business from 15.11.2024 to 31.3.2025 were:
- |   |        |
|---|--------|
| A. Business loss (excluding current depreciation) | 90,000 |
| B. Current year's depreciation                    | 60,000 |
- vii) Mr. Rohit won a prize in a TV game show. He received a sum of 2,10,000 after deduction of tax at source to the tune of 90,000.
- viii) Mr. Rohit furnishes the under-mentioned data relating to savings, investments and out-goings:
- |  |
|--|
| A. Life insurance premium, with a private insurance company 30,000 for his son and 20,000 for his married daughter.                                      |
| B. Medical insurance premium of 22,000 for himself and 26,000 for his mother (aged 82), paid by credit card. His mother is however not dependent on him. |

You are required to compute the total income of Mr. Rohit (showing clearly the computation under various heads of income) and tax payable by him for the assessment year 2025-26 assuming that he opt to shift out of default tax regime u/s 115BAC.

### **Solution**

#### **Computation of total income of Mr. Rohit for A.Y. 2025-26 under Optional Tax regime**

Particulars	Amount	Amount
Basic salary (30,000 x 7)	2,10,000	
Dearness Allowance (20,000 x 7)	1,40,000	
Ex-gratia	65,000	
Employers' contribution to Central Government Pension Scheme (7,000 x 7)	49,000	
Professional tax paid by employer	2,400	
Concessional accommodation (See Notes 1 & 2)	3,100	
Value of furniture (See Note 3)	2,333	
Value of concessional educational facility (1,800 x 7) (See Note 4)	<u>12,600</u>	
<b>Gross salary</b>	<b>4,84,433</b>	
Less: Standard deduction under section 16(ia)	50,000	
Professional tax under section 16(iii)	<u>2,400</u>	<u>52,400</u>
<b>Net salary</b>		<b>4,32,033</b>
<b>Income from other sources</b>		
Winnings from TV Game Show (2,10,000 + 90,000)		<u>3,00,000</u>
<b>Gross Total Income</b>		<b>7,32,033</b>
Less: Deductions under Chapter VI-A		

Particulars	Amount	Amount
<b>Deduction under section 80C</b>		
Life insurance premium (30,000 + 20,000)	50,000	
<b>Deduction under section 80CCD(1) (See Notes 5)</b>		
Employee's contribution to pension scheme [to be restricted to 10% of salary i.e. 10% of 2,66,000 (30,000 + 8,000) x 7]	26,600	
Total deduction under section 80C & 80CCD(1)	76,600	
Additional employee's contribution to pension scheme [49,000 – 26,600] [Section 80CCD(1B)]	22,400	
Employer's Contribution to pension scheme (to be restricted to 10% of salary) [Section 80CCD(2)]	26,600	
<b>Deduction under section 80D (See Note 6)</b>		
Medical insurance premium (22,000 + 26,000)	48,000	1,73,600
<b>Total Income (See Notes 7 &amp; 8)</b>		<b>5,58,433</b>
<b>Total income (rounded off)</b>		<b>5,58,430</b>

**Computation of tax payable by Mr. Rohit for the A.Y. 2025-26**

Particulars	Amount
Tax @ 30% on winnings of 3,00,000 from game show	90,000
Tax on balance income of 2,58,430 (The basic exemption limit of 3,00,000 is applicable since Mr. Rohit is of the age of 60 years during the P.Y. 2024-25)	<u>Nil</u>
	<b>90,000</b>
Add: Health and Education cess @ 4%	<u>3,600</u>
<b>Total Tax Liability</b>	<b>93,600</b>
Less: TDS	<u>90,000</u>
<b>Net Tax Payable</b>	<b>3,600</b>

**Notes:**

- For computation of perquisite value of concessional accommodation, 40% of dearness allowance (i.e. 8,000) should be taken into consideration as forming part of salary, since the question clearly mentions that only 40% is to be reckoned for superannuation benefits. Therefore, salary for the purpose of perquisite valuation would be 3,31,000 [i.e., (30,000 + 8,000) x 7 + 65,000].
- In a case where the accommodation is taken on lease or rent by the employer and provided to the employee, the value of perquisite would be lower of the actual amount of lease rental paid or payable by the employer [i.e. 63,000, being 9,000 x 7] and 10% of salary [i.e., 33,100, being 10% of 3,31,000]. This value (i.e. 33,100) would be reduced by the rent paid by the employee (i.e., 28,000, being 4,000 x 7).  
  
The value of concessional accommodation is 3,100 [i.e. 33,100 – 28,000].
- The value of furniture owned by employer and provided to the employee is 10% p.a. of actual cost which amounts to 2,333 [i.e. 10% of 40,000 x 7/12].

Therefore, the value of furnished accommodation will be 9,983 (7,650 + 2,333) provided to the employee.

It is also possible to consider the cooking range and micro-wave oven provided by employer to the employee as a perquisite on account of use of movable assets of the employer by the employee. Even it is so assumed, there

would be no change in the answer since in such a case also, the perquisite value is 10% p.a. of actual cost.

4. In determining the value of perquisite resulting from the provision of free or concessional educational facilities, from a plain reading of the proviso to Rule 3(5), it is apparent that if the cost of education per child exceeds 1,000 per month, the entire cost will be taken as the value of the perquisite. Accordingly, the full amount of 1,800 per month is taxable as perquisite. In such a case, the value of the perquisite would be 12,600 (i.e.  $1,800 \times 7$ ).

**Note** – An alternate view possible is that only the sum in excess of 1,000 per month is taxable. In such a case, the value of perquisite would be 5,600. The gross salary in that case shall be 4,81,983 and net salary would be 4,29,583. The total income and tax liability shall accordingly vary.

5. The entire employer's contribution to Central Government Pension scheme should be included in salary and deduction under section 80CCD(2) should be restricted to 10% of salary. The employer's contribution to pension scheme would be outside the overall limit of 1,50,000 stipulated under section 80CCE. Also, the deduction under section 80CCD(1) for the employee's contribution to the pension scheme is restricted to 10% of salary. Salary means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits. The balance 22,400 (49,000 – 26,600) can be claimed as deduction u/s 80CCD(1B).
6. The deduction for medical insurance premium of 26,000 paid for mother is allowable in full under section 80D, as the maximum limit is 50,000, since his mother is a senior citizen. Therefore, the total deduction under section 80D would be 22,000 (for self) + 26,000 (for mother) = 48,000.
7. Winnings from TV game show is chargeable at a flat rate of 30% under section 115BB. No loss can be set-off against such income. Therefore, business loss cannot be set-off against such income.
8. As per section 71(2A), business loss cannot be set-off against salary income. Section 71(2A) provides that where the net result of the computation under the head "Profits and gains of business or profession" is a loss and the Assessee has income chargeable under the head "Salaries", the Assessee shall not be entitled to have such loss set-off against such income. Even depreciation cannot be set-off against salary income. Therefore, both business loss and current depreciation cannot be set-off against salary income.
9. Deduction under section 80GG has not been provided in respect of rent paid by Mr. Rohit to his employer. Such deduction can be provided, if it is assumed that all conditions mentioned in section 80GG are satisfied.

### **Concept Problem 12 [MTP Jan 25]**

Mr. Amit, aged 45 years, a resident Indian has provided you the following information for the previous year ended 31.03.2025:

- (i) He received royalty of 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was 40,000. The amount remitted to India till 30<sup>th</sup> September, 2025 is 2,30,000.
- (ii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2021-22. Total turnover of the undertaking was 200 lakhs, which includes 140 lakhs from export turnover which have been received in India in convertible foreign exchange on or before 30.9.2025. Profit from this industry is 20 lakhs.
- (iii) He was holding 30% equity shares in TSP (P) Ltd., an Indian company. Company allotted shares to shareholders on 1<sup>st</sup> October, 2017. The paid up share capital of company is 20 lakh divided into 2 lakh shares of 10 each which were issued at a premium of 30 each.

He sold all these shares on 30<sup>th</sup> April, 2024 for 60 per share. Equity shares of TSP (P) Ltd. are listed on National Stock Exchange and Mr. Amit has paid STT both at the time of acquisition and transfer of such shares. FMV on 31.1.2018 was 50 per share.

- (iv) Received 30,000 as savings bank deposits.
- (v) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of 2,28,000. He has paid municipal taxes of 60,000 for the current financial year. Both floor are of equal size.

(vi) He paid insurance premium of 39,000 on life insurance policy of son, who is not dependent on him and 48,000 on life insurance policy of his dependent father.

(vii) He paid tuition fees of 42,000 for his three children to a school. The fees being 14,000 p.a. per child.

You are required to compute the total income and tax liability of Mr. Amit under normal provisions for the A.Y. 2025-26 under OTR.

### Solution

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

	Particulars	Amount	Amount
	<b>Income from house property</b>		
	<b>Let out portion [First floor]</b>		
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]	2,28,000	
	Less: Municipal taxes paid by him in the P.Y. 2024-25 pertaining to let out portion [60,000/2]	30,000	
	<b>Net Annual Value (NAV)</b>	1,98,000	
	Less: Deduction u/s 24 (a) = 30% of 1,98,000	59,400	
		1,38,600	
	<b>Self-occupied portion [Ground Floor]</b>		
	Annual Value	Nil	
	[No deduction is allowable in respect of municipal taxes paid]		1,38,600
	<b>Income from SEZ unit</b>		20,00,000
	<b>Capital Gains</b>		
	On transfer of 60,000 shares (2,00,000 x 30%)		
	Sales consideration [60,000 x 60 per share]	36,00,000	
	Less: Cost of acquisition, higher of – Actual cost [60,000 x 40 per share] Lower of FMV on 31.1.2018 [60,000 x 50] Actual sales consideration [60,000 x 60]	30,00,000	6,00,000
	Long-term capital gains u/s 112A (since shares are held for a period of more than 12 months before transfer)		
	<b>Income from Other Sources</b>		
	Royalty from artistic book	2,88,000	
	Less: Expenses incurred for earning royalty	40,000	
		2,48,000	
	Interest on savings bank deposits	30,000	2,78,000
	<b>Gross Total Income</b>		<b>30,16,600</b>
	<b>Less: Deduction u/s 10AA</b> [Not available, since he commenced operation		

Particulars	Amount	Amount
in P.Y. 2021-22]		
<b>Less: Deduction under Chapter VI-A</b>		
<b>Deduction under section 80C</b>		
Tuition fee paid for maximum of two children is allowable (14,000 x 2)	28,000	
Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Amit	39,000	
Insurance premium paid on life insurance policy of father not allowable, even though father is dependent on Mr. Amit	-	
<b>Deduction under section 80QQB</b>		
Royalty [2,88,000 x 15/18 = 2,40,000, restricted to amount brought into India in convertible foreign exchange 2,30,000 minus 40,000 expenses already allowed as deduction while computing royalty income]	1,90,000	
<b>Deduction under section 80TTA</b>		
Interest on savings bank account, restricted to 10,000	10,000	2,67,000
<b>Total Income</b>		<b>27,49,600</b>

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

Particulars	Amount	Amount
<b>Tax on total income of 27,49,600</b>		
Tax on LTCG of 4,75,000, being the sum exceeding 1.25 lakh @ 12.5%		59,375
<b>Tax on remaining total income of 21,49,600</b>		
Upto 2,50,000	Nil	
2,50,001 – 5,00,000 [@ 5% of 2.50 lakh]	12,500	
5,00,001 – 10,00,000 [@ 20% of 5,00,000]	1,00,000	
10,00,001 – 21,49,600 [@ 30% of 11,49,600]	3,44,880	4,57,380
		5,16,755
Add: Health and education cess@4%		20,670
<b>Total tax liability</b>		<b>5,37,425</b>
<b>Tax liability (rounded off)</b>		<b>5,37,430</b>

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

Particulars	Amount
<b>Computation of adjusted total income</b>	
Total income as per the normal provisions of the Act	27,49,600
Add: Deduction u/s 80QQB	1,90,000
<b>Adjusted Total Income</b>	<b>29,39,600</b>
<b>Alternative Minimum Tax @ 18.5%</b>	5,43,826
Add: Health and education cess @ 4%	21,753



<b>AMT liability</b>	5,65,579
AMT liability (rounded off)	<b>5,65,580</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, liability as per section 115JC is 5,65,580.

### Concept Problem 13 [ICAI Sep 24]

Mr. Raman, a resident individual aged 62 years, is engaged in the business of manufacturing and sales of spare parts for motor bikes, as a proprietor. He prepares his accounts on mercantile basis. This business is carried out on the ground floor of a two storied commercial building owned by him, the written down value of which is 8 lakhs as on April 1, 2024. He prepares his accounts on accrual basis. The Statement of Profit and Loss for the previous year ended on March 31, 2025 shows a net profit of 9.25 lakhs (before taxation and depreciation) after debiting/crediting the following items:

- Travelling expenses includes 2,40,000 being expenditure incurred on a foreign tour to Taiwan for attending a business exhibition and meeting with vendors, out of which 40,000 is incurred in Indian currency and 2,00,000 in foreign currency. Mr. Raman has spent 10 days in Taiwan, out of which 4 days were utilized by him for attending marriage ceremony of a vendor's son.
- Administrative expenses include 9,525 paid towards interest on delay in deposit of GST.
- General expenses include a sum of 3,88,000 paid to a non-resident as fee for technical services without deduction of tax at source.
- Fire insurance premium of 66,000 for the entire building remained unpaid till 31<sup>st</sup> March, 2025.
- Expenditure of 75,000, was paid to a scientific research association approved under section 35. Out of 75,000, 50,000 was utilised towards the purchase of land by the research association.
- He let out first floor of his commercial building to Mr. Aman on April 1, 2024 and received rent of 35,000 per month. Municipal taxes 20,000 relating to the building were paid equally by both Mr. Raman and Mr. Aman. Rent received was credited and municipal taxes of 10,000 (relating to ground floor) was debited to the statement of profit and loss.
- He sold a piece of land for 44 lakhs on 12<sup>th</sup> April, 2024. He had acquired the land for 40 lakhs on 1<sup>st</sup> January, 2023. The gain of 4,00,000 is credited to the statement of profit and loss.

### Additional Information:

- Mr. Raman purchased raw material from M/s. Paul Industries, a micro enterprise, for 49,000 on March 10, 2025. However, the payment to M/s. Paul Industries was made on April 5, 2025 by cheque. No written agreement for payment existed between M/s. Paul Industries and Mr. Raman. Another supplier M/s. Kal Industries, a small enterprise, with whom also no written agreement existed for payment, was paid 1,34,000 in cash on April 5, 2025 for purchase of raw material on March 31, 2025. Both M/s. Paul Industries and M/s. Kal Industries follow mercantile system of accounting.
- Mr. Raman acquired a registered trademark on July 15, 2024 for 2,00,000. Mr. Raman started using this trademark for his business from January 15, 2025. Mr. Raman omitted to enter any transaction relating to this trademark in his books of accounts.
- Mr. Raman bought a car for personal use on 12<sup>th</sup> April, 2021 for 5,40,000. He started using this car for business purposes from 01.04.2024. As on that day, the market value of the car was 2,10,000. Assume the rate of depreciation to be 15%.
- He incurred 2,50,000 on the purchase of a new machinery to be used in the production of spare parts for motor bikes on May 15, 2024.
- He has paid tuition fees of 25,000 for the education of his daughter to a college.
- During the year, Mr. Raman has incurred 9,500 in cash for preventive health check-up where 5,000 was for

himself and 4,500 was for his parents who are super senior citizens.

(vii) Donation paid to a registered political party by way of cheque 20,000.

Compute the total income for assessment year 2025-26 by Mr. Raman under default tax regime and optional tax regime as per normal provisions of the Act.

### Solution

#### Computation of total income & tax payable by Mr. Raman for A.Y. 2025-26 under default tax regime

	Particulars	Amount	Amount
<b>I</b>	<b>Income from house property</b>		
	Gross Annual Value of first floor (Rent received has been taken as gross annual value in the absence of other information) [35,000 x 12]	4,20,000	
	Less: Municipal taxes (paid by tenant, Mr. Aman, hence not deductible)	Nil	
	Net Annual Value	4,20,000	
	Less: Deduction @ 30% of NAV	1,26,000	<b>2,94,000</b>
<b>II</b>	<b>Profits and gains of business or profession</b>		
	Net Profit	9,25,000	
	<b>Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other heads of income</b>		
	- Travelling expenses [Allowable since the same is incurred wholly and exclusively for business purpose] [Note - Alternatively, it is possible to assume that the proportionate foreign tour expenditure attributable to attending the marriage ceremony of a vendor's son is a personal expenditure. In such case, 2,40,000 x 4/10 = 96,000 would be disallowed.]	Nil	
	- Interest on delay in deposit of GST [Interest on delay in deposit in GST is compensatory in nature and hence, allowable as expenditure]	Nil	
	- Fee for technical services to non-resident [100% disallowed under section 40(a)(i) since the TDS was not deducted]	3,88,000	
	- Fire insurance premium [Fire insurance premium for ground floor which is occupied for business purpose is allowed since Mr. Raman is following mercantile system of accounting. Remaining half for let out portion is disallowed] [66,000/2]	33,000	
	- Contribution to scientific research association approved u/s 35 [Not allowable under section 35(1)(ii) as per default tax regime]	75,000	
	- Municipal taxes for ground floor [Allowable since the ground floor is occupied for business purpose]	Nil	
	- Sum payable for purchase of raw material from M/s Paul Industries, a micro enterprise [Not allowable as per section 43B(h) since payment was made to a micro enterprise on 5.4.2025 which is beyond the time limit specified u/s 15 of the MSMED Act, 2006 i.e., within 15 days from 10.3.2025]	49,000	
	- Sum payable for purchase of raw material from M/s Kal Industries, a small enterprise [Allowable as per section 43B(h) since payment was	Nil	

Particulars	Amount	Amount
made to a small enterprise on 5.4.2025 i.e., within 15 days from 31.3.2025. However, since the payment is made in cash on 5.4.2025, 1,34,000 for purchase of raw material would be the deemed income of P.Y. 2025-26 as per section 40A(3A)]		
	14,70,000	
<b>Less: Incomes credited to profit and loss account but not taxable as business income</b>		
- Rent received for let out portion	4,20,000	
- Gain on sale of land	4,00,000	
	6,50,000	
<b>Less: Depreciation</b>		
- On trademark [2,00,000 x 25% x 50%, since trademark is put to use for less than 180 days]	25,000	
- On Car [5,40,000 x 15%]	81,000	
- On new Plant & machinery [2,50,000 x 15%]	37,500	
- On Building [8,00,000 x 10%]	80,000	
Additional depreciation		
- On new Plant & machinery [Not allowable under default tax regime]	Nil	
<b>Income from Business</b>		<b>4,26,500</b>
<b>Capital Gains</b>		
Full value of consideration	44,00,000	
<b>Less: Cost of acquisition</b>	40,00,000	4,00,000
Short term capital gains on land [Since land is held for less than 24 months]		
<b>Gross Total Income</b>		<b>11,20,500</b>
<b>Less: Deduction under Chapter VI-A [Not allowable under default tax regime]</b>		Nil
<b>Total Income</b>		<b>11,20,500</b>

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

Particulars	Amount	Amount
<b>Gross Total Income as per default tax regime</b>		11,20,500
<b>Less: Additional depreciation on new Plant &amp; machinery [2,50,000 x 20%]</b>		50,000
<b>Less: Contribution to scientific research association approved u/s 35</b>		75,000
<b>Gross Total Income as per normal provisions of the Act</b>		<b>9,95,500</b>
<b>Less: Deduction under Chapter VI-A</b>		
<b>Deduction under section 80C</b>		
Tuition fees to a college for daughter's education	25,000	

	<b>Deduction under section 80D</b>		
	Preventive health check-up for self and parents restricted to	5,000	
	<b>Deduction under section 80GGC</b>		
	Donation to a registered political party since the payment is made otherwise than by cash	20,000	50,000
	<b>Total Income as per normal provisions of the Act</b>		<b>9,45,500</b>

**Concept Problem 14 [RTP May 25] Explained on**
[https://www.youtube.com/live/tUfYNq14ycU?si=cnKZMq5qa9AI\\_vDQ](https://www.youtube.com/live/tUfYNq14ycU?si=cnKZMq5qa9AI_vDQ)

Mr. Kunal (age 27 years) is an employee in a private company posted in Delhi. He was appointed on 01.02.2023 in the scale of 60,000 - 1,000 - 70,000. He furnishes you the following information for the previous year 2024-25:

- Dearness allowance @ 25% of basic salary (60% of DA forms part of retirement benefits)
  - Bonus equal to one month salary. Paid in November 2024 on basic salary applicable for that month.
  - Leave encashment for P.Y. 2024-25 of 10,000.
  - He also received a motor car on 01.12.2024 (cubic capacity of engine exceeds 1.60 litres) along with chauffeur for both official and personal purpose. The motor car is owned by his employer and all expenses are met by the employer.
  - His employer granted him a loan of 2,00,000 on 1<sup>st</sup> June, 2024 which is repayable in equal quarterly installments over 2 years starting from 1<sup>st</sup> October, 2024. The State Bank of India (SBI) lending rate for such loans is 9.5% per annum as on 01.04.2024, while the employer recovers interest @ 5.5% per annum from the employee.
  - His employer gave him a rent-free accommodation (fully furnished) in Delhi from 01.04.2023. This house is owned by the employer. The perquisite value of such furnished rent-free accommodation during the previous year 2023-24 was valued at 92,000. Further, the accommodation is continued to be provided by the employer to the employee in P.Y. 2024-25 also.
  - The furniture and appliances provided with the house were bought by the employer at an aggregate cost of 1,50,000 on 01.01.2023. Electricity and water bills of 5,000 p.m. for the said house were paid by the employer.
- Cost Inflation Index
- F.Y. 2023-24 - 348, F.Y. 2025-26 - 363.
- His colleagues gifted him a mobile phone worth 45,000 from their own contribution on account of his marriage.

You are required to compute the income chargeable under the head Salaries in the hands of Mr. Kunal for the Assessment Year 2025-26 assuming that he wants to pay tax under default tax regime under section 115BAC.

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

	Amount	Amount
Basic Pay [61,000 x 10 + 62,000 x 2]		7,34,000
Dearness Allowance [7,34,000 x 25%]		1,83,500
Bonus		61,000
Leave encashment for P.Y. 2024-25		10,000

	Amount	Amount
Value of perquisite		
Perquisite of Motor Car [3,300 x 4] As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 litres) owned by the employer is provided to employee with chauffeur for both official and personal use, the value of perquisite shall be 3,300 (2,400 + 900). The car was provided to employee from 01.12.2025, therefore the perquisite value has been calculated for 4 months.		13,200
Perquisite of interest on loan (Working Note Below)		5,917
Value of Rent-free accommodation		
Value of Rent-free accommodation {10% of 9,15,100 i.e., [7,34,000, basic salary + 1,10,100 (1,83,500 x 60%, DA forming part of retirement benefit) + 10,000, leave encashment + 61,000, bonus]}	91,510	
Add: Value of furniture [1,50,000 x 10% p.a.]	15,000	
	1,06,510	
As per Rule 3, value of perquisite in case of accommodation continued to be provided to an employee for more than one previous year, shall not exceed the amount calculated for first previous year, as multiplied by the amount which is a ratio of CII for the previous year for which the value is calculated and CII for the previous year in which accommodation was initially provided to the employee.		
Accordingly, value of perquisite for P.Y. 2024-25 to be restricted to = 92,000 x 363/348	95,966	95,966
Facility of use of electricity and water [Electricity and water bills paid by the employer would be taxable as perquisite] [5,000 x 12]		60,000
Mobile phone received as gift from colleagues (Not taxable under the head "Salaries")		Nil
<b>Gross Salary</b>		<b>11,63,583</b>
Less: Standard deduction u/s 16 [Actual salary or 75,000, whichever is less]		75,000
<b>Net Salary</b>		<b>10,88,583</b>

**Working Note:**
**Perquisite of Interest on Loan**

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

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

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

Month	Maximum outstanding balance as on last date of month	Perquisite value at 4% for the month
June, 2024	2,00,000	667



Month	Maximum outstanding balance as on last date of month	Perquisite value at 4% for the month
July, 2024	2,00,000	667
August, 2024	2,00,000	667
September, 2024	2,00,000	667
October, 2024	1,75,000	583
November, 2024	1,75,000	583
December, 2024	1,75,000	583
January, 2025	1,50,000	500
February, 2025	1,50,000	500
March, 2025	1,50,000	500
<b>Taxable Value of perquisite</b>		<b>5,917</b>

**Concept Problem 15 [RTP Sep 25]**

Mr. Shobhit, a resident individual aged 54 years, engaged in the manufacture of spare parts of cars. He follows the mercantile system of accounting and regularly files his return of income. The profit and loss account for the year ended 31.3.2025 shows a net profit of 57,25,000 after debiting/ crediting the following:

- During the year, Mr. Shobhit purchased plant and machinery for 55 lakhs for which he took loan from a scheduled bank. (Date of loan 1.5.2024 and rate of interest 11% p.a.). The asset was acquired on 1.7.2024 and put to use on 1.9.2024. The entire interest amount is debited to the profit and loss account.
- On 1.4.2024, the production manager working in the factory of Mr. Shobhit took voluntary retirement from the services. Mr. Shobhit paid him 8,00,000 as compensation for his services under the Voluntary Retirement Scheme.
- Mr. Shobhit purchased raw material from M/s Kamal & Sons, a micro enterprise, and M/s Hitesh & Sons, a medium enterprise, for 51,000 and 75,000, respectively on 15.3.2025. As per the written agreement with them, both the payment has to be made by 10.4.2025. Mr. Shobhit made the payment to M/s Kamal & Sons on 9.4.2025 and to M/s Hitesh & Sons on 15.11.2025.
- He contributed 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD which is debited to the profit and loss account. Basic salary of the employees aggregate to 10 lakhs and dearness allowance is 40% of basic salary and it forms part of retirement benefit.
- Depreciation debited to profit and loss account is 27,50,000.
- He received 13,850 as income-tax refund out of which 3,850 is interest on refund. The entire amount is credited to profit and loss account.

**Additional Information:**

- Mr. Shobhit purchased a new computer on 31<sup>st</sup> August, 2024 and was put to use on the same day in his office. The payment was made as under:
  - 28,000 paid in cash at the time of purchase of new computer on 31/08/2024
  - 25,000 paid by account payee cheque on 05/09/2024 as balance cost of new computer
- WDV (as per the Income-tax Act, 1961) of different assets as on 1.4.2024:
  - Plant and machinery 8,00,000;
  - Factory Building 6,45,000

- c) He paid 50,000 as life insurance premium taken on the life of his father who is dependent on him. The sum assured is 8,00,000 and the policy was taken on 1.4.2015.
- d) He also paid 45,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is 5,00,000 and the policy was taken on 1.4.2017.
- e) On 1.10.2024, he withdrew 1.50 crores in cash from two current accounts maintained by him with PNB Bank of India. There are no other withdrawals during the year.
- f) Mr. Shobhit had sold a house on 30th March, 2022 and deposited the long term capital gains of 25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1st July, 2024, he sold another house property in which he resided for 1 crore. He earned a long-term capital gain (without indexation benefit) of 50,00,000 on sale of this property. On 5th January, 2025, he withdrew the whole money out of his capital gain account and invested 60 lakhs on construction of a house in Mumbai. The construction of the house completed on 23<sup>rd</sup> March 2025. The indexed cost of acquisition of the house property is 60 lakhs.

You are required to compute the total income of Mr. Shobhit and also the tax payable by him after TDS/TCS credit, if any, for the A.Y. 2025-26 if he is opting out of the default tax regime.

### Solution

Particulars	Amount	Amount	Amount
<b>Income from business or profession</b>			
Net profit as per profit and loss account		57,25,000	
<b>Add: Items of expenditure not allowable while computing business income</b>			
- Depreciation as per books of accounts	27,50,000		
- Interest on loan taken for purchase of plant & machinery [Interest from the date on which capital was borrowed till the date on which asset as first put to use not allowable as deduction. Accordingly, interest of 2,01,667 [ 55,00,000 x 11% x 4/12] has to be added back, since the same is debited to the profit and loss account]	2,01,667		
- Compensation on voluntary retirement [Only 1/5 <sup>th</sup> of the compensation paid is allowable in the current year. The remaining are allowable in the four succeeding years in equal installments. Hence, 4/5 <sup>th</sup> of 8 lakh debited to profit and loss account has to be added back]	6,40,000		
- Payment to M/s Kamal & Sons, a micro enterprise, for purchase of raw material [Allowable as per section 43B(h) since payment was made to a micro enterprise and the same was within the time specified in the written agreement which is within 45 days from 15.3.2025]	Nil		
- Payment to M/s Hitesh & Sons, a medium enterprise, for purchase of raw material [Allowable, as section 43B which mandates allowability of expenditure on actual payment basis is not applicable on medium enterprise and Mr. Shobhit follows mercantile system of accounting]	Nil		

Particulars		Amount	Amount	Amount
	- Excess Contribution towards employees' pension scheme [Contribution to the extent of 14% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as deduction under section 36(1)(iva).  Accordingly, disallowance is required to be made since contribution made is not within the prescribed limit. Disallowance under section 40A(9) = 2,00,000 (20% of 10 lakh) - 14% of 14,00,000 (10 lakh + 4 lakh) = 4,000]	4,000	35,95,667	
			93,20,667	
	<b>Less: Items of income to be treated separately under the respective head of income</b>			
	Income-tax refund including interest on refund of 3,850		13,850	
			93,06,817	
	<b>Less:</b> Allowable expenditure			
	Normal depreciation on			
	i) Opening WDV			
	- Factory Building (6,45,000 @ 10%)	64,500		
	- Plant & Machinery (8,00,000 @ 15%)	1,20,000		
	ii) Computer acquired on 31.8.2024 for 25,000 @ 40% [Since payment of 28,000 made in cash in a day to a person exceeds 10,000, the same would not be included in the actual cost of computer. Hence, only actual cost of 25,000 is eligible for depreciation]	10,000		
	On Plant & Machinery acquired on 1.5.2024 for 57,01,667 @ 15% [55,00,000 plus 2,01,667, being the amount of interest on loan taken for purchase of this plant and machinery from the date on which capital was borrowed till the date on which asset as first put to use shall be capitalized]	8,55,250	10,49,750	
	Additional depreciation on Plant & Machinery acquired on 1.5.2024 for 57,01,667 @ 20%		11,40,333	
				71,16,734
<b>II</b>	<b>Capital Gains</b>			
	Sale consideration		1,00,00,000	
	<b>Less:</b> Indexed cost of acquisition		60,00,000	
	Long term capital gains [Indexation benefit is available since the property is transferred before 23.7.2024]		40,00,000	
	<b>Less:</b> Exemption under section 54 [Since 35 lakhs is invested in construction of house within the stipulated time limit.]		35,00,000	

Particulars		Amount	Amount	Amount
	Capital gain of 25 lakhs in capital gain account scheme is not taxable in P.Y. 2024-25, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of 35 lakhs invested in construction of house is eligible for exemption u/s 54 against the long-term capital gain on sale of house property during the P.Y.2024-25]			5,00,000
<b>III</b>	<b>Income from Other Sources</b>			
	Interest on income-tax refund			3,850
	<b>Gross Total Income</b>			<b>76,20,584</b>
	<i>Less: Deduction under Chapter VI-A</i>			
	<b>Deduction under section 80C</b>			
	- Life insurance premium of his father [Not allowable as deduction, since not covered within the meaning of term “person” in case of an individual, though he is dependent on him]		Nil	
	- Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether Dependent or not falls within the meaning of term “Person” and the premium does not exceed 10% of the 5,00,000, being the sum assured]		45,000	45,000
	<b>Total Income</b>			<b>75,75,584</b>
	<b>Total Income (Rounded off)</b>			<b>75,75,580</b>

**Computation of tax payable by Mr. Shobhit for A.Y. 2025-26**

Particulars	Amount	Amount
<b>Tax @ 20% on LTCG of 5 lakhs on sale of house property</b> [Since the property is transferred before 23.7.2024]		1,00,000
<b>Tax at slab rate on balance income of 70,75,580</b>		
Upto 2,50,000	Nil	
2,50,001 - 5,00,000 [@ 5% of 2.50 lakh]	12,500	
5,00,001 - 10,00,000 [@ 20% of 5,00,000]	1,00,000	
10,00,001 - 70,85,580 [@ 30% of 60,75,580]	18,22,674	
		19,35,174
		20,35,174
<i>Add: Surcharge @10%, since total income exceeds 50,00,000 but does not exceed 1 crore</i>		2,03,517
		22,38,961
<i>Add: Health and education cess@4%</i>		89,548
<b>Tax liability</b>		<b>23,28,239</b>

Less: TDS u/s 194N @ 2% on 50 lakhs, being the cash withdrawals exceeding 1 crore		1,00,000
<b>Tax payable</b>		<b>22,28,239</b>
<b>Tax payable (Rounded off)</b>		<b>22,28,240</b>

**Concept Problem 16 [ICAI May 25]**

Mrs. S.C. Bose (aged 62 years) is a widow of a public sector employee who died during his service in 2011. She earns income from business of running a flower bouquet shop at Kolkata and income from royalty from writing books of science and sells in India and abroad. Profit & Loss account for the year ended 31st March, 2025 furnished by her is given below:

Particulars	Amount	Particulars	Amount
To Opening stock	1,00,000	By Sales of flower bouquet	36,75,000
To Purchases	15,66,000	By Family pension from PSU through bank	3,60,000
To Salaries and wages	4,90,000	By Royalty form California University for books sold (Foreign exchange brought into India)	4,25,000
To Expenses relating to books authored by her	75,000	By Dividend (Net of TDS)	4,50,000
To Expenses in connection with dividends	12,000	By Interest on FDR (No TDS deducted)	76,000
To Repairs & Maintenance	3,25,000	By Closing stock	1,36,000
To Amount paid to IIT Chennai for scientific research projects	35,000		
To Computers and other electronic items (purchased on 01-12-2024)	4,50,000		
To Net Profit	20,69,000		
<b>Total</b>	<b>51,22,000</b>	<b>Total</b>	<b>51,22,000</b>

**Additional Information:**

- Purchases include 2 lakhs relate to flowers and creepers directly purchased from a farmer in cash on 26.09.2024.
- Repairs & Maintenance includes one-time deposit of 2,00,000 paid to electricity and water department.
- Computers and other electronic items includes 1,00,000 paid for television and washing machine for her household use.
- Salary & wages includes salary paid 2,40,000 to her illiterate brother (reasonable salary as per market rate is 1,80,000)
- She purchased a residential house for 110 lakhs for which loan of 75 lakhs was taken from State Bank of India. Accrued interest was 3,37,500 till 31-03-2025 which was paid on 10-04-2025. No principal amount and interest was paid by Mrs. S.C. Bose till 31-03-2025. Ground floor of the house was used for shop and first floor was occupied for her residence.
- She purchased an electric vehicle on 30-09-2024 for 25 lakhs for business purposes.
- She sold 10,000 listed shares of SBCL Ltd. for 11,66,000 on 11-12-2024 which were purchased for 2,65,000 on 16.08.2024. STT was paid on purchase and sale both.



Compute total income of Mrs. S.C. Bose under default tax regime u/s 115BAC and optional tax regime of the Income-tax Act, 1961

### Solution

**Computation of total income of Mrs. S.C. Bose for A.Y. 2025-26 under default tax regime under section 115BAC(1A)**

	Particulars	Amount	Amount
<b>I.</b>	<b>Income from house property</b>		
	Self-occupied portion [First Floor]		
	Annual Value	Nil	
	Less: Deduction u/s 24		
	Interest on housing loan [Not allowed under default tax regime]	Nil	
			Nil
<b>II.</b>	<b>Profits and gains from business or profession</b>		
	Net profit	20,69,000	
	<b>Add:</b> Items of expenditure not allowable while computing business income		
	- Expenses relating to books authored by her [Allowed as deduction considering royalty income is taxable under the head “Profits and gains from business or profession”] [Note - Royalty income may be taxed under the head “Income from other Sources”. In such case, expenses relating to books would not be allowed as deduction while computing business income and allowed from royalty income while computing “Income from Other Sources”.]	Nil	
	- Expenses in connection with dividends [Not allowed since expense is in respect of dividend taxable under head “Income from Other Sources”]	12,000	
	- Amount paid to IIT Chennai from scientific research projects, not allowable under default tax regime	35,000	
	- Computers and other electronic items [Capital expenditure not allowed as deduction]	4,50,000	
	- Payment to a farmer exceeding 10,000 in cash for purchase of flower and creepers [Not disallowed under section 40A(3), since payment to farmer comes under exclusion]	Nil	
	- One-time deposit to electricity and water department, not allowed as deduction	2,00,000	
	- Excessive salary paid to brother [Disallowed under section 40A(2), since brother falls under the definition of relative and salary paid is in excess of market rate] [2,40,000 – 1,80,000]	60,000	
	<b>Less:</b> Items of income to be treated separately under the respective head of income		
	- Family pension from PSU [Taxable under the head “Income from Other Sources”]	3,60,000	
	- Royalty from California University [No adjustment is required since	Nil	

	Particulars	Amount	Amount
	royalty is taxable under the head “Profits and gains from business or profession”] [Note - Royalty income may be taxed under the head “Income from Other Sources”. In such case, the income has to be reduced while computing business income.]		
	- Dividend [Taxable under the head “Income from Other Sources”]	4,50,000	
	- Interest on FDRs [Taxable under the head “Income from Other Sources”]	76,000	
	<b>Less: Allowable expenditure</b>		
	- Interest on residential house used for shop [3,37,500/2] [Since the interest is paid on or before due date of filing return of income, disallowance under section 43B would not be attracted.]	1,68,750	
	- Depreciation		
	On Computer and other electronic items other than television and washing machine [3,50,000 x 40% x 50%, since it is purchased and put to use for less than 180 days]	70,000	
	On residential house used for shop [1,10,00,000 x 10% x 50% for ground floor]	5,50,000	
	On electric vehicle [25,00,000 x 40%]	10,00,000	
			1,51,250
<b>III.</b>	<b>Capital Gains</b>		
	Sale consideration on sale of listed shares of SBCL Ltd.	11,66,000	
	Less: Cost of acquisition	2,65,000	
	<b>Short term capital gains taxable under section 111A</b> [Since shares are held for less than 12 months and STT has been paid]		9,01,000
<b>IV.</b>	<b>Income from Other Sources</b>		
	Family pension from PSU	3,60,000	
	Less: Lower of 33-1/3% of 3,60,000 or 25,000 allowed as deduction	25,000	
		3,35,000	
	Dividend [4,50,000/90%]	5,00,000	
	Less: Expenditure to the extent of 20% of dividend [Note - If it is assumed that expenditure are in the nature of expenses other than interest expenses, no deduction would be allowed from dividend]	12,000	
		4,88,000	
	Interest on FDRs	76,000	8,99,000
	<b>Gross Total Income</b>		<b>19,51,250</b>
	Less: Deduction under section 80QQB and 80TTB [Not allowable under default tax regime]		Nil
	<b>Total Income</b>		<b>19,51,250</b>

**Computation of total income of Mrs. S.C. Bose for A.Y. 2025-26 under the optional tax regime of the Income-tax Act, 1961**

Particulars	Amount	Amount
<b>Gross Total Income as per default tax regime u/s 115BAC</b>		<b>19,51,250</b>
Less: Interest on borrowings for self-occupied property [3,37,500 / 2]	1,68,750	
100% deduction under section 35(2AA) for amount paid to IIT Chennai from scientific research projects	35,000	2,03,750
		17,47,500
Add: Excess deduction from family pension [25,000 - 15,000] [Lower of 33-1/3% of 3,60,000 or 15,000 as deduction is allowed from family pension under optional tax regime]		10,000
<b>Gross Total Income as per optional tax regime</b>		<b>17,57,500</b>
Less: Deduction under Chapter VI-A		
Deduction under section 80QQB Deduction for royalty income of 3,50,000 [4,25,000 – 75,000], restricted to 3,00,000	3,00,000	
Deduction under section 80TTB Interest on FDRs assuming FDRs are with banks, restricted to [Note - If it is assumed that FDRs are not with banks, co-operative society engaged in banking business or post office, deduction under section 80TTB would not be available.]	50,000	
<b>Total Income</b>		<b>14,07,500</b>



*I taught, they Learnt, I told them to Aspire,  
they Performed. You too have a look & try  
to make Your Parents & Me Proud.*

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TAX

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Blessings !! *Kishan Kumar*



### About CA Kishan Kumar

- ★ Kishan Kumar is an **Fellow Member** of The Institute of Chartered Accountants of India.
- ★ He is a **throughout Rankholder** in CA examinations.
- ★ He himself scored **Exemption in Taxation [76]** in his CA Inter Exam..
- ★ He has been **awarded by Nitish Kumar, Hon'ble Chief Minister** of Bihar for his excellence in the field of education.
- ★ Internationally renowned **University of South Wales** has also felicitated him for his aptitude and achievements during his academic life.
- ★ Kishan has worked with **Ernst & Young and PwC (Big 4 Firms)** and uses his practical corporate experience to make the subject more interesting and engaging.
- ★ More than 50 of his students have scored AIRs including AIR 6, 11, 16 and many more with hundreds of Exemptions, highest being 90 in Tax.
- ★ He is committed to make meaningful contribution to the life of promising CA aspirants.

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