



**CA INTERMEDIATE**

**INCOME TAX**

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# PREFACE

A highly skilled professional team of CA Wallah works arduously to ensure that the students receive the best content for their CA-Intermediate exams.

A plethora of CA Study Material is available in the market but CA Wallah professionals at PW are continuously working to provide supreme quality study material for the CA-Intermediate students.

From the beginning, the content team comprising Subject Matter Experts, Content Creators, Reviewers, DTP operators, Proofreaders, and others is involved in shaping the material to their best knowledge and experience to produce powerful content for the students.

CA Wallah Faculties have adopted a novel style of presenting the content in easy-to-understand language and have provided the content team with expert guidance and supervision throughout the creation and curation of this book.

PW's CA Wallah strongly believes in conceptual and fun-based learning. CA Wallah provides highly exam-oriented content to bring quality and clarity to the students.

This book adopts a multi-faceted approach to mastering and understanding the concepts by having a rich diversity of questions asked in the CA-Intermediate examination and equipping the students with the knowledge for this highly competitive exam.

The main objective of this book is to provide an edge to your preparation with short & crisp yet high-quality content.

## BOOK FEATURES

This book, especially designed for CA-Intermediate aspirants, contains:

- Syllabus coverage strictly as per ICAI study Material
- Detailed Theory with Exam prototype and Concept Applications Questions
- Short Notes and Solve Miscellaneous Examples
- Topic wise, Learning Plus and Advanced Level Questions covered in the Book

# ABOUT THE AUTHOR

Sir, CA Jasmeet Singh Arora is a highly qualified and experienced Chartered Accountant with a passion for teaching. With a strong academic background in both CA and B.Com, Jasmeet Sir has excelled in his field, passing his CA exams on the first attempt and receiving five exemptions in his CA Final exams. In addition to his impressive qualifications, he also possesses more than 10 years of experience in teaching, having mentored over 70,000 students both online and offline.

Jasmeet Sir is a firm believer in blended learning and adopts a learner-centric approach to his teaching. He understands that every student is unique and has different learning needs, and therefore aims to cater to those needs by providing a diverse range of teaching methods. With the use of real-life examples and innovative teaching techniques, he seeks to transform traditional pedagogical processes and make learning more accessible and enjoyable for his students.

Throughout his teaching career, Jasmeet Sir has been committed to providing high-quality education in subjects such as taxation and costing. His expertise in these areas has earned him a reputation as one of the best teachers in his field, and he has been recognized by the Institute of Company Secretaries of India (ICSI) and the Institute of Chartered Accountants of India (ICAI) Kanpur as a visiting faculty member. His dedication to his students is unwavering, and he strives to create a learning environment that is engaging, interactive, and challenging.

Jasmeet Sir's success as a teacher is due to his passion for his subject matter, his commitment to his students, and his ability to adapt to new teaching techniques and technologies. He believes that education is the key to unlocking the potential of young minds and creating a better future for all. His mission is to inspire and empower his students to achieve their full potential and to make a positive impact on society.

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## CHAPTER 1A: BASIC CONCEPTS

### Introduction

- In a Welfare State, the Government takes primary responsibility for the welfare of its citizens, as in matters of health care, education, employment, infrastructure, social security and other development needs. To facilitate these, Government needs revenue.
- The taxation is the primary source of revenue to the Government for incurring such public welfare expenditure.
- In other words, Government is taking taxes from public through its one hand and through another hand; it incurs welfare expenditure for public at large.
- However, no one enjoys handing over his hard-earned money to the government to pay taxes. Thus, taxes are compulsory or enforced contribution to the Government revenue by the public.
- Government may levy taxes on income, business profits or wealth or add it to the cost of some goods, services, and transactions.

### DIRECT TAX & INDIRECT TAX

There are two types of taxes:

1. Direct Tax and
2. Indirect Tax

Direct Tax	Indirect Tax
Incidence and impact fall on the same person	Incidence and impact fall on two different persons
Assessee, himself bears such taxes. Thus, it pinches the taxpayer.	Tax is recovered from the assessee, who passes such burden to another person.
Levied on income	Levied on goods and services.
E.g. Income Tax	E.g. GST, Customs Duty, etc.
Progressive in nature i.e., higher tax are levied on person earning higher income and vice versa.	Regressive in nature i.e., all persons will bear equal wrath of tax on goods or service consumed by them irrespective of their ability.

### CONSTITUTIONAL VALIDITY OF TAXES

The Constitution of India is the supreme law of India. It consists of a Preamble, 22 parts containing 444 articles and 12 schedules. Any tax law, which is not in conformity with the Constitution, is called ultra vires the Constitution and held as illegal and void. Some of the provisions of the Constitution are given below:

**Article 265** of the Constitution lays down that no tax shall be levied or collected except by the authority of law. It means tax proposed to be levied must be within the legislative competence of the legislature imposing the tax.

**Article 246** read with Schedule VII divides subject matter of law made by legislature into three categories:

- **Union list** (only the Central Government has power of legislation on subject matters covered in the list)
- **State list** (only State Government has the power of legislation on subject matters covered in the list)
- **Concurrent list** (both Central & State Government can pass legislation on subject matters).

**Entry 82 of Union List** – Taxes on income other than agricultural income i.e. Income-tax.

**Entry 46 of State List** – Gives power to state Govt to make laws on tax on Agriculture Income.

### ADMINISTRATION OF TAX LAWS



- Both of the Boards have been constituted under Central Board of Revenue Act, 1963.
- CBDT deals with levy and collection of all direct tax.
- CBIC Deals with levy and collection of Central indirect tax.

### SOURCES OF INCOME TAX LAW IN INDIA

#### 1. Income tax Act, 1961 (Amended up to date)

The provisions of income tax extends to the whole of India and became effective from 1/4/1962 (Sec. 1). It contains sections 1 to 298 and schedules I to XIV. The Act contains provisions for determination of taxable income; determination of tax liability; procedure for assessment, appeals, penalties and prosecutions; and powers and duties of Income tax authorities.

#### 2. The Finance Act (Annual Amendments)

- Every year, a Finance Bill is presented before the Parliament by the Finance Minister. The Bill contains various amendments which are sought to be made in the areas of direct and indirect taxes levied by the Central Government.
- When the Finance Bill is approved by both the Houses of Parliament and receives the assent of the President, it becomes the Finance Act. The provisions of such Finance Act are thereafter incorporated in the Income Tax Act.



### 3. Income tax Rules, 1962 (Amended up to date)

- As per Sec. 295, the Board may, subject to the control of the Central Government, make rules for the whole or any part of India for carrying out the purposes of the Act.
- Such rules are made applicable by notification in the Gazette of India.
- These rules were first made in 1962 and are known as Income tax Rules, 1962.

### 4. Circulars and Notifications

#### Circulars

- Circulars are issued by the CBDT from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of certain provisions of the Act.
- Circulars are issued for the guidance of the officers and/or assesseees.
- The department is bound by the circular. While such circulars are not binding on the assesseees, they can take advantage of beneficial circular

#### Notifications

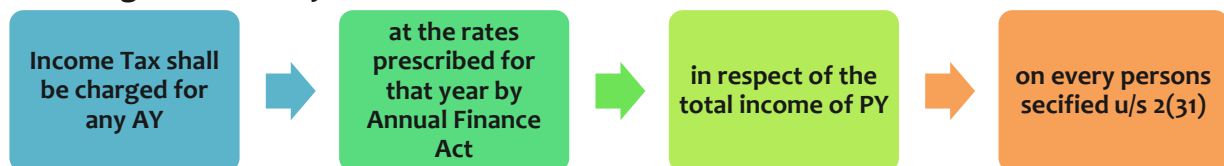
Notifications are issued by the Central Government to give effect to the provisions of the Act. CBDT is also empowered to make and amend rules for the purposes of the Act by issue of notifications.

### 5. Judicial decision

- Decision of the Supreme Court:** Any decision given by the Supreme Court shall be applicable as law till there is any change in law by the Parliament. Such decision shall be binding on all the Courts, Tribunals, Income tax authorities, assessee, etc.
- Decisions given by a High Court or ITAT:** Decisions given by a High Court or ITAT are binding on all assesseees and Income tax authorities, which fall under their jurisdiction, unless it is over ruled by a higher authority.

### Charging Section – Levy of Income Tax [Section 04]

As per Section 4, Income of the previous year of a person is charged to tax in the immediately following assessment year.



### PREVIOUS YEAR [SECTION 3]

- Previous Year means the financial year immediately preceding the Assessment Year.
- Income earned in a year is assessed in the next year.

- The year in which income is earned is known as Previous Year and the next year in which income is assessed is known as Assessment Year.
- It is mandatory for all assessee to follow financial year (from 1st April to 31st March) as previous year for Income-Tax purposes.

**Business or professions newly set up during the financial year**

In such a case, the previous year shall be the period beginning on the date of the setting up of the business or profession and ending with 31st March of the said financial year.

**If a source of income comes into existence in the said financial year**, then, the previous year will commence from the date on which the source of income newly comes into existence and will end with 31st March of the financial year.

**ASSESSMENT YEAR (A.Y.) [SECTION 2(9)]**

- Assessment year means the period of 12 months commencing on the 1st day of April every year.
- It is the year (just after the previous year) in which the income earned in the previous year is charged to tax.
- E.g., A.Y.2026-27 is a year, which commences on April 1, 2026, and ends on March 31, 2027. The income of an assessee earned in the PY 2025-26 is assessed in the A.Y. 2026-27.

**PERSON [SECTION 2(31)]**

The term “person” includes the following:



## ASSEESSEE [SECTION 2(7)]

“Assessee” means,

- a. a person by whom any tax or any other sum of money (i.e., penalty or interest) is payable under this Act
- b. every person in respect of whom any proceeding under this Act has been taken (whether or not he is liable for any tax, interest or penalty) for the assessment of his income or loss or the Amount of refund due to him;
- c. a person who is assessable in respect of income or loss of another person;
- d. a person who is deemed to be an ‘assessee in default’ under any provision of this Act. E.g. A person, who was liable to deduct tax but has failed to do so, shall be treated as an ‘assessee in default’.

## Situations Where Income is Taxed in the Same Year (Previous Year Itself)

**1. Section 172 - Shipping Business of Non-Residents (NR):**

If a non-resident's ship, carrying passengers, livestock, mail, or goods, arrives at an Indian port, the ship cannot leave the port until all applicable taxes are paid.

**Example:** A foreign shipping company's vessel arrives in Mumbai to deliver cargo. Before the ship can depart, it must settle any tax liabilities on the income earned from that voyage.

**2. Section 174 - Person Leaving India:**

If the Assessing Officer (AO) believes that an individual is leaving India with no intention of returning, the income earned by that person up until their expected departure date is taxed in the current year itself.

**Example:** Mr. X, an Indian resident, plans to move abroad permanently in October 2025. The AO may tax his income up to October 2025 in the same year i.e. 2025-26

**3. Section 174A - AOP/BOI/AJP Formed for a Specific Event or Purpose:**

If an Association of Persons (AOP), Body of Individuals (BOI), or Artificial Juridical Person (AJP) is created for a specific event or purpose, and the AO expects it to dissolve within the same year, the income up to the date of dissolution is taxed in that year.

**Example:** A group of investors forms an AOP to organize a one-time international sports event in India. If the event concludes in August 2025 and the AOP is dissolved, the income earned will be taxed in the same PY i.e. 2025-26

**4. Section 175 - Persons Likely to Transfer Property to Avoid Tax:**

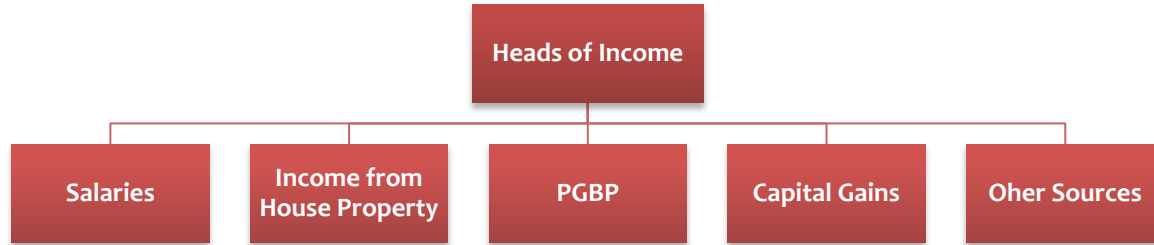
If the AO suspects that a person is likely to sell, transfer, or dispose of assets to avoid paying taxes, the AO can tax that person's total income in the current year itself.

**Example:** Mrs. Y plans to sell her property in December 2025 to avoid tax liabilities. If the AO suspects this, her income from the property sale might be taxed in the assessment year 2026-27.

**5. Section 176 - Discontinued Business:**

If a business or profession is discontinued, the income earned up until the date of discontinuance may be taxed in the current year at the AO's discretion.

**Example:** A company decides to shut down its operations in India by September 2025. The income earned until the shutdown date can be taxed in the same year itself.

**HEADS OF INCOME [SECTION 14]**

For computation of income, all taxable income should fall under any of the five heads of income as mentioned above. If any type of income does not become part of any one of the above mentioned first four heads, it should be part of the 5<sup>th</sup> head, i.e. Income from other sources, which may be termed as the residual head.

**Difference between Heads of income and Sources of income**

- There are only five heads of income as per Sec. 14 of the Act, but the assessee may generate the income from various sources. In the same head of income, there may be various sources of income.
- E.g. under the head 'Income from house property', there may be two or more house properties and each house property shall be termed as a source of income.
- The source of income decides under which head (among the five heads) income shall be taxable.

**Computation of Income**

Step 1: Determine Residential Status
Step 2: Compute Income Under Each Head Of Income
Step 3: Apply Clubbing of Income Provisions
Step 4: Set-off/carry forward and set-off of losses as per the provisions of the Act
Step 5: After Applying Step 2, 3 & 4 You will arrive at Gross total Income
Step 6: Claim Deductions Under Section 80C to 80U (if any From GTI)
Step 7: Total Income (Taxable Income) is arrived after claiming deductions from GTI

Total Income shall be rounded off u/s 288A in the multiples of 10 and for this purpose, any paisa shall be ignored and if the last digit is 5 or more, it will be rounded off to the higher multiple otherwise it will be rounded off to the lower multiple.

### Example

- (i) ₹5,28,456 shall be rounded off as ₹5,28,460
- (ii) ₹5,28,455 shall be rounded off as ₹5,28,460
- (iii) ₹5,28,454 shall be rounded off as ₹5,28,450
- (iv) ₹5,28,454.88 shall be rounded off as ₹5,28,450

### Computation Of Tax Liability (Old Regime / Alternate Scheme / Normal Provisions)

In case of Individual / Hindu Undivided Family / AOP / BOI / Artificial Judicial Person

#### A. Any other Individual & HUF or AOP/BOI or Artificial Judicial Person

Income	Tax Rate
On First ₹ 2,50,000	Nil
Next ₹ 2,50,000	5%
Next ₹ 5,00,000	20%
Balance Income	30%

#### B. Resident individual of the age of 60 years or more at any time upto the end of relevant previous year but less than eighty years (senior citizen)

Income	Tax Rate
On First ₹ 3,00,000	Nil
Next ₹ 2,00,000	5%
Next ₹ 5,00,000	20%
Balance Income	30%

#### C. Resident individual of the age of 80 years or more at any time upto the end of relevant previous year (Very senior citizen)

Income	Tax Rate
On First ₹ 5,00,000	Nil
Next ₹ 5,00,000	20%
Balance Income	30%

**Note:** Any resident individual whose 60<sup>th</sup>/80<sup>th</sup> birthday falls on 1<sup>st</sup> April 2025 shall be treated as having completed the age of 60/80 years on 31<sup>st</sup> March 2025. Therefore such individual shall be entitled for higher basic exemption limit of ₹ 3,00,000 & ₹ 5,00,000.

## DEFAULT TAX REGIME

**Tax On Income of Individuals / Hindu Undivided family / AOPs / BOIs / Artificial Judicial Person [Section 115BAC]**

Income	Tax Rate
On First ₹ 4,00,000	Nil
More than ₹ 4,00,000 but upto ₹ 8,00,000	5%
More than ₹ 8,00,000 but upto ₹ 12,00,000	10%
More than ₹ 12,00,000 but upto ₹ 16,00,000	15%
More than ₹ 16,00,000 but upto ₹ 20,00,000	20%
More than ₹ 20,00,000 but upto ₹ 24,00,000	25%
Exceeding ₹ 24,00,000	30%

## Health and Education Cess

If any tax is charged for any specific purpose, it is called Cess. Health and Education Cess shall be charged @ 4% on the Amount of income tax.

## ROUNDING OFF OF TAX [SECTION 288B]

Any Amount payable, and the Amount of refund due, shall be rounded off in the multiples of ₹10 in the similar manner as in case of total income under section 288A.

**Illustration 1: Compute the income the tax liability Of Binod under old regime (Res. 45 Years)**

Particulars	Amount
Income Under The Head Salary	₹4,00,000
Income Under Head House Property	₹5,00,000
Profits & Gains From Business & Profession	₹6,10,603
Deductions U/s 80C to 80U	₹1,50,000

## Solution

## Computation of Tax Liability of Binod (Resident 45Years) Under Old Regime

Particulars	Amount(₹)	Amount(₹)
Income under the head Salary	4,00,000	
Income under the head House Property	5,00,000	
Income under the head PGBP	6,10,603	
Gross Total Income		15,10,603
Less : Deductions u/s 80C-80U	1,50,000	
Total Income (R/off u/s 288A)		13,60,600
Tax on First 10,00,000	1,12,500	
Tax on Balance 3,60,600 @30%	1,08,180	

Tax before cess		2,20,680
Add : Health & Education Cess @4%	8827.2	
Tax Liability (R/off u/s 288B)		2,29,510

### Illustration 2: Suppose Age of Binod Is 60 Years

#### Solution

#### Computation of Tax Liability of Binod (Resident 60Years) Under Old Regime

Particulars	₹	₹
Income under the head Salary	4,00,000	
Income under the head House Property	5,00,000	
Income under the head PGBP	6,10,603	
Gross Total Income		15,10,603
Less : Deductions u/s 80C-80U	1,50,000	
Total Income (R/off u/s 288A)		13,60,600
Tax on First 10,00,000	1,10,000	
Tax on Balance 3,60,600 @30%	1,08,180	
Tax before cess		2,18,180
Add : Health & Education Cess @4%	8727.2	
Tax Liability (R/off u/s 288B)		2,26,910

### Illustration 3: Suppose Age of Binod Is 80 Years

#### Solution

#### Computation of Tax Liability of Binod (Resident 80Years) Under Old Regime

Particulars	₹	₹
Income under the head Salary	4,00,000	
Income under the head House Property	5,00,000	
Income under the head PGBP	6,10,603	
Gross Total Income		15,10,603
Less : Deductions u/s 80C-80U	1,50,000	
Total Income (R/off u/s 288A)		13,60,600
Tax on First 10,00,000	1,00,000	
Tax on Balance 3,60,600 @30%	1,08,180	
Tax before cess		2,08,180
Add : Health & Education Cess @4%	8327.2	
Tax Liability (R/off u/s 288B)		2,16,510

### Illustration 4: Calculate tax liability in following cases under Both Regimes

- Mr. X (Resident Age 40 Years) has a total income of ₹9,00,000
- Mr. X (Resident Age 60 Years) has a total income of ₹9,00,000
- Mr. X (Resident Age 80 Years) has a total income of ₹9,00,000

- (d) Mr. X (Non-Resident Age 40 Years) has a total income of ₹9,00,000  
 (e) Mr. X (Non-Resident Age 60 Years) has a total income of ₹11,00,000  
 (f) Mr. X (Non-Resident Age 80 Years) has a total income of ₹12,00,000

**Solution**

- a) Mr. X (Resident Age 40 Years) has total income of ₹9,00,000

**Computation of Tax Liability Under Old Regime**

Particulars	Amount(₹)	Amount(₹)
Total Income		9,00,000
Tax on First 2,50,000	Nil	
Tax on Next 2,50,000@5%	12,500	
Tax on Balance 4,00,000 @20%	80,000	
Tax before cess		92,500
Add : Health & Education Cess @4%	3700	
Tax Liability		96,200

**Computation of Tax Liability Under New Regime**

Particulars	Amount(₹)	Amount(₹)
Total Income		9,00,000
Tax on First 4,00,000	Nil	
Tax on Next 4,00,000@5%	20,000	
Tax on Balance 1,00,000 @10%	10,000	
Tax before cess		30,000
Add : Health & Education Cess @4%	1200	
Tax Liability		31,200

- b) Mr. X (Resident Age 60 Years) has total income of ₹9,00,000

**Computation of Tax Liability Under Old Regime**

Particulars	Amount(₹)	Amount(₹)
Total Income		9,00,000
Tax on First 3,00,000	Nil	
Tax on Next 2,00,000@5%	10,000	
Tax on Balance 4,00,000 @20%	80,000	
Tax before cess		90,000
Add : Health & Education Cess @4%	3600	
Tax Liability		93,600

**Computation of Tax Liability Under New Regime**

Particulars	Amount(₹)	Amount(₹)
Total Income		9,00,000
Tax on First 4,00,000	Nil	
Tax on Next 4,00,000@5%	20,000	



Tax on Balance 1,00,000 @10%	10,000	
Tax before cess		30,000
Add : Health & Education Cess @4%	1200	
Tax Liability		31,200

c) Mr. X (Resident Age 80Years) has total income of ₹9,00,000

**Computation of Tax Liability Under Old Regime**

Particulars	Amount(₹)	Amount(₹)
Total Income		9,00,000
Tax on First 5,00,000	Nil	
Tax on Balance 4,00,000 @20%	80,000	
Tax before cess		80,000
Add : Health & Education Cess @4%	3200	
Tax Liability		83,200

**Computation of Tax Liability Under New Regime**

Particulars	Amount(₹)	Amount(₹)
Total Income		9,00,000
Tax on First 4,00,000	Nil	
Tax on Next 4,00,000@5%	20,000	
Tax on Balance 1,00,000 @10%	10,000	
Tax before cess		30,000
Add : Health & Education Cess @4%	1200	
Tax Liability		31,200

d) Mr. X (Non-Resident Age 40Years) has total income of ₹9,00,000

**Computation of Tax Liability Under Old Regime**

Particulars	Amount(₹)	Amount(₹)
Total Income		9,00,000
Tax on First 2,50,000	Nil	
Tax on Next 2,50,000@5%	12,500	
Tax on Balance 4,00,000 @20%	80,000	
Tax before cess		92,500
Add : Health & Education Cess @4%	3700	
Tax Liability		96,200

**Computation of Tax Liability Under New Regime**

Particulars	Amount(₹)	Amount(₹)
Total Income		9,00,000
Tax on First 4,00,000	Nil	
Tax on Next 4,00,000@5%	20,000	
Tax on Balance 1,00,000 @10%	10,000	

Tax before cess		30,000
Add : Health & Education Cess @4%	1200	
Tax Liability		31,200

e) Mr. X (Non-Resident Age 60Years) has total income of ₹11,00,000

#### Computation of Tax Liability Under Old Regime

Particulars	Amount(₹)	Amount(₹)
Total Income		11,00,000
Tax on First 2,50,000	Nil	
Tax on Next 2,50,000@5%	12,500	
Tax on Next 5,00,000 @20%	1,00,000	
Tax on Balance 1,00,000@30%	30,000	
Tax before cess		1,42,500
Add : Health & Education Cess @4%	5700	
Tax Liability		1,48,200

#### Computation of Tax Liability Under New Regime

Particulars	Amount(₹)	Amount(₹)
Total Income		11,00,000
Tax on First 4,00,000	Nil	
Tax on Next 4,00,000@5%	20,000	
Tax on Balance 3,00,000 @10%	30,000	
Tax before cess		50,000
Add : Health & Education Cess @4%	2000	
Tax Liability		52,000

f) Mr. X (Non-Resident Age 80Years) has total income of ₹12,00,000

#### Computation of Tax Liability Under Old Regime

Particulars	Amount(₹)	Amount(₹)
Total Income		12,00,000
Tax on First 2,50,000	Nil	
Tax on Next 2,50,000@5%	12,500	
Tax on Next 5,00,000 @20%	1,00,000	
Tax on Balance 2,00,000@30%	60,000	
Tax before cess		1,72,500
Add : Health & Education Cess @4%	6900	
Tax Liability		1,79,400

#### Computation of Tax Liability Under New Regime

Particulars	Amount(₹)	Amount(₹)
Total Income		12,00,000
Tax on First 4,00,000	Nil	

Tax on Next 4,00,000@5%	20,000	
Tax on Balance 4,00,000 @10%	40,000	
Tax before cess		60,000
Add : Health & Education Cess @4%	2,400	
Tax Liability		62,400

### Surcharge

Surcharge is an additional tax payable over and above the income tax. Surcharge is levied as a percentage of income-tax, where total income exceeds ₹ 50 lakhs.

**A. In case the Individual/HUF/AOP /BOI and Artificial Judicial Person pays tax under optional regime (Old regime)**

Income	Rate
Total income does not exceed ₹ 50 lacs	Nil
Total income exceeds ₹ 50 lacs but does not exceed ₹ 1 crore	10% of tax
Total income exceeds ₹ 1 crore but does not exceed ₹ 2 crores	15% of tax
Total income exceeds ₹ 2 crores including Income u/s 112, 112A, 111A or dividend income then:	
• Income u/s 112, 112A, 111A or dividend income	15% of tax
• Other Income is Upto ₹ 2 crores	15% of tax
• Other Income is more than ₹ 2 crores but upto ₹ 5 crores	25% of tax
• Other Income is exceeding ₹ 5 crores	37% of tax

### Analysis

S.No	Total Income (₹)	Income u/s 112,112A,111A & dividend Income (₹)	Other Income (₹)	Surcharge On Tax on Special Income u/h CG & Dividend Income (%)	Surcharge On Tax On Other Income (%)
1	48 Lakhs	10 Lakhs	38 Lakhs	NA	NA
2	60 Lakhs	15 Lakhs	45 Lakhs	10%	10%
3	1.20 Cr.	20 Lakhs	1 Cr.	15%	15%
4	2.50 Cr.	60 Lakhs	1.90 Cr.	15%	15%
5	2.90 Cr.	70 Lakhs	2.20 Cr.	15%	25%
6	3.90 Cr.	1.20 Cr.	2.70 Cr.	15%	25%
7	5.80 Cr.	60 Lakhs	5.20 Cr.	15%	37%
8	6 Cr.	1.50 Cr.	4.50 Cr.	15%	25%

Health & education cess shall be charged on the total of tax plus surcharge.

**B. In case the Individual/HUF/AOP /BOI and Artificial Judicial Person pays tax under default tax regime under section 115BAC**

Income	Rate
Total income does not exceed ₹ 50 lacs	Nil
Total income exceeds ₹ 50 lacs but does not exceed ₹ 1 crore	10% of tax
Total income exceeds ₹ 1 crore but does not exceed ₹ 2 crores	15% of tax
Total income exceeds ₹ 2 crores including Income u/s 112, 112A, 111A or dividend income then:	
• Income u/s 112, 112A, 111A or dividend income	15% of tax
• Other Income is Upto ₹ 2 crores	15% of tax
• Other Income is more than ₹ 2 crores	25% of tax

#### Analysis

S. No.	Total Income (₹)	Income u/s 112,112A,111A & dividend Income (₹)	Other Income (₹)	Surcharge On Tax on Special Income u/h CG & Dividend Income (%)	Surcharge On Tax On Other Income (%)
1	48 Lakhs	10 Lakhs	38 Lakhs	NA	NA
2	60 Lakhs	15 Lakhs	45 Lakhs	10%	10%
3	1.20 Cr.	20 Lakhs	1 Cr.	15%	15%
4	2.50 Cr.	60 Lakhs	1.90 Cr.	15%	15%
5	2.90 Cr.	70 Lakhs	2.20 Cr.	15%	25%
6	3.90 Cr.	1.20 Cr.	2.70 Cr.	15%	25%
7	5.80 Cr.	60 Lakhs	5.20 Cr.	15%	25%

**Note:** An AOP consisting of only companies as members then Maximum Surcharge applicable is 15%.

**Illustration 5: Calculate Income tax Liability in Following Cases under both the Tax Regime:**

- Mr. X (Resident Age 40 Years) has a total income of ₹67,00,000
- Mr. X (Resident Age 60 Years) has a total income of ₹1,67,00,000
- MR.X (Resident Age 80 Years) has a total income of ₹3,67,00,000
- MR.X (Non-Resident Age 60 Years) has a total income of ₹6,67,00,000

#### Solution

a) Mr. X (Resident Age 40Years) has total income of ₹67,00,000

#### Computation of Tax Liability Under Old Regime

Particulars	₹	₹
Total Income		67,00,000
Tax on First 10,00,000 @slab rate	1,12,500	
Tax on Balance 57,00,000@30%	17,10,000	
Tax before surcharge		18,22,500
Add : Surcharge @10%	1,82,250	

Tax before cess		20,04,750
Add : Health & Education Cess @4%	80,190	
Tax Liability		20,84,940

### Computation of Tax Liability Under New Regime

Particulars	₹	₹
Total Income		67,00,000
Tax on First 24,00,000 @slab rate	3,00,000	
Tax on Balance 43,00,000 @30%	12,90,000	
Tax before surcharge		15,90,000
Add : Surcharge @10%	1,59,000	
Tax before cess		17,49,000
Add : Health & Education Cess @4%	69,960	
Tax Liability		18,18,960

b) Mr. X (Resident Age 60Years) has total income of ₹1,67,00,000

### Computation of Tax Liability Under Old Regime

Particulars	₹	₹
Total Income		1,67,00,000
Tax on First 10,00,000 @slab rate	1,10,000	
Tax on Balance 1,57,00,000@30%	47,10,000	
Tax before surcharge		48,20,000
Add : Surcharge @15%	7,23,000	
Tax before cess		55,43,000
Add : Health & Education Cess @4%	2,21,720	
Tax Liability		57,64,720

### Computation of Tax Liability Under New Regime

Particulars	₹	₹
Total Income		1,67,00,000
Tax on First 24,00,000 @slab rate	3,00,000	
Tax on Balance 1,43,00,000@30%	42,90,000	
Tax before surcharge		45,90,000
Add : Surcharge @15%	6,88,500	
Tax before cess		52,78,500
Add : Health & Education Cess @4%	2,11,140	
Tax Liability		54,89,640

c) Mr. X (Resident Age 80Years) has total income of ₹3,67,00,000

**Computation of Tax Liability Under Old Regime**

Particulars	₹	₹
Total Income		3,67,00,000
Tax on First 10,00,000 @slab rate	1,00,000	
Tax on Balance 3,57,00,000@30%	1,07,10,000	
Tax before surcharge		1,08,10,000
Add : Surcharge @25%	27,02,500	
Tax before cess		1,35,12,500
Add : Health & Education Cess @4%	5,40,500	
Tax Liability		1,40,53,000

**Computation of Tax Liability Under New Regime**

Particulars	₹	₹
Total Income		3,67,00,000
Tax on First 24,00,000 @slab rate	3,00,000	
Tax on Balance 3,43,00,000@30%	1,02,90,000	
Tax before surcharge		1,05,90,000
Add : Surcharge @25%	26,47,500	
Tax before cess		1,32,37,500
Add : Health & Education Cess @4%	5,29,500	
Tax Liability		1,37,67,000

d) Mr. X (Non-Resident Age 60Years) has total income of ₹6,67,00,000

**Computation of Tax Liability Under Old Regime**

Particulars	₹	₹
Total Income		6,67,00,000
Tax on First 10,00,000 @slab rate	1,12,500	
Tax on Balance 6,57,00,000@30%	1,97,10,000	
Tax before surcharge		1,98,22,500
Add : Surcharge @37%	73,34,325	
Tax before cess		2,71,56,825
Add : Health & Education Cess @4%	10,86,273	
Tax Liability (R/off u/s 288B)		2,82,43,100

**Computation of Tax Liability Under New Regime**

Particulars	₹	₹
Total Income		6,67,00,000
Tax on First 24,00,000 @slab rate	3,00,000	
Tax on Balance 6,43,00,000@30%	1,92,90,000	
Tax before surcharge		1,95,90,000
Add : Surcharge @25%	48,97,500	

Tax before cess		2,44,87,500
Add : Health & Education Cess @4%	9,79,500	
Tax Liability		2,54,67,000

### Marginal Relief

- If due to applicability of surcharge (or higher surcharge is levied)
- Tax liability increases more than the increase in income
- Then assessee is eligible for Marginal Relief equals to Difference of Increase in Tax and Increase in Income.

### Rebate [Section 87A]

#### A. Rebate Under Default Regime (New Regime)

1. Applicable to: Resident Individual
2. Conditions to be satisfied: Total income of the assessee does not exceed ₹ 12,00,000.
3. Quantum of Rebate: Lower of the following:
  - a. 100% of tax liability as computed above; or
  - b. ₹ 60,000/-

Also If total income exceeds ₹ 12,00,000, then rebate shall be allowed If tax liability increases more than increase in income.

**Marginal Rebate u/s 87A** = Increase in Tax – Increase income

#### B. Rebate Under Old Regime (Normal Provisions)

1. Applicable to: Resident Individual
2. Conditions to be satisfied: Total income of the assessee does not exceed ₹ 5,00,000.
3. Quantum of Rebate: Lower of the following:
  - a. 100% of tax liability as computed above; or
  - b. ₹ 12,500/-

**Illustration 6:** Mr. J (Resident Age 40 Years) has gross total income ₹ 5,40,000 and deduction allowed under section 80C to 80U are ₹ 40,000. Compute his tax liability under Normal Provisions.

#### Solution

#### Computation of Tax Liability of J (Resident 40Years) Under Old Regime

Particulars	₹	₹
Gross Total Income		5,40,000
Less : Deductions u/s 80C-80U	40,000	
Total Income		5,00,000
Tax on First 2,50,000	Nil	
Tax on Balance 2,50,000 @5%	12,500	

		12,500
Less : Rebate u/s 87A		
Lower of		
1. 100% of Tax liability i.e. 12,500		
2. ₹12,500	12,500	
<b>Tax Liability</b>		<b>Nil</b>

**Illustration 07:** Presume Age of Mr. J is 60 Years.

**Solution**

**Computation of Tax Liability of J (Resident 60Years) Under Old Regime**

Particulars	₹	₹
Gross Total Income		5,40,000
Less : Deductions u/s 80C-80U	40,000	
Total Income		5,00,000
Tax on First 3,00,000	Nil	
Tax on Balance 2,00,000 @5%	10,000	
		10,000
Less : Rebate u/s 87A		
Lower of		
1. 100% of Tax liability i.e. 10,000		
2. ₹12,500	10,000	
<b>Tax Liability</b>		<b>Nil</b>

**Illustration 8:** Presume Age of Mr. J is 82 Years and He is Non-Resident

**Solution**

**Computation of Tax Liability of J (Non-Resident 82Years) Under Old Regime**

Particulars	₹	₹
Gross Total Income		5,40,000
Less : Deductions u/s 80C-80U	40,000	
Total Income		5,00,000
Tax on First 2,50,000	Nil	
Tax on Balance 2,50,000 @5%	12,500	
Tax before cess		12,500
Add : Health & Education Cess @4%	500	
<b>Tax Liability</b>		<b>13,000</b>

**Note:** Rebate u/s 87A shall not be allowed to Non-Resident Individuals



## Taxability of Casual Income

- Casual income shall be taxable under the head Other Sources and it will be included in the gross total income and also total income but while computing tax liability, casual income shall be separated from total income and shall be taxable @ 30%.
- If any expense has been incurred to earn the casual income, then such expense shall not be allowed to deducted.
- As per **section 58(4)**, deduction under section 80C to 80U shall not be allowed from casual income however as per section 87A, rebate shall be allowed.

**Illustration 9:** Mr. X has income under the head Salary ₹ 5,00,000 and casual income ₹3,00,000 and deduction under section 80C to 80U ₹ 2,00,000. Calculate his tax liability

**Solution**

## Computation of Tax Liability of Mr. X Under Old Regime

Particulars	₹	₹
Income under the head Salary	5,00,000	
Income under the head other sources		
Casual Income	3,00,000	
Gross Total Income		8,00,000
Less : Deductions u/s 80C-80U	2,00,000	
Total Income		6,00,000
Tax on Normal Income (5,00,000-2,00,000) i.e. 3,00,000		
Tax on First 2,50,000	Nil	
Tax on Balance 50,000 @5%	2500	
Tax on Casual Income @30%	90,000	
Tax before cess		92,500
Add : Health & Education Cess@4%	3700	
Tax Liability		96,200

**Illustration 10:** If in the above case deduction allowed under section 80C to 80U is ₹ 6,00,000, tax liability shall be?

**Solution**

## Computation of Tax Liability of Mr. X Under Old Regime

Particulars	₹	₹
Income under the head Salary	5,00,000	
Income under the head other sources		
Casual Income	3,00,000	
Gross Total Income		8,00,000
Less : Deductions u/s 80C-80U 6,00,000 but maximum up to normal income i.e. 5,00,000 and Balance 1,00,000 shall be lapsed	5,00,000	

Total Income		3,00,000
Tax on Casual Income @30%	90,000	
		90,000
Less : Rebate u/s 87A		
Lower of		
1. 100% of Tax liability i.e. 90,000		
2. ₹12,500	12,500	77,500
Add : Health & Education Cess@4%	3100	
Tax Liability		80,600

**Note :** Deduction u/s 80C-80U and unexhausted basic exemption limit shall not be allowed from Casual Income

**Illustration 11:** Mr. J has casual income of ₹ 1,02,00,000 and deduction allowed under section 80C to 80U are ₹ 5,00,000, in this case his tax liability shall be?

**Solution**

**Computation of Tax Liability of Mr. J Under Old Regime**

Particulars	₹	₹
Casual Income	1,02,00,000	
Gross Total Income		1,02,00,000
Less : Deductions u/s 80C-80U (Refer Note-1)	Nil	
Total Income		1,02,00,000
Tax on Casual Income @30%	30,60,000	
Add : Surcharge @15%	4,59,000	
Tax before Marginal Relief		35,19,000
Less : Marginal Relief (Note-2)	19,000	
Tax before cess		35,00,000
Add : Health & Education Cess @4%	1,40,000	
Tax Liability		36,40,000

**Note 1 :** Deduction u/s 80C-80U and unexhausted basic exemption limit shall not be allowed from Casual Income

**Note 2 :** **Computation of Marginal Relief**

Particulars	Amount(₹)	Amount(₹)
Tax on Casual Income of 1,00,00,000@30%	30,00,000	
Add : Surcharge @10%	3,00,000	
		33,00,000
Increase in taxes (35,19,000 – 33,00,000) (A)	2,19,000	
Increase in income (1,02,00,000 – 1,00,00,000) (B)	2,00,000	
Marginal Relief (A-B)		19,000

### Taxability of Capital Gains

There are two Types of Capital Gains

- a) Long Term Capital Gains
- b) Short Term Capital Gains

Further Long term and Short Term capital gain is divided as follows:

#### 1. Long Term Capital Gains

Section	Prior to 23 <sup>rd</sup> July 2024	W.e.f. 23 <sup>rd</sup> July 2024
112	20%	12.5%
112A (Listed Equity Shares)	10%	12.5%

However, capital gains u/s 112A are exempt up to ₹ 1,25,000 (aggregate).

#### 2. Short Term Capital Gains

Section	Prior to 23 <sup>rd</sup> July 2024	W.e.f. 23 <sup>rd</sup> July 2024
111A (Listed Equity Shares)	15%	20%
Other STCG	Slab Rate	Slab Rate

- Deduction u/s 80C to 80U shall not be allowed from capital gain u/s 112, 112A & 111A.
- Rebate u/s 87A shall not be allowed from income u/s 112A.

#### Special provision for resident individual / HUF

In case of a resident individual / HUF if total income excluding

- a) long term capital gains u/s 112 / u/s 112A
- b) short term capital gain covered under section 111A, and

is below the Amount which is exempt from income tax (i.e. 2,50,000/3,00,000/5,00,000), in such cases deficiency in the exemption shall be allowed from LTCG u/s 112 or STCG u/s 111A or LTCG u/s 112A as the case may be.

#### Illustration 12: From The Following Information Calculate tax liability under both regimes of Mr. J (Res. 40 Years)

Particulars	Amount (₹)
Income Under The Head Salaries	6,00,000
Long Term Capital Gain u/s 112 on sale of GOLD on 01/08/2025	1,00,000
Long Term Capital Gain u/s 112A	1,50,000
Short Term Capital Gain	25,000
Short Term Capital Gain u/s 111A	1,25,000
Casual Income	2,00,000
Deductions u/s 80C to 80U	2,50,000

## Solution

## Computation of Tax Liability of J (Resident 40Years) Under Old Regime

Particulars	₹	₹
Income under the head Salary	6,00,000	
LTCG u/s 112	1,00,000	
LTCG u/s 112A	1,50,000	
STCG	25,000	
STCG u/s 111A	1,25,000	
Casual Income	2,00,000	
<b>Gross Total Income</b>		<b>12,00,000</b>
Less : Deductions u/s 80C-80U	2,50,000	
<b>Total Income</b>		<b>9,50,000</b>
Tax on Normal Income (6,25,000-2,50,000) i.e. 3,75,000 @ slab rate		
Tax on First 2,50,000	Nil	
Tax on Balance 1,25,000@5%	6,250	
Tax on LTCG u/s 112 (1,00,000 @12.5%)	12,500	
Tax on LTCG u/s 112A (1,50,000-1,25,000) @12.5%	3125	
Tax on STCG u/s 111A (1,25,000 @20%)	25,000	
Tax on Casual Income (2,00,000 @30%)	60,000	
<b>Tax before cess</b>		<b>1,06,875</b>
Add : Health & Education Cess @4%	4275	
<b>Tax Liability</b>		<b>1,11,150</b>

## Computation of Tax Liability of J (Resident 40Years) Under New Regime

Particulars	₹	₹
Income under the head Salary	6,00,000	
LTCG u/s 112	1,00,000	
LTCG u/s 112A	1,50,000	
STCG	25,000	
STCG u/s 111A	1,25,000	
Casual Income	2,00,000	
<b>Gross Total Income</b>		<b>12,00,000</b>
Less : Deductions u/s 80C-80U	Nil	
<b>Total Income</b>		<b>12,00,000</b>
Tax on Normal Income i.e. 6,25,000@ slab rate		
Tax on First 4,00,000	Nil	
Tax on Balance 2,25,000@5%	11,250	
Tax on LTCG u/s 112 (1,00,000 @12.5%)	12,500	
Tax on LTCG u/s 112A (1,50,000-1,25,000) @12.5%	3125	
Tax on STCG u/s 111A (1,25,000 @20%)	25,000	
Tax on Casual Income (2,00,000 @30%)	60,000	

Tax before cess		1,11,875
Less: Rebate u/s 87A [Except on LTCG u/s 112A]	1,08,750	
		3,125
Add : Health & Education Cess @4%	125	
Tax Liability		3,250

**Illustration 13: From The Following Information Calculate tax liability of Mr. J (Resident Age 40 Years)**

Particulars	Amount (₹)
Income Under The Head Salaries	3,00,000
Long Term Capital Gain u/s 112 on sale of Paintings on 11/08/2025	6,00,000
Long Term Capital Gain u/s 112A	50,000
Deductions u/s 80C to 80U	2,50,000

### Solution

#### Computation of Tax Liability of J (Resident 40Years) Under Old Regime

Particulars	₹	₹
Income under the head Salary	3,00,000	
LTCG u/s 112	6,00,000	
LTCG u/s 112A	50,000	
Gross Total Income		9,50,000
Less : Deductions u/s 80C-80U	2,50,000	
Total Income		7,00,000
Tax on Normal Income (3,00,000-2,50,000) i.e. 50,000 @ slab rate		
Tax on First 50,000	Nil	
Tax on LTCG u/s 112 (6,00,000-2,00,000) @12.5%	50,000	
Tax on LTCG u/s 112A (50,000-50,000) @12.5%	Nil	
Tax before cess		50,000
Add : Health & Education Cess @4%	2000	
Tax Liability		52,000

#### Computation of Tax Liability of J (Resident 40Years) Under New Regime

Particulars	₹	₹
Income under the head Salary	3,00,000	
LTCG u/s 112	6,00,000	
LTCG u/s 112A	50,000	
Gross Total Income		9,50,000
Less : Deductions u/s 80C-80U	-	
Total Income		9,50,000
Tax on Normal Income 3,00,000 @ slab rate	-	
Tax on LTCG u/s 112 (6,00,000-1,00,000) @12.5%	62,500	

Tax on LTCG u/s 112A (50,000-50,000) @12.5%	Nil	
Tax before cess		62,500
Less: Rebate u/s 87A [Except on LTCG u/s 112A]		62,500
Tax Liability		-

**Illustration 13A: Suppose In Above Question Mr. J is of 80 Year**

**Solution**

**Computation of Tax Liability of J (Resident 80Years) Under Old Regime**

Particulars	₹	₹
Income under the head Salary	3,00,000	
LTCG u/s 112	6,00,000	
LTCG u/s 112A	50,000	
Gross Total Income		9,50,000
Less : Deductions u/s 80C-80U	2,50,000	
Total Income		7,00,000
Tax on Normal Income (3,00,000-2,50,000) i.e. 50,000 @ slab rate		
Tax on First 50,000	Nil	
Tax on LTCG u/s 112 (6,00,000-4,50,000) @12.5%	18,750	
Tax on LTCG u/s 112A (50,000-50,000) @12.5%	Nil	
Tax before cess		18,750
Add : Health & Education Cess @4%	750	
Tax Liability		19,500

**Computation of Tax Liability of J (Resident 80 Years) Under New Regime**

Particulars	₹	₹
Income under the head Salary	3,00,000	
LTCG u/s 112	6,00,000	
LTCG u/s 112A	50,000	
Gross Total Income		9,50,000
Less : Deductions u/s 80C-80U	-	
Total Income		9,50,000
Tax on Normal Income 3,00,000 @ slab rate	-	
Tax on LTCG u/s 112 (6,00,000-1,00,000) @12.5%	62,500	
Tax on LTCG u/s 112A (50,000-50,000) @12.5%	Nil	
Tax before cess		62,500
Less: Rebate u/s 87A [Except on LTCG u/s 112A]		62,500
Tax Liability		-

**Illustration 14:** Calculate tax liability of Mr. J (Resident Age 40 Years), if he has Income From LTCG u/s 112A of ₹ 50,50,000 (Under Both Regimes)

## Solution

## Computation of Tax Liability of J (Resident 40Years) Under Old Regime

Particulars	₹	₹
LTCG u/s 112A	50,50,000	
Gross Total Income		50,50,000
Less : Deductions u/s 80C-80U	Nil	
Total Income		50,50,000
Tax on LTCG u/s 112A (50,50,000-2,50,000-1,25,000) @12.5%	5,84,375	
Add : Surcharge @10%	58,437.5	
Tax before marginal relief		6,42,812.5
Less : Marginal Relief (Refer Note-1)	14,687.5	
Tax before cess		6,28,125
Add : Health & Education Cess @4%	25,125	
Tax Liability		6,53,250

## Note 1 :

## Computation of Marginal Relief

Particulars	₹	₹
Tax on LTCG of 50,00,000 (50,00,000-2,50,000-1,25,000) @12.5%		5,78,125
Increase in taxes (6,42,812.5 – 5,78,125) (A)	64,687.5	
Increase in income (50,50,000 – 50,00,000) (B)	50,000	
Marginal Relief (A-B)		14,687.5

## Computation of Tax Liability of J (Resident 40Years) Under New Regime

Particulars	₹	₹
LTCG u/s 112A	50,50,000	
Gross Total Income		50,50,000
Less : Deductions u/s 80C-80U	Nil	
Total Income		50,50,000
Tax on LTCG u/s 112A (50,50,000-4,00,000-1,25,000) @12.5%	5,65,625	
Add : Surcharge @10%	56,562.5	
Tax before Marginal Relief		6,22,187.5
Less : Marginal Relief (Refer Note-1)	12,812.5	
Tax before cess		6,09,375
Add : Health & Education Cess @4%	24,375	
Tax Liability		6,33,750

## Note 1 :

## Computation of Marginal Relief

Particulars	₹	₹
Tax on LTCG of 50,00,000 (50,00,000-4,00,000-1,25,000) @12.5%	5,59,375	
Increase in taxes (6,22,187.5 – 5,59,375) (A)	62,812.5	

Increase in income (50,50,000 – 50,00,000) (B)	50,000	
Marginal Relief (A-B)		12,812.5

**Illustration 15: Mr. X (Age 64 Years) is a resident individual, Details of his income is as follows:**

- LTCG ₹ 30,00,000 (After 23/7/2024)
- LTCG u/s 112A ₹ 10,00,000 (After 23/7/2024)
- STCG u/s 111A ₹ 3,00,000 (After 23/7/2024)
- Other Income ₹ 28,00,000
- Deduction u/s 80C to 80U ₹ 2,00,000

Calculate His Tax Liability.

### Solution

#### Computation of Tax Liability of Mr. X (Resident 64Years) Under Old Regime

Particulars	₹	₹
LTCG u/s 112	30,00,000	
LTCG u/s 112A	10,00,000	
STCG u/s 111A	3,00,000	
Other Income	28,00,000	
Gross Total Income		71,00,000
Less : Deductions u/s 80C-80U	2,00,000	
Total Income		69,00,000
Tax on Normal Income (28,00,000-2,00,000) i.e. 26,00,000 @ slab rate		
Tax on First 10,00,000	1,10,000	
Tax on Balance 16,00,000 @30%	4,80,000	
Tax on LTCG u/s 112 @12.5%	3,75,000	
Tax on LTCG u/s 112A (10,00,000-1,25,000) @12.5%	1,09,375	
Tax on STCG u/s 111A 3,00,000 @20%	60,000	
Tax before Surcharge & Cess		11,34,375
Add : Surcharge @10%	1,13,437.5	
Tax before cess		12,47,812.5
Add : Health & Education Cess @4%	49,912.5	
Tax Liability		12,97,725
Tax Liability Rounded Off		12,97,730

#### Computation of Tax Liability of Mr. X (Resident 64Years) Under New Regime

Particulars	₹	₹
LTCG u/s 112	30,00,000	
LTCG u/s 112A	10,00,000	
STCG u/s 111A	3,00,000	
Other Income	28,00,000	
Gross Total Income		71,00,000
Less : Deductions u/s 80C-80U	-	



Total Income		71,00,000
Tax on Normal Income 28,00,000 @ slab rate		
Tax on First 24,00,000	3,00,000	
Tax on Balance 4,00,000 @30%	1,20,000	
Tax on LTCG u/s 112 @12.5%	3,75,000	
Tax on LTCG u/s 112A (10,00,000-1,25,000) @12.5%	1,09,375	
Tax on STCG u/s 111A 3,00,000 @20%	60,000	
Tax before Surcharge & Cess		9,64,375
Add : Surcharge @10%	96,437.5	
Tax before cess		10,60,812.5
Add : Health & Education Cess @4%	42,432.5	
Tax Liability		11,03,245
Tax Liability (Round Off)		11,03,250

**Illustration 16:** Suppose in above question Other income is Rs 1,72,00,000. Calculate His Tax Liability.

### Solution

#### Computation of Tax Liability of Mr. X (Resident 64Years) Under Old Regime

Particulars	₹	₹
LTCG u/s 112	30,00,000	
LTCG u/s 112A	10,00,000	
STCG u/s 111A	3,00,000	
Other Income	1,72,00,000	
Gross Total Income		2,15,00,000
Less : Deductions u/s 80C-80U	2,00,000	
Total Income		2,13,00,000
Tax on Normal Income (1,72,00,000-2,00,000) i.e. 1,70,00,000 @ slab rate		
Tax on First 10,00,000	1,10,000	
Tax on Balance 1,60,00,000 @30%	48,00,000	
Tax on LTCG u/s 112 @12.5%	3,75,000	
Tax on LTCG u/s 112A (10,00,000-1,25,000) @12.5%	1,09,375	
Tax on STCG u/s 111A@20%	60,000	
Tax before Surcharge & Cess		54,54,375
Add : Surcharge @15%	8,18,156.25	
Tax before cess		62,72,531.25
Add : Health & Education Cess @4%	2,50,901.25	
Tax Liability (R/off u/s 288B)		65,23,430

## Computation of Tax Liability of Mr. X (Resident 64Years) Under New Regime

Particulars	₹	₹
LTCG u/s 112	30,00,000	
LTCG u/s 112A	10,00,000	
STCG u/s 111A	3,00,000	
Other Income	1,72,00,000	
<b>Gross Total Income</b>		2,15,00,000
Less : Deductions u/s 80C-80U	-	
<b>Total Income</b>		2,15,00,000
Tax on Normal Income 1,72,00,000 @ slab rate		
Tax on First 24,00,000	3,00,000	
Tax on Balance 1,48,00,000 @30%	44,40,000	
Tax on LTCG u/s 112 @12.5%	3,75,000	
Tax on LTCG u/s 112A (10,00,000-1,25,000) @12.5%	1,09,375	
Tax on STCG u/s 111A@20%	60,000	
<b>Tax before Surcharge &amp; Cess</b>		52,84,375
Add : Surcharge @15%	7,92,656.25	
<b>Tax before cess</b>		60,77,031.25
Add : Health & Education Cess @4%	2,43,081.25	
<b>Tax Liability (R/off u/s 288B)</b>		63,20,110

**Illustration 17: Mr. X (Age 64 Years) is a resident individual, Details of his income is as follows:**

- LTCG ₹ 2,00,000 - After 23/7/2024
- LTCG u/s 112A ₹ 1,10,00,000 - After 23/7/2024
- STCG u/s 111A ₹ 1,13,00,000 - After 23/7/2024
- Other Income ₹ 20,00,000
- Deduction u/s 80C to 80U ₹ 2,00,000

Calculate His Tax Liability

## Solution

## Computation of Tax Liability of Mr. X (Resident 64Years) Under Old Regime

Particulars	₹	₹
LTCG u/s 112	2,00,000	
LTCG u/s 112A	1,10,00,000	
STCG u/s 111A	1,13,00,000	
Other Income	20,00,000	
<b>Gross Total Income</b>		2,45,00,000
Less : Deductions u/s 80C-80U	2,00,000	
<b>Total Income</b>		2,43,00,000
Tax on Normal Income (20,00,000-2,00,000) i.e. 18,00,000 @ slab rate		
Tax on First 10,00,000	1,10,000	
Tax on Balance 8,00,000 @30%	2,40,000	

Tax on LTCG u/s 112 @12.5%	25,000	
Tax on LTCG u/s 112A (1,10,00,000-1,25,000) @12.5%	13,59,375	
Tax on STCG u/s 111A@20%	22,60,000	
<b>Tax before Surcharge &amp; Cess</b>		<b>39,94,375</b>
Add : Surcharge @15%	5,99,156.25	
<b>Tax before cess</b>		<b>45,93,531.25</b>
Add : Health & Education Cess @4%	1,83,741.25	
<b>Tax Liability (R/off u/s 288B)</b>		<b>47,77,270</b>

### Computation of Tax Liability of Mr. X (Resident 64Years) Under New Regime

Particulars	₹	₹
LTCG u/s 112	2,00,000	
LTCG u/s 112A	1,10,00,000	
STCG u/s 111A	1,13,00,000	
Other Income	20,00,000	
<b>Gross Total Income</b>		<b>2,45,00,000</b>
Less : Deductions u/s 80C-80U	-	
<b>Total Income</b>		<b>2,45,00,000</b>
Tax on Normal Income 20,00,000 @ slab rate		
Tax on First 20,00,000	2,00,000	
Tax on LTCG u/s 112 2,00,000 @12.5%	25,000	
Tax on LTCG u/s 112A (1,10,00,000-1,25,000) @12.5%	13,59,375	
Tax on STCG u/s 111A 1,13,00,000 @20%	22,60,000	
<b>Tax before Surcharge &amp; Cess</b>		<b>38,44,375</b>
Add : Surcharge @15%	5,76,656.25	
<b>Tax before cess</b>		<b>44,21,031.25</b>
Add : Health & Education Cess @4%	1,76,841.25	
<b>Tax Liability (R/off u/s 288B)</b>		<b>45,97,870</b>

### Unexplained money, investments etc. [Section 115BBE]

- Such deemed income shall be taxed at the rate of 60% plus surcharge @25% of tax. Thus, the effective rate of tax (including surcharge@25% of tax and cess@4% of tax and surcharge) is 78%.
- No basic exemption or allowance or expenditure shall be allowed to the assessee under any provision of the Income-tax Act, 1961 in computing such deemed income.
- Further, no set off of any loss shall be allowable against such income.

(a) **Cash Credits [Section 68]** Where any sum is found credited in the books of the assessee and the assessee offers no explanation about the nature and source or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the sum so credited may be charged as income of the assessee of that previous year.

- (b) **Unexplained Investments [Section 69]** Where in the financial year immediately preceding the assessment year, the assessee has made investments which are not recorded in the books of account and the assessee offers no explanation about the nature and the source of investments or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the value of the investments are taxed as deemed income of the assessee of such financial year.
- (c) **Unexplained money etc. [Section 69A]** Where in any financial year the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and the same is not recorded in the books of account and the assessee offers no explanation about the nature and source of acquisition of such money, bullion etc. or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the money and the value of bullion etc. may be deemed to be the income of the assessee for such financial year.
- (d) **Amount of investments etc., not fully disclosed in the books of account [Section 69B]** Where in any financial year the assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article and the Assessing Officer finds that the amount spent on making such investments or in acquiring such articles exceeds the amount recorded in the books of account maintained by the assessee and he offers no explanation for the difference or the explanation offered is unsatisfactory in the opinion of the Assessing Officer, such excess may be deemed to be the income of the assessee for such financial year.
- Example** If the assessee is found to be the owner of say 300 gms of gold (market value of which is ₹25,000) during the financial year ending 31.3.2025 but he has recorded to have spent ₹15,000 in acquiring it, the Assessing Officer can add ₹10,000 (i.e. the difference of the market value of such gold and ₹15,000) as the income of the assessee, if the assessee offers no satisfactory explanation thereof.
- (e) **Unexplained expenditure [Section 69C]** Where in any financial year an assessee has incurred any expenditure and he offers no explanation about the source of such expenditure or the explanation is unsatisfactory in the opinion of the Assessing Officer, Assessing Officer can treat such unexplained expenditure as the income of the assessee for such financial year. Such unexplained expenditure which is deemed to be the income of the assessee shall not be allowed as deduction under any head of income.
- (f) **Amount borrowed or repaid on hundi [Section 69D]** Where any amount is borrowed on a hundi or any amount due thereon is repaid other than through an account-payee cheque drawn on a bank, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying for the previous year in which the amount was borrowed or repaid, as the case may be.

## In case of Partnership Firm Including LLP

<b>Tax</b>	<b>30%</b>
<b>Surcharge</b>	<b>12% provided total income is exceeding ₹ 1 crore.</b>
<b>Marginal Relief</b>	<b>Marginal relief shall be allowed if income has exceeded ₹ 1 crore.</b>

## In case of Domestic Company

<b>Tax</b>	<b>30% . However, if Total Turnover or gross receipts of the previous year 2023-24 does not exceed 400 Crore then 25% Tax Shall be levied</b>		
<b>Surcharge</b>	<b>Income</b>	<b>Rate</b>	
	Exceeds 1 Crore but up to 10 Crore	7%	
	Exceeds 10 Crore	12%	
<b>Marginal Relief</b>	<b>Allowed</b>		

## In Case Of Foreign Company

<b>Tax</b>	<b>35%</b>		
<b>Surcharge</b>	<b>Income</b>	<b>Rate</b>	
	Exceeds 1 Crore but up to 10 Crore	2%	
	Exceeds 10 Crore	5%	
<b>Marginal Relief</b>	<b>Allowed</b>		

## In case of Co-operative Societies

<b>Old Regime</b>		
<b>Income</b>	<b>Rate</b>	
First 10,000	10%	
Next 10,000	20%	
Balance	30%	
<b>Surcharge</b>		
Income Exceeds 1 crore but up to 10 crores	7%	
Income Exceeds 10 crore	12%	

## CHAPTER 1B: AGRICULTURE INCOME

### Meaning of Agricultural Income [Section 2(1A)]

#### 1. Income from leasing out of agricultural land [Section 2(1A) (a)]

If any person has given any agricultural land on rent, rent so received (either in cash or in kind) shall be considered to be agricultural income and shall be exempt from income tax.

However, if any interest is recovered for late payment of rent then such interest will be taxable under head other sources.

#### 2. Income from Agricultural Operations [Section 2(1A)(b)]

If any person is engaged in agricultural activities, income derived from such agricultural operations shall be considered to be agricultural income.

#### Agriculture Operation

Operation	Income
Only Basics Operations	Agriculture income
Basics Operations & Subsequent operations	Agriculture income
Only Subsequent operations	Non Agriculture income

#### Note:

- a) If any shareholder has received dividend from a company having income from agricultural activities, such dividend income shall not be considered to be agricultural income
- b) If any partnership firm has agricultural income and firm has paid any salary or interest to the partners, it will be considered to be agricultural income to the partners.

#### 3. Any income derived from any building [Section 2(1A)(c)]

Income from building shall be agriculture income if all the following conditions are satisfied.

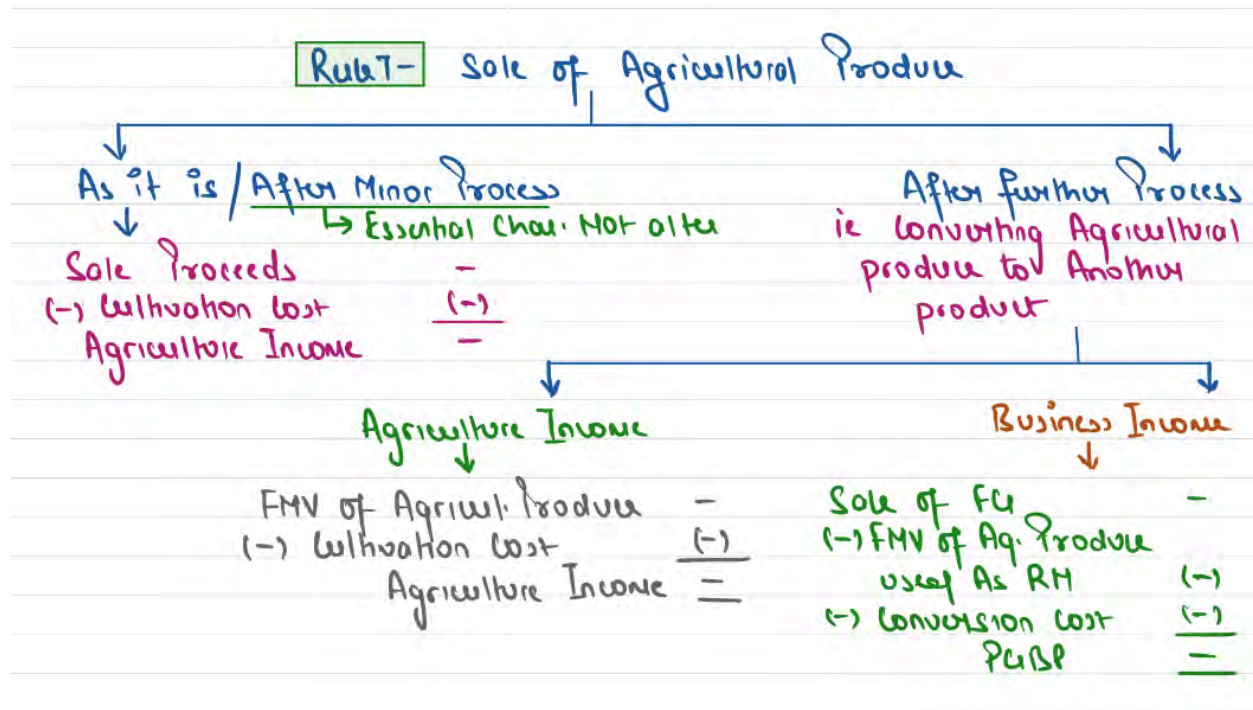
- (i) The building is on or in the immediate vicinity of agricultural land.
- (ii) It is occupied by the cultivator or receiver of rent or revenue.
- (iii) It is used as a dwelling house or as a store-house or other out-house.
- (iv) The land is assessed to land revenue or it is situated in rural area.

**Note:** Income derived from nursery shall be deemed to be an Agriculture income.

### Income which is partially agricultural and partially from business

Rule	Business	Agriculture %	Non- Agriculture %
7A	Manufacture of Rubber	65%	35%

7B(1)	Sale of coffee grown and cured by seller.	75%	25%
7B(1A)	Sale of coffee grown, cured, roasted and grounded by seller in India with or without mixing chicory or other flavoring ingredients	60%	40%
8	Growing and manufacturing tea in India.	60%	40%



### Partial integration of agricultural income with non-agricultural income

Addition of agricultural income to non-agricultural income for computation of tax is known as partial integration.

#### Conditions

1. The assessee is an individual or HUF or BOI, or AOP or artificial juridical person.
2. Non-agricultural income exceeds basic exemption limit; and
3. Agricultural income exceeds ₹5,000.

<b>Step 1</b>	Calculate tax on total income including agriculture income	-
<b>Step 2</b>	Calculate tax on (Basic Exemption Limit + Agriculture Income)	-
<b>Step 3</b>	Tax Payable Before Rebate u/s 87A or Surcharge (Step2 – Step3)	-
<b>Step 4</b>	Apply Rebate u/s 87A or Surcharge if TI exceeds 50 lacs	-
<b>Step 5</b>	Levy 4% HEC	-
	<b>Tax Liability</b>	-



**Example 01**

Ramu is a residential individual of age 25 years . He earned following income during PY 2025-26:

Income from House Property = ₹7,50,000

Agricultural Income = ₹5,00,000

Compute his Tax Liability for AY 2026-27

**Solution****Computation of Tax Liability of Ramu (Resident 25Years) Under Old Regime**

Particulars	₹	₹
Income under the head House Property	7,50,000	
Agricultural Income (Exempt u/s 10)	NIL	
Gross Total Income		7,50,000
Less : Deductions u/s 80C-80U	Nil	
Total Income		7,50,000
Step 1: Tax on Agricultural Income & Non-Agricultural Income i.e. 5,00,000 + 7,50,000 = 12,50,000 @slab rate		
Tax on First 10,00,000	1,12,500	
Tax on Balance 2,50,000 @30%	75,000	
		1,87,500
Step 2: Tax on BEL and Agricultural Income i.e. 2,50,000 + 5,00,000 = 7,50,000 @slab rate		
Tax on First 5,00,000	12,500	
Tax on Balance 2,50,000 @20%	50,000	
		62,500
Tax before Cess (Step 1 – Step 2)		1,25,000
Add : Health & Education Cess @4%	5,000	
Tax Liability		1,30,000

**Example 02**

Mr. X is a residential individual of age 30 years . He earned following income during PY 2025-26:

Income from Salary = ₹5,50,000

Income from House Property = ₹3,50,000

Agricultural Income = ₹4,50,000

Deduction u/s 80c-80U = ₹1,00,000

Compute his Tax Liability for AY 2026-27

**Solution****Computation of Tax Liability of Mr. X (Resident 30Years) Under Old Regime**

Particulars	₹	₹
Income under head Salary	5,50,000	
Income under the head House Property	3,50,000	



Agricultural Income (Exempt u/s 10)	NIL	
Gross Total Income		9,00,000
Less : Deductions u/s 80C-80U	1,00,000	
Total Income		8,00,000
Step 1: Tax on Agricultural Income & Non-Agricultural Income i.e. 8,00,000 + 4,50,000 = 12,50,000 @slab rate		
Tax on First 10,00,000	1,12,500	
Tax on Balance 2,50,000 @30%	75,000	
		1,87,500
Step 2: Tax on BEL and Agricultural Income i.e. 2,50,000 + 4,50,000 = 7,00,000 @slab rate		
Tax on First 5,00,000	12,500	
Tax on Balance 2,00,000 @20%	60,000	
		72,500
Tax before Cess (Step 1 – Step 2)		1,15,000
Add : Health & Education Cess @4%	4,600	
Tax Liability		1,19,600

**Example 03**

Mr. X is a residential individual of age 30 years . He earned following income during PY 2025-26:

Income from Salary (Computed) = ₹5,00,000

LTCG u/s 112 = ₹4,00,000 After 23/7/2024

Income from House Property = ₹2,00,000

Agricultural Income = ₹1,50,000

Deduction u/s 80c-80U = ₹1,00,000

Compute his Tax Liability for AY 2026-27 as per New Regime

**Solution****Computation of Tax Liability of Mr. X (Resident 30Years) Under Old Regime**

Particulars	₹	₹
Income under head Salary	5,00,000	
Income under the head House Property	2,00,000	
LTCG u/s 112	4,00,000	
Agricultural Income (Exempt u/s 10)	Nil	
Gross Total Income		11,00,000
Less : Deductions u/s 80C-80U	Nil	
Total Income		11,00,000
Step 1: Tax on Agricultural Income & Non-Agricultural Income i.e. 11,00,000 + 1,50,000 = 12,50,000		
Tax on Normal Income i.e. 8,50,000		
Tax on First 3,00,000	Nil	
Tax on Next 4,00,000 @5%	20,000	

Tax on Balance 1,50,000 @10%	15,000	
Tax on LTCG u/s 112 @12.5%	50,000	
		85,000
Step 2: Tax on BEL and Agricultural Income i.e. 3,00,000 + 1,50,000 = 4,50,000 @slab rate		
Tax on First 3,00,000	Nil	
Tax on Balance 1,50,000@5%	7,500	
		7,500
Tax before Cess (Step 1 – Step 2)		72,500
Add : Health & Education Cess @4%	2,900	
Tax Liability		75,400

**Example 04**

Compute the tax liability of a residential individual having following income during PY 2025-26:

(a) Agricultural Income = ₹1,50,000

(b) Non-Agricultural Income = ₹11,00,000

**Solution****Computation of Tax Liability Under Old Regime**

Particulars	₹	₹
Step 1: Tax on Agricultural Income & Non-Agricultural Income i.e. 11,00,000 + 1,50,000 = 12,50,000		
Tax on Normal Income i.e. 8,50,000		
Tax on First 5,00,000	12,500	
Tax on Balance 3,50,000 @20%	70,000	
Tax on LTCG u/s 112 @12.5%	50,000	
		1,32,500
Step 2: Tax on BEL and Agricultural Income i.e. 2,50,000 + 1,50,000 = 4,00,000 @slab rate		
Tax on First 2,50,000	Nil	
Tax on Balance 1,50,000@5%	7,500	
		7,500
Tax before Cess (Step 1 – Step 2)		1,25,000
Add : Health & Education Cess @4%	5,000	
Tax Liability		1,30,000

**Example 05**

Mr. Mukesh has cultivated 5,000 quintal of potatoes in his Farm. Cost of cultivation was ₹6,00,000 for the same. He sold 2,000 quintal of potatoes at the rate of ₹10,00,000 and transferred rest 3,000 quintal of potatoes to his chips factory. He has incurred processing cost of ₹15,00,000 and sold the Potato chips at ₹35,00,000. Compute his income from agriculture and business activities.

## Solution

## Computation of agricultural income on Sale of 2,000 qt. potatoes

Particulars	₹	₹
Sale Value	10,00,000	
Less : Cultivation Cost (6,00,000/5,000 * 2,000)	2,40,000	
Agricultural Income		7,60,000

## Computation of agricultural income on Potatoes sent for further processing

Particulars	₹	₹
FMV of 3,000 qt. potatoes	25,00,000	
Less : Cultivation Cost (6,00,000/5,000 * 3,000)	3,60,000	
Agricultural Income		21,40,000

## Computation of business income

Particulars	₹	₹
Income from Sale of Potato chips	35,00,000	
Less : Cost of raw material (FMV of 3,000 qt. potatoes)	25,00,000	
Less : Processing Cost	15,00,000	
Business Income		(5,00,000)

**Note:** Partial integration is not possible as business income does not exceeds basic exemption limit i.e. 2,50,000

## Illustration 01

Compute tax liability. Business Income ₹ 9,00,000; LTCG u/s 112 ₹ 3,00,000 (After 23/7/2024). STCG u/s 111A 50,000 (After 23/7/2024), Lottery income ₹ 40,000. Deduction u/s 80C 1,00,000, Agricultural Income ₹ 1,50,000

## Solution

## Computation of Tax Liability Under Old Regime

Particulars	₹	₹
Income under the head PGBP	9,00,000	
LTCG u/s 112	3,00,000	
STCG u/s 111A	50,000	
Lottery Income	40,000	
Agricultural Income (Exempt u/s 10)	NIL	
Gross Total Income		12,90,000
Less : Deductions u/s 80C-80U	1,00,000	
Total Income		11,90,000
Step 1: Tax on Agricultural Income & Non-Agricultural Income i.e. 1,50,000 + 11,90,000 = 13,40,000		
Tax on Normal Income i.e. 9,50,000 @ slab rate		
Tax on First 5,00,000	12,500	

Tax on Balance 4,50,000 @20%	90,000	
Tax on LTCG u/s 112 3,00,000 @12.5%	37,500	
Tax on STCG u/s 111A 50,000 @20%	10,000	
Tax on lottery income 40,000 @30%	12,000	
		1,62,000
Step 2: Tax on BEL and Agricultural Income i.e. 2,50,000 + 1,50,000 = 4,00,000 @slab rate		
Tax on First 2,50,000	NIL	
Tax on Balance 1,50,000 @5%	7,500	
		7,500
Tax before Cess (Step 1 – Step 2)		1,54,500
Add : Health & Education Cess @4%	6,180	
Tax Liability		1,60,680

### Computation of Tax Liability Under New Regime

Particulars	₹	₹
Income under the head PGBP	9,00,000	
LTCG u/s 112	3,00,000	
STCG u/s 111A	50,000	
Lottery Income	40,000	
Agricultural Income (Exempt u/s 10)	NIL	
Gross Total Income		12,90,000
Less : Deductions u/s 80C-80U	-	
Total Income		12,90,000
Step 1: Tax on Agricultural Income & Non-Agricultural Income i.e. 1,50,000 + 12,90,000 = 14,40,000		
Tax on Normal Income i.e. 10,50,000 @ slab rate		
Tax on First 8,00,000	20,000	
Tax on Balance 2,50,000 @10%	25,000	
Tax on LTCG u/s 112 3,00,000 @12.5%	37,500	
Tax on STCG u/s 111A 50,000 @20%	10,000	
Tax on lottery income 40,000 @30%	12,000	
		1,04,500
Step 2: Tax on BEL and Agricultural Income i.e. 4,00,000 + 1,50,000 = 5,50,000 @slab rate		
Tax on First 4,00,000	NIL	
Tax on Balance 1,50,000 @5%	7,500	
		7,500
Tax before Cess (Step 1 – Step 2)		97,000
Add : Health & Education Cess @4%	3,880	
Tax Liability		1,00,880

**Illustration 02**

Mr. X, a resident, has provided the following particulars of his income for the Previous year 2025-26.

- (i) Income under the head salary ₹ 3,40,000
  - (ii) Income under the head house property ₹ 3,00,000
  - (iii) Agricultural income from a land in Jaipur ₹ 1,80,000
  - (iv) Expenses incurred for earning agricultural income ₹ 1,20,000
- Compute his tax liability assuming his age is - (a) 45 years (b) 70 years

**Solution****Computation of Tax Liability of Mr. X (Resident 45Years) Under Old Regime**

Particulars	₹	₹
Income under the head salary	3,40,000	
Income under head House property	3,00,000	
Agricultural Income (1,80,000 – 1,20,000) (Exempt u/s 10)	NIL	
Gross Total Income		6,40,000
Less : Deductions u/s 80C-80U	NIL	
Total Income		6,40,000
Step 1: Tax on Agricultural Income & Non-Agricultural Income i.e. 60,000 + 6,40,000 = 7,00,000 @slab rate		
Tax on First 5,00,000	12,500	
Tax on Balance 2,00,000 @20%	40,000	
		52,500
Step 2: Tax on BEL and Agricultural Income i.e. 2,50,000 + 60,000 = 3,10,000 @slab rate		
Tax on First 2,50,000	NIL	
Tax on Balance 60,000 @5%	3,000	
		3,000
Tax before Cess (Step 1 – Step 2)		49,500
Add : Health & Education Cess @4%	1,980	
Tax Liability		51,480

**Computation of Tax Liability of Mr. X (Resident 70Years) Under Old Regime**

Particulars	₹	₹
Income under the head salary	3,40,000	
Income under head House property	3,00,000	
Agricultural Income (1,80,000 – 1,20,000) = 60,000	EXEMPT	
Gross Total Income		6,40,000
Less : Deductions u/s 80C-80U	NIL	
Total Income		6,40,000
Step 1: Tax on Agricultural Income & Non-Agricultural Income i.e. 60,000 + 6,40,000 = 7,00,000 @slab rate		
Tax on First 5,00,000	10,000	

Tax on Balance 2,00,000 @20%	40,000	
		50,000
Step 2: Tax on BEL and Agricultural Income i.e. 3,00,000 + 60,000 = 3,60,000 @slab rate		
Tax on First 3,00,000	NIL	
Tax on Balance 60,000 @5%	3,000	
		3,000
Tax before Cess (Step 1 – Step 2)		47,000
Add : Health & Education Cess @4%	1,880	
Tax Liability		48,880

### Computation of Tax Liability of Mr. X (Resident 45/70Years) Under New Regime

Particulars	₹	₹
Income under the head salary	3,40,000	
Income under head House property	3,00,000	
Agricultural Income (1,80,000 – 1,20,000) (Exempt u/s 10)	NIL	
Gross Total Income		6,40,000
Less : Deductions u/s 80C-80U	NIL	
Total Income		6,40,000
Step 1: Tax on Agricultural Income & Non-Agricultural Income i.e. 60,000 + 6,40,000 = 7,00,000 @slab rate		
Tax on First 4,00,000	NIL	
Tax on Balance 3,00,000 @5%	15,000	
		15,000
Step 2: Tax on BEL and Agricultural Income i.e. 4,00,000 + 60,000 = 4,60,000 @slab rate		
Tax on First 4,00,000	NIL	
Tax on Balance 60,000 @5%	3,000	
		3,000
Tax before Cess (Step 1 – Step 2)		12,000
Less: Rebate u/s 87A		12,000
Tax Liability		NIL

### Illustration 03

Mr. X grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lacs and the market value of the same is ₹ 22,00,000. After incurring ₹ 1,50,000 in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25,00,000. Compute Mr. X's business income and agricultural income and also compute Tax Liability

**Solution****Computation of agricultural income on Sale of 30% Sugarcane produce**

Particulars	₹	₹
Sale Value	10,00,000	
Less : Cultivation Cost	5,00,000	
<b>Agricultural Income</b>		<b>5,00,000</b>

**Computation of agricultural income on 70% sugarcane produce**

Particulars	₹	₹
Fair market value	22,00,000	
Less : Cultivation Cost	14,00,000	
<b>Agricultural Income</b>		<b>8,00,000</b>

**Computation of business income on sale of sugar**

Particulars	₹	₹
Income from sale of sugar	25,00,000	
Less : Cost of raw material	22,00,000	
Less : Processing Cost	1,50,000	
<b>Business Income</b>		<b>1,50,000</b>

**Note:** Partial integration is not possible as business income does not exceed basic exemption limit i.e. 2,50,000 and hence, Tax liability shall be NIL

**Illustration 04**

Mr. X is engaged in growing and manufacturing of rubber. These are then sold in the market for ₹ 30 lacs. The cost of growing rubber plants is ₹ 10 lacs and that of manufacturing rubber is ₹ 8 lacs. Compute his total income.

**Solution****Computation of total income of Mr. X**

Particulars	₹	₹
Income from sale of rubber	30,00,000	
Less : Cost of cultivation	10,00,000	
Less : Manufacturing Cost	8,00,000	
<b>Total Income</b>		<b>12,00,000</b>
<b>Business Income (12,00,000 x 35%)</b>		<b>4,20,000</b>
<b>Agricultural Income (12,00,000 x 65%)</b>		<b>7,80,000</b>

## CHAPTER 2: RESIDENTIAL STATUS

- Total income of an assessee can be computed only after ascertaining the residential status of the assessee during the previous year, as many provisions under income tax act are different for residents and for non-resident assessee.
- Citizenship and residential status are both different concepts. A person may be a citizen of India but may be Non-resident for income tax purposes.
- Residential status is determined for every previous year, it is possible that person is resident in one year and non-resident in another year.

### Residential status of individuals [Section 6(1) / 6(6)(a)]

#### Basic Conditions

Section 6(1), an individual is said to be resident, if he satisfies any one of the following two basic conditions:

- (i) He stays in India for 182 days or more during the relevant previous year (RPY)
- (ii) He stays in India for 60 days or more in RPY and also for 365 days or more during 4 years preceding the RPY.

#### Note:

1. Period of stay may not be continuous.
2. Date of departure and arrival both shall be considered for stay in India.

#### Example 01

**Riya citizen of UK visited India during FY 2025-26 from 19.9.25 – 15.11.25**

Her stay for last 4 years is as follows:

2024-25	100d	2022-23	200d
2023-24	50d	2021-22	150d

Determine the residential Status of Riya during AY 2026-27

#### Solution

As per Section 6(1), Individual shall be considered as resident if any of the following 2 conditions are satisfied:

- a) Individual must be in India for 182 days or more during relevant previous year i.e. 2025-26 or
- b) Individual must be in India for 60 days or more during relevant previous year i.e. 2025-26 & must be in India for 365 days or more during 4 PY immediately preceding relevant previous year

As Riya is in India for 58 days in PY 2025-26 and hence, she is Non-Resident as she did not satisfy any of the above-mentioned conditions.



**Additional Condition**

Section 6(6), An individual is said to be a resident and ordinarily resident if he satisfies both the following conditions:

- (i) He is a resident in any 2 out of last 10 previous year, and
- (ii) His total stay in India in the last 7 years is 730 days or more.

**Example 02**

Mr. X visit India for 110d every year since 2001. Determine Residential Status for PY 2025-26.

**Solution**

As per Section 6(1), Individual shall be considered as resident if any of the following 2 conditions are satisfied:

- a) Individual must be in India for 182 days or more during relevant previous year i.e. 2025-26 or
- b) Individual must be in India for 60 days or more during relevant previous year i.e. 2025-26 & must be in India for 365 days or more during 4 PY immediately preceding relevant previous year

As Mr. X is in India for 110 days in PY 2025-26 and he is in India for 440 days i.e.  $(110 \times 4)$  in last 4 preceding previous years. Hence, he is resident as he satisfied 2<sup>nd</sup> condition.

If Mr. X satisfy both of following additional conditions, he shall be considered as ordinarily resident

- a) He must be in India for 730 days or more during 7 PY immediately preceding relevant previous year and
- b) He must be resident in India for at least 2 PY out of 10 Immediately preceding PY

As Mr. X is in India for 770 days i.e.  $(110 \times 7)$  in last 7 years and he is resident in PY 2024-25 & PY 2023-24. Therefore, he satisfied both the additional conditions.

Hence, he shall be R-OR for AY 2026-27

**Example 03**

Mr. X visit India for 100d every year since 2021-22 before that he never visited India. Determine Residential status for FY 2025-26.

**Solution**

As per Section 6(1), Individual shall be considered as resident if any of the following 2 conditions are satisfied:

- a) Individual must be in India for 182 days or more during relevant previous year i.e. 2025-26 or
- b) Individual must be in India for 60 days or more during relevant previous year i.e. 2025-26 & must be in India for 365 days or more during 4 PY immediately preceding relevant previous year

As Mr. X is in India for 100 days in PY 2025-26 and he is in India for 400 days i.e. (100 x 4) in last 4 preceding previous years. Hence, he is resident as he satisfied 2<sup>nd</sup> condition.

If Mr. X satisfy both of following additional conditions, he shall be considered as ordinarily resident

- a) He must be in India for 730 days or more during 7 PY immediately preceding relevant previous year and
- b) He must be resident in India for at least 2 PY out of 10 Immediately preceding PY

As Mr. X is in India for 400 days i.e. (100x 4) in last 7 years.

Hence, he shall be R-NOR for AY 2026-27 as he did not satisfy both the additional conditions.

#### Exceptions to the basic condition - Check only 182 days

1. If an Indian Citizen leaves India for the purpose of employment
  2. If an Indian Citizen leaves India as a crew member of Indian Ship.
- Note: Date of Joining and Date of Signing Off As per continuous discharge certificate shall be considered as outside India in the case of crew member of foreign going Ship.

#### Example 04

Mr. X (Indian Citizen) is a Crew member of foreign going Indian vessel.

Date of joining 15.07.2025

Date of signing off 10.11.2025

Last 4 year stay in India 400 days

Last 7 year stay in India 790 days

He was Resident in each of last 5 year.

Determine Residential Status of FY 2025-26

#### Solution

As per Section 6(1), Individual shall be considered as resident if any of the following 2 conditions are satisfied:

- a) Individual must be in India for 182 days or more during relevant previous year i.e. 2025-26 or
- b) Individual must be in India for 60 days or more during relevant previous year i.e. 2025-26 & must be in India for 365 days or more during 4 PY immediately preceding relevant previous year

No. of Days Outside India = 15/07/25 – 10/11/25 = 17+31+30+31+10 = 119 days

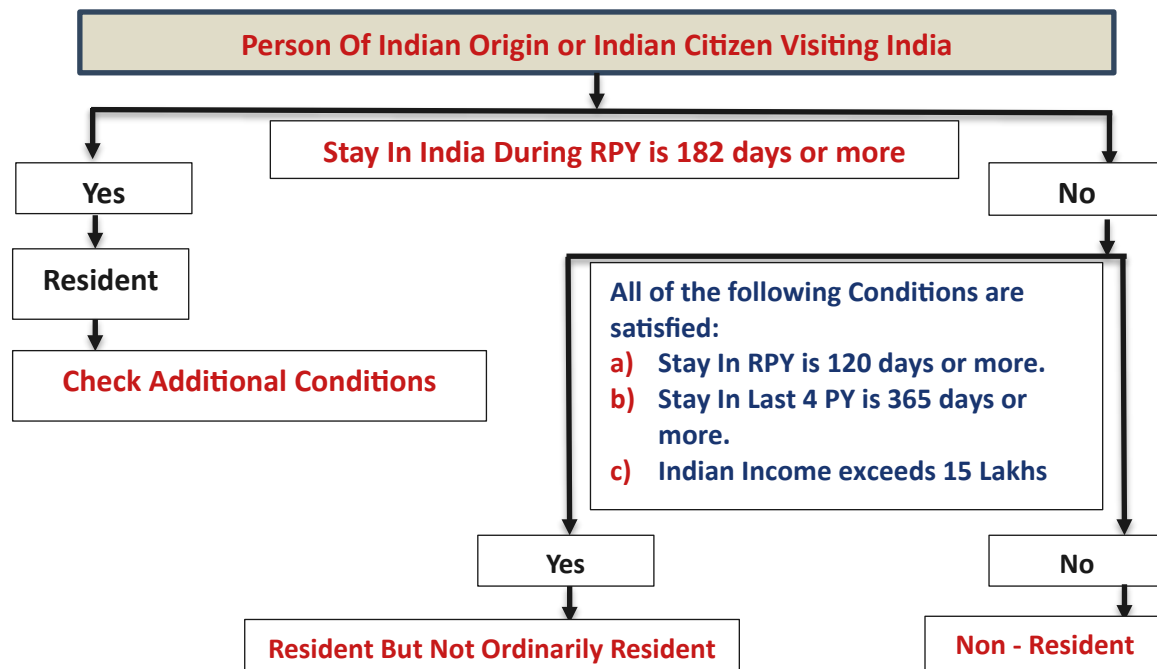
No. of Days Stay in India = 365 – 119 = 246 days

As Mr. X is in India for 246 days in PY 2025-26. Hence, he is resident as he satisfied 1<sup>st</sup> condition.

If Mr. X satisfy both of following additional conditions, he shall be considered as ordinarily resident

- a) He must be in India for 730 days or more during 7 PY immediately preceding relevant previous year and
- b) He must be resident in India for at least 2 PY out of 10 Immediately preceding PY

As Mr. X is in India for 790 days in last 7 years and also resident in other previous years. Hence, he shall be R-OR for AY 2026-27



\* Indian Income includes Foreign business income whose control is in India or foreign professional income whose setup is in India

### Deemed Resident [Section 6(1A)]

Individual Shall be NOR if all of the following conditions are satisfied:

- Individual is Indian Citizen
- Total income excluding income from foreign sources but including foreign business income whose control is in India, exceeds 15 Lakh.
- Such person is not paying Tax In any Country due to his domicile, residence or similar nature.

#### Illustration 01

Determine residential status of Mr. X for the assessment year 2026-27, who stays in India during various financial years as under:

Previous Years	Stay
2025-26	100
2024-25	200
2023-24	91
2022-23	90
2021-22	89
2020-21	87
2019-20	91

2018-19	82
2017-18	90
2016-17	88
2015-16	89
2014-15	86
2013-14	87
2012-13	89
2010-11	90

**Solution**

As per Section 6(1), Individual shall be considered as resident if any of the following 2 conditions are satisfied:

- c) Individual must be in India for 182 days or more during relevant previous year i.e. 2025-26 or
- d) Individual must be in India for 60 days or more during relevant previous year i.e. 2025-26 & must be in India for 365 days or more during 4 PY immediately preceding relevant previous year

As Mr. X is in India for 100 days in PY 2025-26 and he is in India for 470 days i.e. (200+91+90+89) in last 4 preceding previous years. Hence, he is a resident.

If Mr. X satisfy both of following additional conditions, he shall be considered as ordinarily resident

- c) He must be in India for 730 days or more during 7 PY immediately preceding relevant previous year and
- d) He must be resident in India for at least 2 PY out of 10 Immediately preceding PY

As Mr. X is in India for 730 days i.e. (200+91+90+89+87+91+82) in last 7 years but he is Non-Resident in 9 PY out of 10 PY

Hence, Mr. X is not satisfying both of additional conditions. thus, he shall be R-NOR for AY 2026-27

**Illustration 02**

Mr. X an American citizen has come to India for the first time on 10.07.2021, as an employee of a multinational company. The particulars of his arrival and departure are as given below:

Date of Arrival	Date of Departure
10.07.2021	07.08.2022
07.10.2023	27.11.2023
01.03.2024	01.02.2025
10.05.2025	30.03.2026

Determine his residential status for previous year 2023-24 to 2025-26

**Solution****Analysis of Stay in India:**

2021-22	:	$10.07.21 - 31.03.22 = 22+31+30+31+30+31+31+28+31 = 265$ days
2022-23	:	$01.04.22 - 07.08.22 = 30+31+30+31+7 = 129$ days
2023-24	:	$07.10.23 - 27.11.23 = 25+27 = 83$ days $01.03.24 - 31.03.24 = 31$ days
2024-25	:	$01.04.24 - 01.02.25 = 366$ days $- 31$ days $- 28$ days $= 307$ days
2025-26	:	$10.05.25 - 30.03.26 = 365$ days $- (30+9+1)$ days $= 325$ days

**Residential Status for 2023-24:**

Since Mr. X stays in India is less than 182 days during relevant previous year but his stay in India during PY is more than 60 days and during 4 preceding relevant previous years is more than 365 days i.e.  $(129+265=394)$  days)

Mr. X stay in India during last 7 PY is less than 730 days i.e.  $(129+265=394)$  days)

Since, Mr. X is not satisfying both the additional conditions. Hence, Mr. X shall be considered as R-NOR.

**Residential Status for 2024-25:**

Since Mr. X stays in India is more than or equal to 182 days during relevant previous year i.e. 307 days. he satisfied basic condition

But Mr. X stay in India during last 7 PY is less than 730 days i.e.  $(129+265+83+31=508)$  days)

Since, Mr. X is not satisfying both the additional conditions. Hence, Mr. X shall be considered as R-NOR.

**Residential Status for 2025-26:**

Since Mr. X stays in India is more than or equal to 182 days during relevant previous year i.e. 325 days. he satisfied basic condition

Mr. X stay in India during last 7 PY is more than 730 days i.e.  $(307+129+265+83+31=815)$  days) and he is resident in 2023-24 and 2024-25

Since Mr. X is satisfying both the additional conditions. Hence, Mr. X shall be considered as Resident and ordinarily resident in India.

**Illustration 03**

Mr. X, the Australian cricketer comes to India for 105 days every year. Find out his residential status for the A.Y. 2026-27.

**Solution**

Since, Mr. X comes to India for 105 Days every year that means he stays in India for more than 60 days during Relevant Previous year & stays for 365 days for last during preceding 4 years & he has stayed in 7 years more than 730 days. Hence, he is R-OR

**Illustration 04**

Mr. X, a Canadian citizen, comes to India for the first time during the P.Y.2021-22. During the financial years 2021-22, 2022-23, 2023-24, 2024-25 & 2025-26 he was in India for 55 days, 60 days, 90 days, 150 days and 70 days respectively. Determine his residential status for the A.Y.2026-27.

**Solution**

As per Section 6(1), Individual shall be considered as resident if any of the following 2 conditions are satisfied:

- a) Individual must be in India for 182 days or more during relevant previous year i.e. 2025-26 or
- b) Individual must be in India for 60 days or more during relevant previous year i.e. 2025-26 & must be in India for 365 days or more during 4 PY immediately preceding relevant previous year

As Mr. X is in India for 70 days in PY 2025-26 and he is in India for less than 365 days i.e. 355 days (55+60+90+150) in last 4 preceding previous years.

Since, Mr. X is not satisfied with any basic conditions

Hence, he is Non-resident for A.Y. 2026-27

**Illustration 05**

On 01.06.2023 Mr. X, a Malaysian citizen leaves India after stay of 10 year During the financial year 2024-25 he comes to India for a period of 46 days. Later, he returns to India for one year on 10.10.2025. Determine Mr. X's residential status for the assessment year 2026-27.

**Solution****Analysis of Stay in India:**

PY 2025-26	:	Oct-22, Nov -30, Dec-31, Jan-31, Feb -28 & March -31 = 173 days
PY 2024-25	:	46 days
PY 2023-24	:	Apr 30 days, May 31 days & June 1 day = 62 days
PY 2022-23	:	365 days
PY 2021-22	:	365 days
PY 2020-21	:	365 days
PY 2019-20	:	366 days

As Mr. X is in India for 173 days in PY 2025-26 and he is in India for 838 days i.e. (46+62+365+365) in last 4 preceding previous years. Hence, he is a resident.

Also Mr. X satisfy is satisfying both of additional conditions, as

- a) He is in India for a period of more than 730 days in preceding 7 PY, and
- b) He is resident in more than 2 PY out of preceding 10 PY

As Mr. X is in India for 1934 days i.e. (46+62+1826) in last 7 years and he is Resident in 2 PY out of 10 PY. Thus, he shall be considered as R-OR for A.Y. 2026-27

**Illustration o6**

Mr. X, an Indian citizen, leaves India on 22.09.2025 for the first time, to work as an officer of a company in France. Determine his residential status for the A.Y. 2026-27.

**Solution**

During PY 2025-26, as he leaves India for the first time as on 22.09.2025. He shall be considered as resident if his stay during the relevant PY is 182 days or more.

Total days stay in India during PY 2025-26 - April 30, May 31, June 30, July 31, Aug 31 & Sept 22 days = 175 days

Mr. X stays in India only for 175 days i.e. less than 182 days during the relevant previous year  
Therefore, Mr. X is a NON Resident for AY 2026-27.

**Illustration o7**

Mr. X and Mrs. X are settled outside India for the purpose of employment and they came to India on 15.10.2025 on a visit for 7 months. Both of them are Indian citizens. In the earlier years they were in India as follows:

Year	Mr. X	Mrs. X
2024-25	235 Days	365 Days
2023-24	330 Days	30 Days
2022-23	Nil	28 Days
2021-22	118 Days	120 Days

Find out the residential status of Mr. X and Mrs. X for the assessment year 2026-27.

**Solution**

Mr. X & Mrs. X are Indian citizen visiting India shall be resident if their stay during RPY is 182 days or more. However, they shall be R-NOR if their stay during RPY is 120 days or more, Stay in last 4 years is 365 days or more and total income excluding income from foreign sources exceeds 15 Lakhs.

Total Stay of Mr. X and Mrs. X for PY 2025-26 = Oct 17 days, Nov 30, Dec 31, Jan 31, Feb 28 & March 31 days = 168 days

Also, their stay for Preceding 4 years exceeds 365 days.

a) If Total Income exceeds 15 Lakhs - Both shall be R-NOR

If Total Income doesn't exceed 15 Lakhs – Both shall be NR.

**Illustration o8**

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in international traffic departing from Chennai port on 6th June, 2025. From the following details for the P.Y.2025-26, determine the residential status of Mr. Anand for A.Y.2026-27, assuming that his stay in India in the last 4 previous years (preceding P.Y.2025-26) is 400 days and last seven previous years (preceding P.Y.2025-26) is 750 days:



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

**Solution**

Mr. Anand shall be resident in India if his Stay during relevant previous year 2025-26 is 182 days or more as he an Indian Citizen leaving India as a crew member of Indian ship. Also date of joining as well as date of signing off as per continuous discharge certificate shall be considered as outside India.

Total Number of days to be excluded for computing the Period of Stay in India - from 6<sup>th</sup> June 2025 to 9<sup>th</sup> Dec 2025 (June 25 days, July 31 days, Aug 31 days, Sept-30 days, Oct-31 days, Nov-30 days & Dec -9 days) = 187 days

Total Number of Days stay in relevant previous year i.e. 365 less 187 days = 178 days

As Mr. Anand stay in the relevant previous year is for 178 days i.e. less than 182 days, he is Non Resident for AY 2026-27.

**Illustration 09**

Mr. J born in Lahore, Pakistan on 1st July 1943. He took the citizenship of Australia in the year 2000 and since then residing there with Family. He came to India on 10th November 2018 for the first time after 10/8/2000 and since then he is visiting India for 100 days but in the previous year 2025-26 he is present in India for 150 days. Determine his Residential status for the AY 2026-27 from the following information:

Source of Income	Case A	Case B
Indian	₹10 Lakh	₹18 Lakh
Foreign	₹6 Lakh	₹6 Lakh
Total Income	₹16 Lakh	₹24 Lakh

**Solution**

As Mr. J has taken birth in Undivided India, he is person of Indian Origin

Mr. J shall be resident in India if he satisfy any of the following conditions:

- His stay in India during Relevant PY shall be 182 days or more or
- His stay in India during Relevant PY shall be 120 days or more and 365 days or more in preceding 4 PY and his Indian income including foreign business income whose control is in India or Foreign professional income whose set up is in India shall exceed 15,00,000

**CASE – A:**

Stay in relevant PY = 150 days

Stay in last 4 PY = 100 days x 4 = 400 days

Indian Income = 10,00,000

As Indian income does not exceed 15,00,000. Mr. J shall be Non-Resident



**CASE – B:**

stay in relevant PY = 150 days

Stay in last 4 PY = 100 days x 4 = 400 days

Indian Income = 18,00,000

As Indian income exceeds 15,00,000. Mr. J shall be R-NOR

**Residential status of HUF [Section 6(2)/6(6)(b)]**

**Section 6(2)**, an HUF would be resident in India if C&M of its affairs is situated wholly or partly in India. Otherwise, Non- resident.

**Section 6(6)(b)**, An HUF is said to be ROR if Karta satisfies both additional conditions, Otherwise NOR

**Example 05**

**R and Sons is a HUF in which Mr. R is Karta**

R and his family reside in Australia since 1.4.2013

R visit India for 105 days every year to manage affairs of his business in Noida.

Determine Residential Status of HUF and his Karta Mr. R for AY2026-27

**Solution****Determination of Residential Status of HUF**

Since, Control and Management of HUF is partly in India as Karta visits India to manage the affairs of business. Therefore, HUF shall be resident for AY2026-27

If Karta satisfy both of following additional conditions, the HUF shall be considered as ordinarily resident

- a) He must be in India for 730 days or more during 7 PY immediately preceding relevant previous year and
  - b) He must be resident in India for at least 2 PY out of 10 Immediately preceding PY
- As Mr. R is in India for 735 days (i.e. 105 x 7) in last 7 years and also resident in any 2 out of last 10 previous years.

Hence, HUF shall be R-OR for AY 2026-27 as Karta is satisfying both the additional conditions.

**Determination of Residential Status of Karta (Mr. R)**

As per Section 6(1), Individual shall be considered as resident if any of the following 2 conditions are satisfied:

- a) Individual must be in India for 182 days or more during relevant previous year i.e. 2025-26 or
- b) Individual must be in India for 60 days or more during relevant previous year i.e. 2025-26 & must be in India for 365 days or more during 4 PY immediately preceding relevant previous year

As Mr. R is in India for 105 days in PY 2025-26 and he is in India for 420 days i.e. (105 x 4) in last 4 preceding previous years. Hence, he is resident as he satisfied 2<sup>nd</sup> condition.

Since, Mr. R also satisfied both the additional conditions

Hence, he shall be R-OR for AY 2026-27

**Example 06**

**R & sons is a HUF in which Mr. R is Karta who Resides in Australia since 1.4.2012**

During FY 2025-26, Mr. R visits India for 50 days to manage affairs of business and take some important policy matters.

R was visiting India for 200 days every year till last year i.e. FY 2024-25.

Determine Residential Status of R and sons and Karta R for AY2026-27

**Solution****Determination of Residential Status of HUF**

Since, Control and Management of HUF is partly in India as Karta visits India to manage the affairs of business. Therefore, HUF shall be resident for AY2026-27

If Karta satisfy both of following additional conditions, the HUF shall be considered as ordinarily resident

- a) He must be in India for 730 days or more during 7 PY immediately preceding relevant previous year and
  - b) He must be resident in India for at least 2 PY out of 10 Immediately preceding PY
- As Mr. R is in India for 1400 days (i.e.  $200 \times 7$ ) in last 7 years and also resident in any 2 out of last 10 previous years.

Hence, HUF shall be R-OR for AY 2026-27 as Karta is satisfying both the additional conditions.

**Determination of Residential Status of Karta (Mr. R)**

As per Section 6(1), Individual shall be considered as resident if any of the following 2 conditions are satisfied:

- a) Individual must be in India for 182 days or more during relevant previous year i.e. 2025-26 or
- b) Individual must be in India for 60 days or more during relevant previous year i.e. 2025-26 & must be in India for 365 days or more during 4 PY immediately preceding relevant previous year

As Mr. R is in India for only 50 days during PY 2025-26

Therefore, He shall be Non-Resident for AY2026-27

**Illustration 10**

Karta of one Hindu Undivided Family comes to India every year for minimum 60 days and maximum 91 days. Determine residential status of the Hindu Undivided Family and also that of the Karta for the assessment year 2026-27.

**Solution**

Under Sec 6 (1), an individual is said to be resident in India in any Previous year, if he satisfies any one of the following conditions:

- 1. He stays in India for 182 days or more during the relevant Previous Year
- 2. He stays in India for 60 days or more & also for 365 days or more during 4 years preceding the relevant Previous Year

If the Individual satisfies any one of the conditions above mentioned, he is a Resident,  
Otherwise the Individual is Non Resident

As Karta stays in India only for maximum 91 days i.e. less than 182 days during the relevant previous year

He stays for 91 days in India but only for 364 i.e.  $(91 \times 4)$  days or more during 4 years preceding the relevant Previous Year.

He did not comply with any one of the conditions thus, Karta in his Individual Capacity shall be considered as Non-Resident for AY 2026-27.

As Control and Management is in India, HUF shall be Resident

If an HUF is Resident, it will be considered to be Ordinarily Resident, if its Karta has complied with both of the conditions given below :

(a) He must be in India for 730 days or more during 7 PY immediately preceding relevant previous year and

(b) He must be resident in India for at least 2 PY out of 10 Immediately preceding PY Stay during last 7 PY =  $91 \times 7 = 637$  days

He did not comply with any both of the above-mentioned conditions. thus, HUF shall be R-NOR for AY 2026-27.

### Illustration 11

One Hindu Undivided Family is being managed partly from Mumbai and partly from Nepal. Mr. X (a foreign citizen), Karta of Hindu Undivided Family, comes on a visit to India every year since 1982 in month of April for 105 days. Determine residential status of the Hindu Undivided Family and also that of the Karta in his individual capacity for the assessment year 2026-27.

### Solution

Under Sec 6 (1), an individual is said to be resident in India in any Previous year, if he satisfies any one of the following conditions :

1. He stays in India for 182 days or more during the relevant Previous Year
2. He stays in India for 60 days or more & also for 365 days or more during 4 years preceding the relevant Previous Year

If the Individual satisfies any one of the conditions above mentioned, he is a Resident,  
Otherwise the Individual is Non Resident

As Karta stays in India only for maximum 105 days i.e. less than 182 days during the relevant previous year

He stays for 105 days in India but only for 420 i.e.  $(105 \times 4)$  days or more during 4 years preceding the relevant Previous Year .

He complied with any one of the conditions. Thus, Karta in his Individual Capacity shall be considered as Resident

If Karta satisfy both of following additional conditions, he shall be considered as ordinarily resident

- a) He must be in India for 730 days or more during 7 PY immediately preceding relevant PY and

b) He must be resident in India for at least 2 PY out of 10 Immediately preceding PY  
As Mr. X is in India for 735 days i.e. (105 x 7) in last 7 years and he is Resident in 2 PY out of 10 PY

Hence, Mr. Karta in his individual capacity shall be R-OR for AY 2026-27.

As Control and Management is in India, HUF shall be Resident

If an HUF is Resident, it will be considered to be Ordinarily Resident, if its Karta has complied with both of the conditions given below :

a) He must be in India for 730 days or more during 7 PY immediately preceding relevant previous year and

b) He must be resident in India for at least 2 PY out of 10 Immediately preceding PY  
Since Karta satisfied both of the above mentioned conditions. Thus HUF shall be R-OR for AY 2026-27.

### Residential status of partnership firm or BOI or AOP [Section 6(2)]

Resident if Control & Management is wholly or partially in India, otherwise Non Resident.

### Residential Status Of Company [Section 6(3)]

Indian Company shall Always be a Resident.

Foreign company shall be a Resident if POEM (Place of effective management) is in India

#### Illustration 12

ABC Inc., a Swedish company headquartered at Stockholm, not having a permanent establishment in India, has set up a liaison office in Mumbai in April 2022 in compliance with RBI guidelines to look after its day to day business operations in India, spread awareness about the company's products and explore further opportunities. The liaison office takes decisions relating to day to day routine operations and performs support functions that are preparatory and auxiliary in nature. The significant management and commercial decisions are, however, in substance made by the Board of Directors at Sweden. Determine the residential status of ABC Inc. for A.Y.2026-27.

#### Solution

In the given case, ABC Inc is a Swedish Foreign company, it would be resident in India only if its Place of Effective Management is in India

ABC Inc has only a liaison Office through which it looks after its routine day to day business operations, which are not relevant for determining the Place of Effective Management.

Place of Effective Management means a place where key management & commercial decisions taken place, which are necessary for the conduct of business of an entity.

ABC Inc has not any Place of Effective Management in India because significant management & commercial decisions are taken by Board of Directors in Sweden outside India

Hence ABC Inc, being a Swedish foreign company is Non Resident in India since its any Place of Effective Management is not in India.

### Illustration 13

Wipro Ltd. an Indian company has most of its business outside India. Determine its residential status.

### Solution

An Indian Company will always be Resident in India even if its control & management is Outside India or its business is outside India.

Hence, WIPRO LTD is Resident for AY 2026-27 even its business is outside INDIA.

### Illustration 14

Shrine International Ltd. is incorporated in Mauritius and its place of effective management is in Mauritius. Determine its residential status for AY2026-27.

### Solution

Shrine International Ltd is a foreign company, it would be resident in India only & only if its Place of Effective Management is in India in that year

Since, Shrine International Ltd is a foreign company, having its Place of Effective Management outside India in Mauritius, hence It is Non-Resident for AY 2026-27

### Scope of Total Income or Tax Incidence [Section 5]

Income accrue or arise / deemed To Accrue or Arise	Income Received / Deemed To Be Received	Income
India	India	Indian
India	Outside India	Indian
Outside India	India	Indian
Outside India	Outside India	Foreign

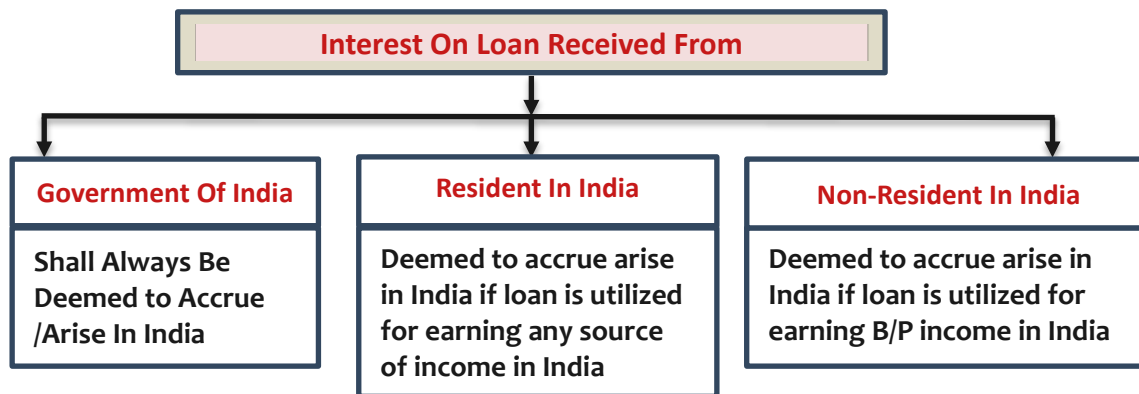
Income	ROR	NOR	NR
Indian	Taxable	Taxable	Taxable
Foreign	Taxable	Non – Taxable Exception: Following Foreign Incomes are Taxable. 1. Business Income – Business Controlled From India. 2. Professional Income – Profession Set Up in India	Non - Taxable

### Income deemed to accrue or arise in India [Section 9]

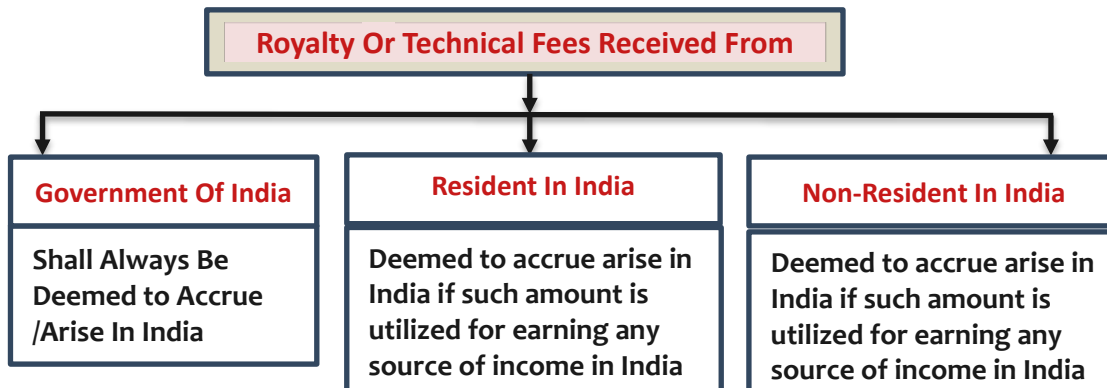
- Any income accruing or arising to an assessee in any place outside India whether directly or indirectly
  - Through or from any business connection in India.

However, Following shall not be considered as business connection in India:

- Purchase for export.
  - Collection of news in India for transmission outside India.
  - Shooting of film in India by foreign citizen or by a firm who doesn't have any partner who is Indian citizen/resident in India or by a company who doesn't have any shareholder who is a Indian citizen/resident in India.
  - In case of foreign company engaged in the business of mining of diamonds from the activities which are confined to display of uncut and unassorted diamonds in any special zone notified by CG.
- (b) Through or from any property, any asset or source of income in India or
- (c) Through the transfer of a capital asset situated in India would be deemed to accrue or arise in India.
2. Income, which falls under the head "Salaries", deemed to accrue or arise in India, if it is earned in India. Salary payable for service rendered in India would be treated as earned in India.
  3. Income from 'Salaries' which is payable by the Government to a citizen of India for services rendered outside India would be deemed to accrue or arise in India. However, allowances and perquisites paid or allowed outside India by the Government to an Indian citizen for services rendered outside India is exempt, by virtue of section 10(7).
  4. Dividend paid by Indian company outside India
  5. Interest On Loan



#### 6. Royalty Or fees from technical services



**Illustration 15****Mr. X has income as under:**

1. He has income from a business in Germany Amounting to ₹ 3,00,000 and half of it was received in India.
2. He has interest income of ₹ 1,00,000 from UK Development Bond and entire interest income was credited to a bank account in UK. Subsequently, the Amount was transferred in India.
3. He has a business in Bombay and entire income of ₹ 3,00,000 was received in UK.
4. He has one house property in Ghaziabad and income of ₹ 5,00,000 was received in UK.
5. He has received salary income of ₹ 5,00,000 (computed) in India and half of the services were rendered in UK and half in India.

(Presume all the above incomes are computed incomes)

Compute his income presuming that he is NOR, NR and ROR

**Solution****Computation of Total Income of X for AY 2026-27**

Particulars	ROR	R-NOR	NR
Income from business in Germany	3,00,000	1,50,000	1,50,000
Interest income from UK Development Bond	1,00,000	-	-
Business income from Bombay	3,00,000	3,00,000	3,00,000
Income from House property in Bombay	5,00,000	5,00,000	5,00,000
Salary Income received in India	5,00,000	5,00,000	5,00,000
Total Income	17,00,000	14,50,000	14,50,000

**Illustration 16****Mr. X earns the following income during the financial year 2025-26: (Presume all the above incomes are computed incomes)**

Particulars	Amount (₹)
Income from house property in London, received in India	60,000
Profits from business in Japan and managed from there (received in Japan)	9,00,000
Dividend from foreign company, received in India	30,000
Dividend from Indian company, received in England	50,000
Profits from business in Kenya, controlled from India, Profits received in Kenya	3,00,000
Profits from business in Delhi, managed from Japan	7,00,000
Capital gains on transfer of shares of Indian companies, sold in USA and gains were received there	2,00,000
Pension from former employer in India, received in Japan	50,000
Profits from business in Pakistan, deposited in bank there	20,000
Profit on sale of asset in India but received in London	8,000
Past untaxed profits of UK business of 2019-20 brought into India in 2021-22	90,000
Interest on Government securities accrued in India but received in Paris	80,000



Interest on USA Government securities, received in India	20,000
Salary earned in Bombay, but received in UK	60,000
Income from property in Paris, received there	1,00,000

**Determine the gross total income of Mr. X if he is resident and ordinarily resident, resident but not ordinarily resident, non-resident in India during the financial year 2025-26**

**Solution**

**Computation of Total Income of X for AY 2026-27**

Particulars	ROR	R-NOR	NR
Income from house property in London, received in India	60,000	60,000	60,000
Profits from business in Japan and managed from there (received in Japan)	9,00,000	-	-
Dividend from foreign company, received in India	30,000	30,000	30,000
Dividend from Indian company, received in England	50,000	50,000	50,000
Profits from business in Kenya, controlled from India, Profits received in Kenya	3,00,000	3,00,000	-
Profits from business in Delhi, managed from Japan	7,00,000	7,00,000	7,00,000
Capital gains on transfer of shares of Indian companies, sold in USA and gains were received there	2,00,000	2,00,000	2,00,000
Pension from former employer in India, received in Japan	50,000	50,000	50,000
Profits from business in Pakistan, deposited in bank there	20,000	-	-
Profit on sale of asset in India but received in London	8,000	8,000	8,000
Past untaxed profits of UK business of 2019-20 brought into India in 2021-22	-	-	-
Interest on Government securities accrued in India but received in Paris	80,000	80,000	80,000
Interest on USA Government securities, received in India	20,000	20,000	20,000
Salary earned in Bombay, but received in UK	60,000	60,000	60,000
Income from property in Paris, received there	1,00,000	-	-
<b>Total Income</b>	<b>25,78,000</b>	<b>15,58,000</b>	<b>12,58,000</b>

**Illustration 17**

**Determine the taxability of the following incomes in the hands of a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2026-27**

Particulars	Amount (₹)
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Profits on sale of shares of an Indian company received in London	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
Income earned from business in Germany which is controlled from Delhi (₹ 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Income from property in London deposited in a Indian Bank at London, brought to India	50,000
Interest for debentures in an Indian company received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Bombay managed from London	26,000
Pension for services rendered in India but received in Burma	4,000
Income from property situated in Pakistan received there	16,000
Past foreign untaxed income brought to India during the previous year	5,000
Income from agricultural land in Nepal received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	10,000
Income from a business in Russia, controlled from Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

**Solution****Computation of Total Income of X for AY 2026-27**

Particulars	ROR	R-NOR	NR
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Profits on sale of shares of an Indian company received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
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 (₹ 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 Indian Bank at London, brought to India	50,000	-	-
Interest for 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
Pension for services rendered in India but received in Burma	4,000	4,000	4,000
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	-	-	-
Interest on savings bank deposit in State Bank of India	10,000	10,000	10,000
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	-	-	-
<b>Total Income</b>	<b>3,54,000</b>	<b>2,45,000</b>	<b>2,40,000</b>

**Illustration 18**

Mr. Sarthak, an individual and Indian citizen living abroad (Dubai), a tax haven, since year 2005 and never came to India for a single day since then, earned the following incomes during previous year 2025-26 :

Particulars	Amount
Income accrued and arisen in Dubai not taxable in Dubai (being tax haven)	20,00,000
Income accrued and arisen in India	5,00,000
Income deemed to accrue and arise in India	8,00,000
Income arising in Dubai from a profession set up in India	10,00,000

- Determine the residential status of Mr. Sarthak and taxable income for the previous year 2025-26 (assuming no other income arise during the previous year).
- What would be your answer if income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs?
- What would be your answer, if Mr. Sarthak born in Dubai and his parents were born in India?

**Solution**

Mr. Sarthak is an Indian citizen living in Dubai since 2005 who never came to India for a single day since then, he would not be a resident in India for the P.Y. 2025-26 on the basis of number of days of his stay in India as per section 6(1).

However, since he is an Indian citizen

- a) having total income (excluding income from foreign sources) of ₹23 lakhs, which exceeds the threshold of ₹ 15 lakhs during the previous year; and
- b) not liable to tax in Dubai,

He would be deemed resident in India for the P.Y. 2025-26 by virtue of section 6(1A)

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

**Computation of Total Income for A.Y.2026-27**

S. No.	Particulars	₹
1.	Income accrued and arisen in Dubai (not taxable in case of an RNOR)	Nil
2.	Income accrued and arisen in India (taxable)	5,00,000
3.	Income deemed to accrue or arise in India (taxable)	8,00,000
4.	Income arising in Dubai from a profession set up in India would be taxable in case of RNOR	10,00,000
	<b>Total Income</b>	<b>23,00,000</b>

- a) If income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs, his total income (excluding income from foreign sources) would be only ₹ 15 lakhs. Since the same does not exceed the threshold limit of ₹ 15 lakhs, he would not be deemed resident.

Accordingly, he would be non-resident in India for the P.Y. 2025-26 and hence, his total income would be only ₹ 13 lakhs (aggregate of (ii) and (iii) above i.e., ₹ 5 lakhs + ₹ 8 lakhs)

- b) If Mr. Sarthak is born in Dubai and his parents were born in India, he would not be an Indian citizen, but he may qualify as person of Indian origin. In such case, the provisions relating to deemed resident would not apply to him.

Accordingly, he would be non-resident in India during the P.Y. 2025-26 and his total income would be ₹13 lakhs.

**Note** – In sub-part III., it is inferred that he is not a citizen of India since he is not born in India. It is assumed that he has not applied for citizenship by fulfilling the other specified eligibility conditions

**Illustration 19**

Mrs. Shruti is an Indian citizen, is currently in employment with an overseas company located in UAE. During the previous year 2025-26, she comes to India for 157 days. She is in India for 200 days, 100 days, 76 days and 45 days in the financial years 2021-22, 2022-23 and 2023-24 & 2024-25 respectively. Her annual income for PY 2025-26 is as follows:

Particulars	Amount
Income from salary earned and received in UAE	2,00,000
Income earned and received from a house property situated in UAE	5,00,000
Income deemed to be accrued and arise in India	5,00,000
Income from retail business (accrued and received outside India, controlled from India)	10,00,000

Income accrued and arise in India	3,00,000
Life insurance premium paid by cheque in India	1,50,000

Determine the residential status of Mrs. Shruti for the assessment year 2026-27.

### Solution

Mrs. Shruti, an Indian citizen visiting India in the P.Y.2025-26, would be a resident in India for A.Y.2026-27, if she is in India for 182 days or more during the P.Y. 2025-26.

However, she will be R-NOR if she is in India for a period of 120 days or more during the P.Y.2025-26 and her stay in India in the four immediately preceding previous years is 365 days or more and her total income (excluding income from foreign sources) exceeds ₹ 15 lakhs. Mrs. Shruti is an Indian citizen in employment in UAE. She comes on a visit to India during the P.Y.2025-26 for 157 days.

Her stay in India in the four immediately preceding previous years is as follows:

P.Y.	No. of days
2021-22	200
2022-23	100
2023-24	76
2024-25	45
Total	421

### Computation of Total Income of Mrs. Shruti (excluding income from foreign sources)

Particulars	₹
Income from salary earned and received in UAE (income from a foreign source, hence, to be excluded)	Nil
Income earned and received from a house property situated in UAE (income from a foreign source, hence, to be excluded)	Nil
Income deemed to accrue or arise in India	5,00,000
Income from retail business (to be included since the business is controlled from India, even though such income accrues and is received outside India)	10,00,000
Income accrued and arising in India	3,00,000
	18,00,000
Less: Deduction u/s 80C (LIC premium paid by cheque in India) – Assuming other conditions are fulfilled	1,50,000
Total income (excluding income from foreign sources)	16,50,000

The second condition is satisfied, since she has stayed in India for 157 days during the P.Y.2025-26 and 421 days in the four immediately preceding previous years. Since she has become resident in India for A.Y.2026-27 by satisfying this condition, by default, she would be treated as resident but not ordinarily resident.

**Conclusion:** Mrs. Shruti's residential status for A.Y.2026-27 is R-NOR

### Illustration 20

Miss Asha is an Indian citizen. She is a lawyer by profession. She started her consultancy profession in India in 2020 with the name "New way associates". In May 2024, she got

married to Mr. Ram, an American citizen. Mr. Ram came to India for the first time on 1st May 2023 when he joined an MNC in India. He got a promotion and was transferred to Dubai. He left for Dubai on 1st October 2024. Mrs. Asha accompanied him to Dubai. She started providing consultancy there. Both of them came to India for 3 months from June to August in 2025 to spend time with Asha's family. Following incomes were earned by Mr. Ram and Mrs. Asha during the P.Y. 2025-26.

	Income of Mr. Ram	Amount
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
	Income of Mrs. Asha	₹
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 co.	(42,000)

Determine the residential status of Mr. Ram and Mrs. Asha and their total income for the A.Y. 2026-27

### 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. 2025-26 for 3 months. He has been in India from 1st May 2023 to 1st October 2024. Since Mr. Ram has been in India for a period of more than 60 days (i.e., 92 days) during the P.Y. 2025-26 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. 2026-27.

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. 2026-27.

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

#### Computation of total Income of Mr. Ram for the A.Y. 2026-27

S. No.	Particulars	₹
1.	Salary from company in Dubai [Not taxable, since it accrues and arises outside India]	Nil
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]	65,0000
		7,75,000

### Determination of residential status of Mrs. Asha

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

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. 2025-26 as she is an Indian citizen and is not liable to tax in Dubai

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

S. No.	Particulars	₹
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]	Nil
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]	Nil
		15,00,000

Since, total income other than the income from foreign sources of Mrs. Asha does not exceed ₹ 15 lakhs, she would not be a deemed resident.

Hence, Mrs. Asha is a non-resident during the A.Y. 2026-27.

Since Mrs. Asha is NR, 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.

S. No.	Particulars	₹
1.	Profit from consultancy profession in Dubai which was set up in India [Not taxable]	Nil
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]	Nil
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]	Nil
		3,00,000

## CHAPTER 3A: INCOME UNDER HEAD SALARIES

### Important Concepts Relating To Salaries

- (1) **Employer-employee relationship:** Every payment made by an employer to his employee for service rendered would be chargeable to tax as salaries.
- (2) **Full-time or part-time employment:** It does not matter whether the employee is a full-time employee or a part time.
- (3) **Foregoing of salary:** Once salary accrues, the subsequent waiver by the employee does not absolve him from liability to income tax. Such a waiver is only an application and hence, chargeable to tax.
- (4) **Surrender of salary:** If salary is surrendered to CG under voluntary surrender of salaries act then such salary is exempt while computing his taxable income.
- (5) **Salary paid tax-free:** This, in other words, means that the employer bears the burden of the tax on the salary of the employee. In such a case, the income from salaries in the hands of the employee will consist of his salary income and also the tax on this salary paid by the employer.
- (6) **Place of accrual of salary:** salary earned in India is deemed to accrue or arise in India even if it is paid outside India or it is paid or payable after the contract of employment in India comes to an end.

### BASIS OF CHARGE (SECTION 15)

- (i) Section 15 deals with the basis of charge. Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, whichever is earlier.
- (ii) However, where any salary, paid in advance, is assessed in the year of payment, it cannot be subsequently brought to tax in the year in which it due.
- (iii) If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid.

#### Example 01

Pay Scale: ₹20,000 – ₹500 – ₹22,000 – ₹1000 – ₹26,000 – ₹1500 – ₹32,000

Raghav Join A Ltd. on above pay scale @ ₹ 21000 on 1/9/2020

Calculate salary of Raghav for year 2025– 26

Note: Salary due on last day of same month.

#### Solution 01

#### Computation of Salary of Mr. Raghav for PY 2025-26

Particulars	Amount
Salary from April 2025 to Aug 2025 (24,000 x 5m)	1,20,000
Salary from Sep 2025 to March 2026 ( 25,000 x 7m)	1,75,000



Total Salary	2,95,000
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**Example 02**

Pay Scale: ₹22,500 – ₹750 – ₹25,500 – ₹1500 – ₹30,000 – ₹2000 – ₹36,000

Mr. Satyam Join A Ltd. on above pay scale @ ₹ 24000 on 1/12/2019

Calculate salary of Raghav for year 2025-26

(A) Salary due on last day of same month.

(B) Salary due on 1st day of next month.

**Solution****Computation of Salary of Mr. Satyam for PY 2025-26**

Particulars	Amount
<b>a) Salary due on last day of same month</b>	
Salary from April 2025 to Nov 2025 (30,000 x 8m)	2,40,000
Salary from Dec 2025 to March 2026 (32,000 x 4m)	1,28,000
<b>Total Salary</b>	<b>3,68,000</b>
<b>b) Salary due on 1<sup>st</sup> day of next month</b>	
Salary from March 2025 to Nov 2025 (30,000 x 9m)	2,70,000
Salary from Dec 2025 to Feb 2026 (32,000 x 3m)	96,000
<b>Total salary</b>	<b>3,66,000</b>

**Example 03**

Pay Scale : ₹35,000– ₹1000 – ₹38000 – ₹1500 – ₹42500 – ₹2000 – ₹48500.

Mr. X join @ ₹35000 on 1/1/2019

Calculate salary for PY 2025-26

a) Assume salary due on 1st day of next month.

b) Assume salary due on last day of same month.

**Solution****Computation of Salary of Mr. X for PY 2025-26**

Particulars	Amount
Salary due on 1 <sup>st</sup> day of every month	
Salary from March 2025 to Dec 2025 (42,500 x 10m)	4,25,000
Salary from Jan 2026 to Feb 2026 (44,500 x 2m)	89,000
<b>Total Salary</b>	<b>5,14,000</b>

**Computation of Salary of Mr. X for PY 2025-26**

Particulars	Amount
Salary due in the same month	
Salary from April 2025 to Dec 2025 (42,500 x 9m)	3,82,500
Salary from Jan 2026 to March 2026 (44,500 x 3m)	1,33,500
<b>Total Salary</b>	<b>5,16,000</b>



## ALLOWANCES

## 1. Fully Taxable Allowances

Servant Allowance	Fixed Medical Allowance	Meal Allowance
Dearness allowance.	City Compensatory Allowance	Overseas allowance
Entertainment allowance	Telephone Allowance	Overtime allowance
Rural allowance	Project allowance (personal research)	High Cost of living Allowance
Holiday Home Allowance	Non-Practicing Allowance	Marriage / Family Allowance

## 2. Fully exempted allowances

Following allowances are fully exempted from tax:

- A. Allowances paid to Supreme Court and High Court Judges.
- B. Any salary or allowance or perquisites paid to the employees of United Nation Organization.
- C. Section 10(7). Any allowances or perquisites paid or allowed by Government of India to Indian citizen for rendering services outside India.

## 3. Official Allowances

For The Following Allowances, amount received or actually spent by Employee, whichever is lower shall be exempt from tax under Old Regime.

Transfer Allowance	Helper Allowance
Daily Allowance	Conveyance Allowance
Academic Allowance	Research & Development Allowance (R & D)
Uniform Allowance	Travelling Allowance

Note: Under Default Regime exemption is allowed only for Travelling Allowance/Daily Allowance/ Conveyance Allowance. Other official allowances are fully taxable.

## Example 04

Helper allowance (official Allowance) = ₹ 10,000 pm.

Helper appointed @ ₹ 8000 pm from July 2025 to Month 26

Helper did work as follows: 70% official help & 30% personal help

Compute Taxable Allowance

## Solution

## Computation of Taxable Allowance

Particulars	Amount
Helper allowance received (10,000 x 12m)	1,20,000
Less : Exempt shall be lower of	
a) Amount received i.e. 1,20,000	
b) Amount spent for official purpose (i.e. 8,000 x 9m x 70%) = 50,400	50,400
<b>Taxable Allowance</b>	<b>69,600</b>

## 4. Allowances For Personal Nature

Following Exemption is allowed only under old regime (under default regime no exemption is allowed for personal nature allowances)

- A. Children Education Allowance:** exempt upto ₹100 p.m. per child upto two child.
- B. Hostel Allowance:** exempt upto ₹300 p.m. per child upto two children.
- C. Transport Allowance:** Fully Taxable. However, if granted to an employee, who is blind or orthopedically handicapped with disability of lower extremities is exempt upto ₹3,200 p.m.
- D. Outstation Allowance:** Granted to an employee working in any transport system to meet his personal expenditure. It is exempt to the extent of least of the following:
  - (i) 70% of the allowance received
  - (ii) ₹10,000 p.m.
- E. Underground Allowance:** Allowance to the employees who are working in the mines. It is exempt upto ₹800 p.m.
- F. Tribal Area Allowance:** exempt upto ₹200 p.m.
- G. Other notified allowances:**
  - (i) Compensatory modified field area allowance. upto ₹ 1,000 p.m. is exempt.
  - (ii) Composite field area allowance. upto ₹ 2,600 p.m. is exempt.
  - (iii) Compensatory field area allowance. upto ₹ 2,600 p.m. is exempt.
  - (iv) Island Duty allowance. upto ₹ 3,250 p.m. is exempt.
  - (v) Counter insurgency allowance. upto ₹ 3,900 p.m. is exempt.
  - (vi) Special Compensatory highly active field area allowance. upto ₹4,200 p.m. is exempt.

**Illustration 01: Explain tax treatment following allowances**

1. Mr. J is a Govt. employee and he receives entertainment allowance of 5,000 for the entertainment of clients of the Govt. He spend ₹3,000 p.m. for the entertainment of the clients of the Govt
2. Entertainment Allowance ₹300 p.m. (30% is used for official purpose)
3. Transport Allowance ₹3,400 p.m. Expenditure incurred in commuting 1,200 p.m. He is blind
4. Transport Allowance ₹3,600 p.m. Expenditure incurred in travelling from residence to office & back ₹ 300 p.m. He is dumb and deaf.
5. Transport Allowance ₹3,000 p.m. No expenditure is incurred. He is orthopedic handicapped with lower extremities
6. Children Education Allowance for 3 children ₹120 p.m./each.
7. Children Education Allowance for 3 children ₹90 p.m./child
8. Special allowance to meet the cost of education and staying ₹500 p.m. for a child.
9. Hostel allowance for 3 child ₹400 p.m. per child for 4 months.
10. Children Education Allowance for 3 children ₹6,000. Actual school fees ₹3,000.
11. Hostel Allowance for a child ₹8,000. Actual hostel fees ₹9,000.
12. Children education allowance for his grandchild ₹4,000. Actual school fees 300.
13. Research and development allowance ₹4,000. ₹1,000 is spend wholly towards official purpose.
14. Meal Allowance ₹700. Expenditure on meal is ₹1,000.
15. Helper Allowance ₹1,500. ₹900 is spent wholly towards official purpose.
16. Conveyance Allowance 500 p.m. Whole allowance is saved.
17. Mr. Abhay Jain, is a pilot in Jet Airways, He get a Flight Allowance of 10,000 p.m.
18. Mr. J is working in Delhi Transport Corporation. He gets a driver allowance of 6,000 p.m.
19. X is employed as a guard in railways. He is getting guard allowance of 24,000 p.a. He is not in receipt of daily allowance.
20. Hostel Allowance for 2 children ₹250 p.m./child. (actual expenditure incurred is 150 p.m./child).
21. Hostel Allowance for 4 children ₹320p.m./each.
22. High cost of living allowance @ ₹50,000.
23. Tribal area allowance in Madhya Pradesh ₹300 p.m.
24. Daily allowance ₹6,000.
25. Medical allowance ₹800 p.m.
26. X is employed as a caretaker in a transport company at Chennai. he gets transport duty allowance ₹3,600 p.m.
27. Bonus disputed in court.
28. Clothing Allowance.
29. He has received fixed allowance of ₹2,500 p.m. for medical treatment for the entire family had incurred an expenditure of 12,500 actually.
30. Children education allowance • First child ₹70 p.m. • Second child ₹90 p.m. • Third child ₹4,800
31. Overseas allowance, Physically fit allowance.

32. Medical allowance ₹2,000 p.m. received by an employee, the entire Amount of which has been spent by him for medical treatment.
33. Hostel allowance for 3 children ₹3,500 each.

**Solution**

1. Fully Taxable Under Both Regimes
2. Fully Taxable Under Both Regimes
- 3.

Transport Allowance Received (3,400 p.m. x 12m)	40,800
Less: Exempt (3,200 p.m. x 12m)	38,400
Taxable	2,400

4.

Transport Allowance Received (3,600 p.m. x 12m)	43,200
Less: Exempt (3,200 p.m. x 12m)	38,400
Taxable	4,800

5.

Transport Allowance Received (3,000 p.m. x 12m)	36,000
Less: Exempt (3,000 p.m. x 12m)	36,000
Taxable	Nil

6.

Allowance Received (3 child x 120 p.m. x 12m)	4,320
Less: Exempt (2 child x 100 p.m. x 12m)	2,400
Taxable	1,920

7.

Allowance Received (3 child x 90 p.m. x 12m)	3,240
Less: Exempt (2 child x 90 p.m. x 12m)	2,160
Taxable	1,080

8.

Allowance Received (500 p.m. x 12m)	6,000
Less: Exempt ((300 +100) x 12m)	4,800
Taxable	1,200

9.

Allowance Received (3 child x 400 p.m. x 4m)	4,800
Less: Exempt (2 child x 300 p.m. x 4m)	2,400
Taxable	2,400

10.

Allowance Received	6,000
Less: Exempt (2 child x 100 p.m. x 12 m)	2,400
Taxable	3,600

11.

Allowance Received	8,000
Less: Exempt (1 child x 300 p.m. x 12m)	3,600
Taxable	4,400

12.

Allowance Received	4,000
Less: Exempt	Nil
Taxable	4,000

13.

Allowance Received	4,000
Less: Exempt	1,000
Taxable	3,000

14. Fully taxable i.e.  $700 \times 12 = 8,400$ 

15.

Allowance Received	1,500
Less: Exempt	900
Taxable	600

16. Fully taxable i.e.  $500 \times 12 = 6,000$ 

17.

Allowance Received (10,000 x 12)	1,20,000
Less: Exempt Least of following	
a) 70% Of Allowance i.e. 84,000	
b) 10,000 pm	84,000
Taxable	36,000

18.

Allowance Received (6,000 x 12)	72,000
Less: Exempt Least of following	
a) 70% Of Allowance i.e. 50,400	
b) 10,000 pm	50,400
Taxable	21,600

19.

Allowance Received	24,000
Less: Exempt Least of following	
a) 70% Of Allowance i.e. 16,800	
b) 10,000 pm	16,800
Taxable	7,200

20.

Allowance Received (2 child x 250 p.m. x 12m)	6,000
Less: Exempt (2 child x 250 p.m. x 12m)	6,000
Taxable	Nil

21.

Allowance Received (4 child x 250 p.m. x 12m)	15,360
Less: Exempt (2 child x 300 p.m. x 12m)	7,200
Taxable	8,160

22. Fully taxable

23.

Allowance Received (300 p.m. x 12m)	3,600
Less: Exempt (200 p.m. x 12m)	2,400
Taxable	1,200

24. Nothing is mentioned regarding amount spent, therefore if we assume 100% amount is spent for official purpose then nothing shall be taxable i.e. the entire amount shall be exempt.

25. Fully taxable i.e.  $800 \times 12 = 9,600$ .

26.

Allowance Received (3,600 x 12)	43,200
Less: Exempt Least of following	
a) 70% Of Allowance i.e. 30,240	
b) 10,000 pm	30,240
Taxable	12,960

27. Not taxable as it is not certain whether bonus is receivable or not.

28. It is a uniform allowance, exempt to the extent of the amount is spent on uniform or the allowance received, whichever is lower.

29. Fully taxable i.e.  $2,500 \times 12 = 30,000$ .

30.

Allowance Received (70 pm x 12) + (90 pm x 12) + 4,800	6,720
Less: Exempt (100 pm + 90 pm) x 12	2,280
<b>Taxable</b>	<b>4,400</b>

31. Fully taxable

32. Fully taxable i.e.  $2,500 \times 12 = 30,000$ .

33.

Allowance Received (3,500 x 3 child)	10,500
Less: Exempt (3,500 x 2 Child)	7,000
<b>Taxable</b>	<b>3,500</b>

**Illustration 02:** Mr. J posted at Hyderabad draws the following emoluments from F Ltd. Basic Salary ₹6,000 p.m. Bonus ₹2,000 p.m. Commission ₹8,000 p.a. CCA ₹1,000 p.m. Telephone allowance 200 p.m. Medical Allowance 300 p.m. Entertainment allowance ₹4,800 (₹6,000 spend on entertainment of clients of companies). Academic allowance 16,000 (₹9,000 spend on his education). Conveyance allowance ₹6,000 (₹7,000 is spent on conveyance for official purpose). Travelling allowance ₹18,000 (₹17,000 is spend on conveyance for official purpose). Transport allowance ₹1,700 p.m. (Expenses incurred on commuting between residence to office and back ₹2,500 p.m.) Children education allowance for 4 children ₹160 p.m. per child. Hostel allowance for 3 children ₹280 per month per child (expenditure incurred on child education and their hostel ₹1,100 per month per child). Compute Gross Salaries

**Solution****Computation of Gross Salary of J under old regime**

Particulars	Amount
Basic Salary (6,000 pm x 12)	72,000
Bonus (2,000 pm x 12)	24,000
Commission	8,000
City Compensatory Allowance (1,000 pm x 12) Fully Taxable	12,000
Telephone (Rs. 200 pm x 12) Fully Taxable	2,400
Medical Allowance (Rs 300 pm x 12) Fully Taxable	3,600
Entertainment Allowance (Fully Taxable)	4,800
Academic Allowance (Rs 16,000- Rs. 9,000)	7,000
Conveyance Allowance (Rs 6,000 -6,000)	0
Travelling Allowance (Rs 18,000 -17,000)	1,000
Transport Allowance (Rs 1700 pm X 12) Fully Taxable	20,400
Children Allowance 4child Rs 160 pm = 7,680	5,280
Less Exempt up to 2 child Rs 100 pm = 2400	
Hostel Allowance 3 child Rs 280 pm	3,360
Less Exempt up to 2 child Rs 280 pm	
<b>Gross Salary</b>	<b>1,63,440</b>

## Computation of Gross Salary of J under New Regime

Particulars	Amount
Basic Salary Rs 6,000 pm x 12	72,000
Bonus Rs 2,000 pm x 12	24,000
Commission	8,000
City Compensatory Allowance Rs 1,000 pm x 12 (Fully Taxable)	12,000
Telephone Rs 200 pm x 12 Fully Taxable	2,400
Medical Allowance Rs 300 pm x 12 - Fully Taxable	3,600
Entertainment Allowance - Fully Taxable	4,800
Academic Allowance	16,000
Conveyance Allowance Rs 6,000	0
Less Exempt Rs 6,000	
Travelling Allowance Rs 18,000	1,000
Less Exempt up to Rs 17,000	
Taxable Rs 1,000	
Transport Allowance Rs 1700 pm x 12	20,400
Children Allowance 4 child Rs 160 pm x 12	7,680
Hostel Allowance 3 child Rs 280 pm x 12	10,080
<b>Gross Salary</b>	<b>1,81,960</b>

## 5. Section 10(13A) &amp; Rule 2a. House Rent Allowance

- Exemption is allowed only under old regime (under default regime no exemption is allowed for HRA)
- House rent allowance is exempt to the extent of the least of the following:
  - (i) (Rent Paid – 10% of salary)
  - (ii) 50% of retirement benefit salary in case of Mumbai, Kolkata, Chennai or Delhi.

Or

40% of retirement benefit salary in case of any other place.

- (iii) House rent allowance received

## Meaning of Salary for HRA (also known as Retirement Benefit salary)

Basic Salary + DA (RB) + Commission (% of TO)

**Note:** If There Is Change In HRA, Salary, Rent Paid and Location of Accommodation, then Exemption shall be computed separately for each such Change.

## Example 05

HRA Received = 10,000 pm

Rent paid = ₹ 15000 pm in Kanpur

Retirement Benefit Salary = ₹ 7,50,000

Calculate HRA taxable under old regime.



**Solution****Computation of Taxable HRA**

Particulars	Amount
HRA received (10,000 x 12m)	1,20,000
Less : Least of the following shall be exempt	
a) HRA received i.e. 1,20,000	
b) Rent paid – 10% of RBS i.e. (15,000x12)-10% of 7,50,000 = 1,05,000	
c) 40% of RBS i.e. 7,50,000 x 40% = 3,00,000	1,05,000
<b>Taxable Allowance</b>	<b>15,000</b>

**Example o6**

Suppose in above Ques, Assesses opted default regime. Calculate HRA Taxable

**Solution**

HRA Exemption is not available in case of default regime.

Hence, Full amount of HRA received shall be taxable i.e. 1,20,000/-

**Illustration o3:** Mr. J is employed in F Ltd. getting basic pay ₹20,000 p.m., dearness allowance ₹7,000 p.m. and half of the dearness allowance forms the part of salary for the purpose of retirement benefits. The employer has paid bonus @ ₹500 p.m., commission @ 1% on the sales turnover of 20 lakhs. The employer paid him house rent allowance ₹6,000 p.m. Employee has paid rent ₹7,000 p.m. and was posted at Agra. Compute Taxable HRA.

**Solution****Computation of Taxable HRA of J under Old Regime**

Particulars	Amount	Amount
HRA received Rs 6000 per month		72,000
Less: Exempt (W.N.1)		53,800
<b>Taxable HRA</b>		<b>18,200</b>

**Working Note :1**

Particulars	Amount	Amount
Basic Salary Rs 2,00,00 pm	2,40,000	
DA Rs 3,500 pm	42,000	
Commission 1% of sales (1% of Rs 20 lakh)	20,000	
<b>Salary for the Purpose of HRA</b>	<b>3,02,000</b>	
10% of Salary	30,200	
HRA received		72,000
<b>Least of the following:</b>		
i) Actual HRA received	72,000	
ii) Rent paid over 10% of Salary [Rs 84000 – 30200]	53,800	
iii) 40% of salary	120800	
<b>Hence Least Amount</b>		<b>53,800</b>
<b>Taxable HRA</b>		<b>18,200</b>

## Computation of Taxable HRA of J under New Regime

Particulars	Amount	Amount
HRA received Rs 6000pm		72,000
Less Exemption not available under Default tax regime since HRA fully taxable		0
Taxable HRA		72,000

**Illustration 04:** Compute Gross Salary : Basic Salary 5,000 p.m. Dearness allowance (70% forms part of salary) ₹500 p.m. Commission 1% p.a. based on sales. Sales achieved by the employee ₹24 lakhs p.a. House rent allowance ₹4,000 p.m. Rent paid at Gurgaon ₹5,000 p.m.

## Solution

## Computation of Gross Salary of J under Normal Tax Provisions

Particulars	Amount	Amount
Basic Salary Rs 5,000 pm		60,000
DA Rs 500 pm		6,000
Commission 1% of sales (1% of Rs 24 lakh)		24,000
HRA received Rs 4,000pm	48,000	
Less Exempt (Working Note 1)	35,880	
Taxable HRA	12,720	12,720
Gross Salary		1,02,720

## Working Note 1

Particulars	Amount	Amount
Salary for the Purpose of HRA		
Basic Salary Rs 5,000 p.m.	60,000	
DA Rs 350 p.m. ( 70% forms part of Salary )	4,200	
Commission 1% of sales (1% of Rs 24 lakh)	24,000	
	88,200	
Least of the following :		
i) Actual HRA received	48,000	
ii) Rent paid over 10% of Salary [60,000 - 8,820]	51,180	
iii) 40% of salary	35,280	
Hence Least Amount		35,280
Taxable HRA		12,720

## Computation of Gross Salary of J under Default Tax Provisions

Particulars	Amount	Amount
Basic Salary Rs 5,000 pm		60,000
DA Rs 500 pm		6,000
Commission 1% of sales i.e. 1% of Rs 24 lakh		24,000

HRA received Rs 4,000pm	48,000	
Less Exemption not available under Default tax regime	0	
Taxable HRA	48,000	48,000
Gross Salary		1,38,000

**Illustration 05:** Mr. J is employed with XY Ltd. on a basic salary of ₹10,000 p.m. He is also entitled to Dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹6,000 p.m. which was increased to ₹7,000 p.m. with effect from 01.01.2026. He also got an increment of ₹1,000 p.m. in his basic salary with effect from 01.02.2026. Rent paid by him during the previous year 2025-26 is as under: April and May, 2025 - Nil, as he stayed with his parents. June to October, 2025 - ₹6,000 p.m. for an accommodation in Ghaziabad. November, 2025 to March, 2026 - ₹8,000 p.m. for an accommodation in Delhi. Compute the gross salary for Assessment Year 2026-27.

### Solution

#### Computation of Gross Salary of J under Normal Tax Provisions

Particulars	Amount	Amount
Basic Salary : Rs 10,000 per month for the period 1 April 25 to 31 Jan 26 = $10,000 \times 10$	1,00,000	
Basic Salary for the period Feb to March = $\text{Rs } 11,000 \times 2$	22,000	1,22,000
Dearness Allowance ( 100% of Basic Salary )		1,22,000
HRA for year = $12,000 + 7,500 + 0 + 500 + 1,300 = 21,300$		21,300
Gross Salary		2,65,300

#### Working Note 1 Taxable HRA for the month of April & May 25

Particulars	Amount	Amount
Basic Salary Rs 10000 pm x 2	20,000	
Dearness Allowances 50% of Basic Salary Rs 5000 x 2	10,000	
Salary for the Purpose of HRA	30,000	
10% of Salary	3,000	
HRA received		12,000
Least of the following :		
i) Actual HRA received	12,000	
ii) Rent paid over 10% of Salary since he stayed with his parents hence rent paid by the employee is NIL	Nil	
iii) 40% of salary i.e. $\text{Rs } 30,000 \times 40\%$	12,000	
Hence Least Amount to be exempt		NIL
Taxable HRA for April & May		12,000

**Working Note 2** Taxable HRA for June to Oct 25

Particulars	Amount	Amount
Basic Salary Rs 10,000 pm x 5	50,000	
Dearness Allowances 50% of Basic Salary Rs 5000 x 5	25,000	
Salary for the Purpose of HRA	75,000	
10% of Salary	7,500	
HRA received		30,000
Least of the following :		
i) Actual HRA received	30,000	
ii) Rent paid over 10% of Salary [Rs 6,000 x 5 – 7,500]	22,500	
iii) 40% of salary i.e. Rs 75,000 x 40%	30,000	
Hence Least Amount to be exempt		22,500
Taxable HRA for June to Oct		7,500

**Working Note 3** Taxable HRA for Nov & Dec 25

Particulars	Amount	Amount
Basic Salary Rs 10,000 pm x 2	20,000	
Dearness Allowances 50% of Basic Salary Rs 5000 x 2	10,000	
Salary for the Purpose of HRA	30,000	
10% of Salary	3,000	
HRA received		12,000
Least of the following :		
i) Actual HRA received	12,000	
ii) Rent paid over 10% of Salary [Rs 8,000 x 2 – 3,000]	13,000	
iii) 40% of salary i.e. Rs 30,000 x 50%	15,000	
Hence Least Amount to be exempt		12,000
Taxable HRA for Nov & Dec		0

**Working Note 4** Taxable HRA for Jan 26

Particulars	Amount	Amount
Basic Salary Rs 10,000 pm x 1	10,000	
Dearness Allowances 50% of Basic Salary Rs 5000 x 1	5,000	
Salary for the Purpose of HRA	15,000	
10% of Salary	1,500	
HRA received		7,000
Least of the following :		
i) Actual HRA received	7,000	
ii) Rent paid over 10% of Salary [Rs 8,000 x 1 – 1,500]	6,500	
iii) 50% of salary i.e. Rs 15,000 x 50%	7,500	
Hence Least Amount to be exempt		6,500
Taxable HRA for Jan 26		500

**Working Note 5** Taxable HRA for Feb & March 26

Particulars	Amount	Amount
Basic Salary Rs 11,000 pm x 2	22,000	
Dearness Allowances 50% of Basic Salary Rs. 5,500 x 2	11,000	
Salary for the Purpose of HRA	33,000	
10% of Salary	3,300	
HRA received		14,000
Least of the following:		
i) Actual HRA received	14,000	
ii) Rent paid over 10% of Salary [Rs 8,000 x 2 – 3,300]	12,700	
iii) 50% of salary i.e. Rs 33,000 x 50%	16,500	
Hence Least Amount to be exempt		12,700
Taxable HRA for Feb & March 26		1,300

**Computation of Gross Salary of J under Default Tax Regime**

Particulars	Amount	Amount
Basic Salary: Rs 10,000 per month for the period 1 April 25 to 31 Jan 26 = 10,000 x 10	1,00,000	
Basic Salary for the period Feb to March = Rs 11,000 x 2	22,000	1,22,000
Dearness Allowance (100% of Basic Salary)		1,22,000
HRA		75,000
Gross Salary		3,19,000

**Illustration 06:** Mr. J is employed in Central Government getting basic pay ₹18,000 p.m., dearness allowance ₹6,000 p.m. Employer has paid children education allowance ₹700 p.m. per child w.e.f. 01.09.2025 and hostel allowance of ₹1,000 p.m. for one child w.e.f. 01.10.2025. Employer has paid transport allowance ₹1,700 p.m. w.e.f. 01.11.2025. Employer has paid house rent allowance ₹5,000 p.m. w.e.f. 01.01.2026. The employee has resigned from 01.02.2026 and has taken up a new job w.e.f. 01.03.2026. He is getting basic pay ₹27,000 p.m. and house rent allowance ₹4,000 p.m. Compute his Gross Salary

**Solution****Computation of Gross Salary of J under Normal Tax Provisions**

Particulars	Amount	Amount
Basic Salary: Rs 18,000 per month for the period 1 April 25 to 31 Jan 26 = 18,000 x 10	1,80,000	
Basic Salary for the month of March = Rs 27,000	27,000	2,07,000
Dearness Allowance Rs 6,000 pm for the period 1 April 25 to 31 Jan 26 = Rs 6,000 x 10		60,000
HRA (4,000 + 5,000)		9,000
Children Education Allowance for the period of 5 months i.e. 1 Sept 25 to 31 Jan 26 Rs 700 pm = Rs 700 x 5 x 1 child	3,500	
Less Exempt up to Rs 100 pm per child = 100 x 5	5,00	

Taxable Children Education Allowance		3,000
Children Hostel Allowance for the period of 4 months i.e. 1 Oct 25 to 31 Jan 26 Rs 1,000 pm = Rs 1,000 x 4 x 1child	4,000	
Less Exempt up to Rs 300 pm per child = 300 x 4	1,200	
Taxable Children Hostel Allowance		2,800
Transport Allowance for the period of 3 months i.e. 1 Nov 25 to 31 Jan 26 Rs 1700 x 3- fully taxable		5,100
<b>Gross Salary</b>		<b>2,86,900</b>

### Computation of Gross Salary of J under Default Tax Provisions

Particulars	Amount	Amount
Basic Salary: Rs 18,000 per month for the period 01 April 25 to 31 Jan 26 = 18,000 x 10	1,80,000	
Basic Salary for the month of March = Rs 27000	27,000	2,07,000
Dearness Allowance Rs 6000 pm for the period 01 April 25 to 31 Jan 26 = Rs 6000 x 10		60,000
HRA		9,000
Children Education Allowance for the period of 5 months i.e. 1 Sept 25 to 31 Jan 26 Rs 700 pm = Rs 700 x 5 x 1child		3,500
Children Hostel Allowance for the period of 4 months i.e. 1 Oct 25 to 31 Jan 26 Rs 1,000 pm = Rs 1,000 x 4 x 1child		4,000
Transport Allowance for the period of 3 months i.e. 1 Nov 25 to 31 Jan 26 Rs 1700 x 3- fully taxable		5,100
<b>Gross Salary</b>		<b>2,88,600</b>

### DEDUCTION U/S 16

#### A. Standard Deduction [Section 16(ia)] - Allowed under Both Regimes

A deduction of 50,000 or the amount of the gross salary, whichever is less is allowed in case of old regime.

However, Deduction of 75,000 or the amount of gross salary, whichever is less is allowed in case of default regime

#### B. Entertainment Allowance [Section 16(ii)] - Allowed only under Old Regime

Deduction shall be allowed only in case of government employees to the extent of the least of the following:

- (i) 20% of basic salary
- (ii) ₹ 5,000
- (iii) The actual allowance received by the employee

**C. Professional Tax [Section 16(iii)] - Allowed only under Old Regime**

- Employee will be allowed to claim deduction Of professional tax paid by him
- If the amount has been paid by the employer on behalf of the employee, it will be first included in gross salary and subsequently deduction is allowed
- If the amount is due but not paid, deduction is not allowed.

**Illustration 07:** Mr. J is employed in central Government getting basic pay ₹30,000 p.m., dearness allowance ₹7,000 p.m., servant allowance ₹2,000 p.m., entertainment allowance ₹1,000 p.m., city compensatory allowance 600 p.m. In this case taxable salary of Mr. J shall be?

**Solution****Computation of Taxable Salary of J under Normal Tax Provisions**

Particulars	Amount	Amount
Basic Salary Rs 30,000 pm		3,60,000
DA Rs 7,000 pm		84,000
Servant Allowance Rs 2000 pm		24,000
Entertainment Allowance Rs 1000 pm		12,000
City Compensatory Allowance Rs 600 pm		7,200
<b>Gross Salary</b>		<b>487,200</b>
Less : Deduction u/s 16		
i) Standard deduction	50,000	
ii) Entertainment Allowance	5,000	
<b>Total Deduction</b>		<b>55,000</b>
<b>Taxable Salary</b>		<b>4,32,200</b>

**Working Note:**

Particulars	Amount	Amount
Entertainment Allowance		
Less Deduction u/s 16 (ii) Least of the following:		
i) 20% of Basic Salary	72,000	
ii) 5000	5,000	
iii) Actual Entertainment Allowance received	12,000	
<b>Amount deductible</b>		<b>5,000</b>

**Computation of Taxable Salary of J under Default Tax Provisions**

Particulars	Amount	Amount
Basic Salary Rs 30,000 pm		3,60,000
DA Rs 7,000 pm		84,000
Servant Allowance Rs 2000 pm		24,000
Entertainment Allowance Rs. 1000 pm		12,000
City Compensatory Allowance Rs 600 pm		7,200
<b>Gross Salary</b>		<b>4,87,200</b>

Less : Deduction u/s 16		
i) Standard deduction	75,000	
ii) Entertainment Allowance not allowed	0	
Total Deduction		75,000
Taxable Salary		4,12,200

**Illustration o8:** Mr. J is employed in Central Government getting basic pay ₹14,000 p.m., dearness allowance ₹5,000 p.m., House rent allowance ₹4,000 p.m. w.e.f. 01.07.2025. However, employee is residing in the house of his parents. Employer has paid cash allowance ₹300 p.m., medical allowance ₹250 p.m. and entertainment allowance ₹400 p.m. Employer has paid professional tax ₹75 p.m. on behalf of the employee. Employee has saved ₹35 p.m. out of entertainment allowance. Compute employee's income under the head Salary. What will be your answer if professional tax is paid by Employee.

### Solution

#### Computation of Taxable Salary of J under Normal Tax Provisions

Particulars	Amount	Amount
Basic Salary Rs 14,000 pm		1,68,000
DA Rs 5,000 pm		60,000
HRA received Rs 4,000 pm for 9 months from 1 July 25 to 31 march 26 = Rs 4,000 pm x 9	36,000	
Less : Exempt	NIL	
Taxable HRA		36,000
Cash Allowance Rs 300 pm x12		3,600
Medical Allowance Rs 250 pm x12		3,000
Entertainment Allowance Rs 400 pmx12		4,800
Professional Tax Rs 75 pm x12		900
Gross Salary		2,76,300
Less : Deduction u/s 16		
i) Standard deduction	50,000	
ii) Entertainment Allowance ( W.N. 1)	4,800	
iii) Professional Tax Rs 75 pm x12	9,00	
Total Deduction		55,700
Taxable Income under the head Salary		2,20,600

#### WN 1: Deduction regarding Entertainment Allowance

Particulars	Amount	Amount
Entertainment Allowance		
Less Deduction u/s 16 - Least of the following:		
i) 20% of Basic Salary = 20% of 1,68,000	33,600	
ii) 5000	5,000	
iii) Actual Entertainment Allowance received	4,800	
Amount deductible		4,800



## Computation of Taxable Salary of J under Default Tax Provisions

Particulars	Amount	Amount
Basic Salary Rs 14,000 pm		1,68,000
DA Rs 5,000 pm		60,000
HRA Rs 4,000 pm w.e.f. 1 July 25 – Fully Taxable		36,000
Cash Allowance Rs 300 pm x12		3,600
Medical Allowance Rs 250 pm x12		3,000
Entertainment Allowance Rs 400 pm x12		4,800
Professional Tax Rs 75 pm x12		900
<b>Gross Salary</b>		<b>2,76,300</b>
<b>Less : Deduction u/s 16</b>		
i) Standard deduction	75,000	
ii) Entertainment Allowance not allowed	0	
iii) Professional tax not allowed	0	
<b>Total Deduction</b>		<b>75,000</b>
<b>Taxable Income under the head Salary</b>		<b>2,01,300</b>

## RETIREMENT BENEFITS

## 1. Gratuity

- Gratuity Received During Employment Is Fully Taxable
- Gratuity Received at the time of retirement is to be treated as follows:

Employee	Exemption u/s 10(10) [Allowed under Both Regime]
Government	Fully Exempt
Other EE covered under POGA	<p>Least Of Following is Exempt:</p> <p>a) ₹ 20 Lakh</p> <p>b) Gratuity Received</p> <p>c) <math>15/26 \times \text{Last Drawn Salary} \times \text{CY}</math></p> <p>Note:</p> <p>1. CY = Completed year or part thereof in excess of 6m</p> <p>2. Last Drawn Salary = Basic + DA</p>
Other EE Not covered under POGA	<p>Least Of Following is Exempt:</p> <p>a) ₹ 20 Lakh</p> <p>b) Gratuity Received</p> <p>c) <math>1/2 \times \text{Avg Salary} \times \text{CY}</math></p> <p>Note:</p> <p>1. CY = Completed year</p> <p>2. Salary = Basic + DA(RS) + Comm(%)</p> <p>3. Avg Salary = 10m Avg Salary Immediately Preceding "month" of Retirement</p>

**Note:** If EE had received the gratuity from previous ER and any amount of gratuity was exempted earlier then ceiling limit of 20 lakhs shall be reduced by the amount so exempted.

**Illustration 09**

Mr. J retired on 1.06.2025 after completion of 26 years 8 months of service and received gratuity of ₹6,00,000. At the time of retirement his salary was:

- Basic Salary : ₹5,000 p.m.
- Dearness Allowance : ₹3,000 p.m. (60% of which is for retirement benefits)
- Commission : 1% of turnover (turnover in the last 12 months was ₹12,00,000)
- Bonus : ₹12,000 p.a.

**Compute his taxable gratuity assuming:**

- He is non-government employee and covered by the Payment of Gratuity Act 1972.
- He is non-government employee and not covered by Payment of Gratuity Act 1972.
- He is a Government employee.

**Solution****Computation of Taxable Gratuity of Mr. J**

<b>a) Mr. J – Pvt Sector Employee &amp; covered under POGA</b>		
Particulars	Amount	Amount
Gratuity received		6,00,000
Less Exempt Working Note 1		1,24,615
Taxable Gratuity		4,75,385
Working Note 1: Least of the amount to be exempted		
a) Actual Gratuity Received	6,00,000	
b) Statutory Limit	20,00,000	
c) 15 days salary based on last drawn salary for each completed year of service or part there of in excess of 6 months = $15/26 \times \text{last drawn salary} \times \text{years of service}$ = $15/26 \times 8,000 \times 27$	1,24,615	
Exempted amount	1,24,615	
Years if Service Completed 26 yrs 8 months = 27 years		
Last Salary Drawn : Basic Pay + D.A (5,000+3,000= Rs 8,000)		
<b>b) Mr. J – Pvt Sector Employee &amp; is not covered under POGA</b>		
Particulars	Amount	Amount
Gratuity received		6,00,000
Less : Exempt Working Note 1		1,01,400
Taxable Gratuity		4,98,600
Working Note 1: Least of the amount to be exempted		
a) Actual Gratuity Received	6,00,000	
b) Statutory Limit	20,00,000	
c) Half month salary for each completed year of service = $1/2 \times \text{last drawn salary} \times \text{years of service}$ = $1/2 \times (78000/10) \times 26$	1,01,400	
Exempted amount	1,01,400	
Years of Service Completed 26 yrs 8 months = 26 years		

Salary here means Average Salary for 10 months immediately preceding the month of retirement		
Basic Pay 5,000 x 10	50,000	
Dearness Allowance 60% of Rs 3,000 = Rs 1,800 x 10	18,000	
Commission on sales turnover 1% x 12 lakh x 10/12	10,000	
	78,000	
<b>c) Mr. J – Government Employee</b>		
<b>Particulars</b>	<b>Amount</b>	<b>Amount</b>
Gratuity received		6,00,000
Less: Fully Exempted		6,00,000
<b>Taxable Gratuity</b>		<b>NIL</b>

**Illustration 10**

- a) Mr. J was employed in F Ltd. getting basic pay ₹18,000 p.m. but it was increased to ₹24,000 p.m. w.e.f. 01-07-2025, dearness allowance ₹6,000 p.m. but it was increased to ₹9,000 p.m. w.e.f. 01-07-2025 (50% of DA forms part of salary). The employee was retired on 1.01.2026 after serving the employer for 20 years and 10 months. The employer has paid him gratuity of ₹9,10,000 and the employee was covered under Payment of Gratuity Act, 1972. Compute GTI
- b) Presume Mr. J is not covered in Payment of Gratuity Act 1972

**Solution****Computation of Gross Total Income Mr. J**

Particulars	Amount	Amount
<b>If Mr. J – Pvt Sector Employee &amp; covered under POGA</b>		
Basic Pay – April to June 18,000 pm x 3	54,000	
July to Dec 24,000 pm x 6	144,000	1,98,000
Dearness Allowance April to June 6,000 pm x 3	18,000	
July to Dec 9,000 pm x 6	54,000	72,000
Taxable Gratuity 9,10,000 - 3,99,808 = 5,10,192		5,10,192
<b>Gross Salary</b>		<b>7,80,192</b>
Less : Standard Deduction		50,000
<b>Income under the head Salary</b>		<b>7,30,192</b>
<b>Gross Total Income</b>		<b>7,30,192</b>

<b>Working Note 1: Least of the amount to be exempted</b>		
a) Actual Gratuity Received	9,10,000	
b) Statutory Limit	20,00,000	
c) 15 days salary based on last drawn salary for each completed year of service or part there of in excess of 6 months = $15/26 \times \text{last drawn salary} \times \text{years of service}$	3,99,808	

= $15/26 \times 33,000 \times 21$		
Exempted amount	3,99,808	
Years of Service Completed 20 yrs 10 months = 21 years		
Last Salary Drawn : Basic Pay + D.A (24,000+9,000= 33,000)		

Particulars	Amount	Amount
If Mr. J – Pvt Sector Employee & is not covered under POGA		
Basic Pay – April to June 18,000 pm x 3	54,000	
July to Dec 24,000 pm x 6	144,000	1,98,000
Dearness Allowance April to June 6,000 pm x 3	18,000	
July to Dec 9,000 pm x 6	54,000	72,000
Taxable Gratuity 9,10,000 – 2,55,000=6,55,000		6,55,000
Gross Salary		9,25,000
Less : Standard Deduction		50,000
Income under the head Salary		8,75,000
Gross Total Income		8,75,000

Working Note 1: Least of the amount to be exempted		
a) Actual Gratuity Received	9,10,000	
b) Statutory Limit	20,00,000	
c) Half month salary for each completed year of service = $1/2 \times$ last drawn salary x years of service = $1/2 \times (2,16,000 + 39,000) / 10 \times 20$	2,55,000	
Exempted amount	2,55,000	
Years of Service Completed 20 yrs 8 months = 20 years		
Salary here means Average Salary for 10 months immediately preceding the month of retirement		
Basic Pay – March to June 18,000 pm x 4	72,000	
July to Dec 24,000 pm x 6	144,000	2,16,000
Dearness Allowance March to June 3,000 pm x 4	12,000	
July to Dec 4,500 pm x 6	27,000	39,000

## 2. Pension

a) Uncommuted Pension – Fully Taxable

b) Commuted Pension

Received By	Exemption u/s 10(10A) [Allowed under Both Regime]
Govt. EE	Fully Exempt
Non Govt.EE	Gratuity Received : $1/3$ of Total Pension Is Exempt Gratuity Not Received : $1/2$ of Total Pension Is Exempt

Total Pension = [Commuted Pension ÷ Commutation %]

**Example 07**

Mr. X retired & Received ₹ 3,60,000 as commuted pension for 60 % of pension

Calculate Taxable pension

- (a) Mr. X is Govt Employee
- (b) Mr. X is Non-Govt Employee & also Received Gratuity
- (c) Mr. X is Non – Govt Employee but no Gratuity has been received

**Solution**

- a) Pension received to Govt. Employee is Fully Exempt. Hence, ₹3,60,000 shall be exempt as Mr. X is a Govt. Employee

b) **Calculation of Taxable Pension**

Particulars	Amount
Commuted Pension received	3,60,000
Less : Exempt ( $\frac{1}{3}$ <sup>rd</sup> of Total Pension) i.e. $\frac{1}{3} \times 6,00,000$	2,00,000
<b>Taxable Pension</b>	<b>1,60,000</b>

**Working Note :**

Total Pension = Commuted Pension / 60% = ₹3,60,000 / 60% = ₹6,00,000

c) **Calculation of Taxable Pension**

Particulars	Amount
Commuted Pension received	3,60,000
Less : Exempt ( $\frac{1}{2}$ <sup>rd</sup> of Total Pension) i.e. $\frac{1}{2} \times 6,00,000$	3,00,000
<b>Taxable Pension</b>	<b>60,000</b>

**Working Note :**

Total Pension = Commuted Pension / 60% = ₹3,60,000 / 60% = ₹6,00,000

**Example 08**

Mr. X Retired on 1/10/24 after serving employer for 26 years & 10 month.

He receives pension of ₹ 15000 p.m. w.e.f. October 2025

On 1/2/26, He commuted 20% of his pension & Received 2,00,000

Calculate Taxable pension for PY 2025-26

- (a) Mr. X is Govt Employee
- (b) Mr. X is Non-Govt Employee & also Received Gratuity
- (c) Mr. X is Non – Govt Employee but no Gratuity has been received

**Solution****Taxability of Commuted Pension**

- a) Pension received to Govt. Employee is Fully Exempt. Hence, ₹2,00,000 shall be exempt as Mr. X is a Govt. Employee

## b) No Gratuity Received

## Calculation of Taxable Pension

Particulars	Amount
Commuted Pension received	2,00,000
Less : Exempt ( $1/2^{\text{rd}}$ of Total Pension) i.e. $1/2 \times 10,00,000 = 5,00,000$ but restricted to maximum ₹2,00,000 and Balance ₹3,00,000 shall be utilized when employee commutes pension on next time	2,00,000
<b>Taxable Pension</b>	<b>Nil</b>

## c) Gratuity Received

## Calculation of Taxable Pension

Particulars	Amount
Commuted Pension received	2,00,000
Less : Exempt ( $1/3^{\text{rd}}$ of Total Pension) i.e. $1/3 \times 10,00,000 = ₹3.33$ lakhs but restricted to maximum ₹2,00,000	2,00,000
<b>Taxable Pension</b>	<b>Nil</b>

## Taxability of Uncommuted Pension (WN-01)

Uncommuted Pension is received monthly and hence, shall be fully taxable in hands of all employee

## Taxable Pension Table

Particulars	Govt. Employee	Non-Govt. Employee	
		Gratuity Received	No Gratuity Received
Uncommuted Pension	84,000	84,000	84,000
Commuted Pension	Exempt	Nil	Nil
<b>Taxable Pension</b>	<b>84,000</b>	<b>84,000</b>	<b>84,000</b>

## Working Note 01 :

## Calculation of Uncommuted Pension :

[Oct to Jan (i.e.  $15,000 \times 4$ )] + [Feb to March (i.e.  $15,000 \times 80\% \times 2$ )] = ₹84,000

## Working Note 02 :

Total Pension = Commuted Pension / 20% = ₹2,00,000 / 20% = ₹10,00,000

**Illustration 11:** Mr. J is employed in F Ltd. getting basic pay ₹22,000 p.m., dearness allowance ₹5,000 p.m. He was retired on 1.12.2025. The employer has allowed him pension of ₹9,000 p.m. and the employee has requested for commutation of 52% of his pension. The employer has allowed him such commutation on 01.02.2026 and has paid ₹5,61,600. The employer has paid him gratuity of ₹6,95,000 and employee has completed service of 20 years and 11 months. Compute GTI.

## Solution

## Computation of Gross Total Income Mr. J

Particulars	Amount	Amount
Basic Pay – April to Nov 22,000 pm x 8		1,76,000
Dearness Allowance April to Nov 5,000 pm x 8		40,000
Taxable Gratuity W.no.1 Rs 6,95,000 - 2,20,000=4,75,000		4,75,000
Uncommuted Pension W.No.2		26,640
Commuted Pension W.no.3		2,01,600
Gross Salary		9,19,240
Less : Standard Deduction		50,000
Income under the head Salary		8,69,240
Gross Total Income		8,69,280

<b>Working Note 1</b> Least of the amount to be exempted		
a) Actual Gratuity Received	6,95,000	
b) Statutory Limit	20,00,000	
c) Half month salary for each completed year of service = 1/2x Average Salary x years of service = 1/2x 22,000 x 20	2,20,000	
Exempted amount	2,20,000	
Years of Service Completed 20 yrs 11 months = 20 years		
Salary here means Average Salary for 10 months immediately preceding the month of retirement		
Basic Pay – Feb to Nov 22,000 pm x 10		2,20,000
Average Salary		22,000
<b>Working Note 2</b> Uncommuted Pension		
For Dec 25 & Jan 26 : Rs 9,000 x 2	18,000	
For Feb & March 26 : Rs 9000 x 48% x 2	8,640	
Total Un commuted Pension		26,640
<b>Working Note 3</b> Commuted Pension		
Received	5,61,600	
Less Exempt (5,61,600/52%) x 1/3	3,60,000	
Taxable Commuted Pension		2,01,600

**Illustration 12:** Mr. J retired w.e.f. 01.10.2025 receiving ₹5,000 p.m. as pension. On 01.02.2026, he commuted 60% of his pension and received ₹3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

- He is a government employee.
- He is a non-government employee, receiving gratuity of ₹5,00,000 at the time of retirement.
- He is a non-government employee and is in receipt of no gratuity at the time of retirement

## Solution

## Computation of Taxable Pension Mr. X

Particulars	Amount	Amount
<b>a) Mr. X is a Government Employee :</b>		
Un commuted Pension W.no.1		24,000
Commuted Pension W.no.2		NIL
<b>Taxable Pension</b>		<b>24,000</b>
<b>Working Note 1</b> Un commuted Pension		
For Oct 25 to Jan 26 Rs 5,000 x 4	20,000	
For Feb & March 26:		
Rs 5000 x 40% x 2	4,000	
<b>Total Uncommuted Pension</b>		<b>24,000</b>
<b>Working Note 2</b> Commuted Pension		
Commuted Pension received	3,00,000	
Less : Fully Exempt u/s 10 (10 A)	3,00,000	
<b>Taxable Commuted Pension</b>		<b>NIL</b>
<b>Particulars</b>	<b>Amount</b>	<b>Amount</b>
<b>b) Mr. X is a Non - Government Employee , receiving Gratuity</b>		
Un commuted Pension W.no.1		24,000
Commuted Pension W.no.2		1,33,333.33
<b>Taxable Pension</b>		<b>1,57,333.33</b>
<b>Working Note 1</b> Un commuted Pension		
For Oct 25 to Jan 26 Rs 5,000 x 4	20,000	
For Feb & March 26:		
Rs 5000 x 40% x 2	4,000	
<b>Total Un commuted Pension</b>		<b>24,000</b>
<b>Working Note 2</b> Commuted Pension		
Commuted Pension received	3,00,000	
Less Exempt $(3,00,000/60\%) \times 1/3$	1,66,666.67	
<b>Taxable Commuted Pension</b>		<b>1,33,333.33</b>
<b>Note:</b> Commuted Pension received by Pvt. Sector Employee who also receives Gratuity :-		
Commuted Value of $1/3^{\text{rd}}$ of the pension is Exempt from tax		
<b>Particulars</b>	<b>Amount</b>	<b>Amount</b>
<b>c) Mr. X is a Non - Government Employee , is not receiving Gratuity</b>		
Uncommuted Pension W.no.1		24,000



Commuted Pension	W.no.2		50,000
	Taxable Pension		74,000
<b>Working Note 1</b> Uncommuted Pension			
For Oct 25 to Jan 26	Rs 5,000 x 4	20,000	
For Feb & March 26:			
Rs 5000 x 40% x 2		4,000	
	Total un-commuted Pension		24,000
<b>Working Note 2</b> Commuted Pension			
Commuted Pension received		3,00,000	
Less Exempt $(3,00,000/60\%) \times \frac{1}{2}$		2,50,000	
	Taxable Commuted Pension		50,000
<b>Note:</b> Commuted Pension received by Pvt. Sector Employee who does not receive Gratuity:			
Commuted Value of $\frac{1}{2}$ of the pension is Exempt from tax			

### 3. Leave Encashment (Exemption u/s 10(10AA)) - [Allowed under Both Regime]

- Leave Encashed During Employment Is Fully Taxable.
- Leave encashment received at the time of retirement shall be FULLY EXEMPT in case of Government EE.
- Leave encashment received at the time of retirement to Non-Government EE shall be exempt to the extent of lower of following:
  - Leave Encashment Received
  - ₹ 25,00,000
  - 10m x Average Salary
  - Leave @ credit (in months) x Average Salary

Note:

#### (i) Leave @ Credit (In Months)

Leaves Available For Completed Year (Max= 30 leaves per Year)	xx
(-) Leaves Availed During Employment	xx
(-) Leaves Encashed During Employment	xx
Leaves @ credit (in days)	xx
	÷ 30 days
Leaves @ credit (in months)	xx

- Salary = Basic + DA(RB) + Commission (% of TO)
- Avg Salary= 10m Avg Salary Immediately Preceding “Day” of Retirement.
- If EE had received the leave encashment from previous ER and any amount of such encashment was exempted earlier then ceiling limit of 25 lakhs shall be reduced by the amount so exempted.

**Example 09**

Mr. X has provided service for 27 years & 11 month.

Employer Granted 35 days leave for every year.

Employee availed 150 days leave during Employment

Employee encashed 50 days leave during Employment

Calculate leave at credit

**Solution****Calculation of Leave at credit available**

Particulars	Amount
Leave available (30 days x 27 years)	810 days
Less : Leave availed and encashed (150+50)	200 days
Unavailed Leaves	610 days
Leave at credit (610 days / 30)	20.33 months

**Example 10:** Suppose Employer Grant 25 days leave every year in above e.g.

**Solution****Calculation of Leave at credit available**

Particulars	Amount
Leave available (25 days x 27 years)	675 days
Less : Leave availed and encashed (150+50)	200 days
Unavailed Leaves	475 days
Leave at credit (475 days / 30)	15.833 months

**Example 11:** Un-availed leaves as per Employer records = 475 days

Employer grant 32 days leave every year

Service period of Employee = 30 years & 10 Months

Calculate leave at credit

**Solution****Calculation of Leave availed and encashed**

Particulars	Amount
Leaves as per employer (32 days x 30 years)	960 days
Less : Unavailed leaves as per employer	475 days
Leaves availed and encashed	485 days

**Calculation of Leave at credit available**

Particulars	Amount
Leave available as per Income Tax Act (30 days x 30 years)	900 days
Less : Leave availed and encashed	485 days
Unavailed Leaves	415 days
Leave at credit (415 days / 30)	13.83 months

Alternative :

## Calculation of Leave at credit available

Particulars	Amount
Unavailed leaves as per employer	475 days
Less : Extra leaves (2 days x 30 years)	60 days
Unavailed Leaves as per Income Tax Act	415 days
Leave at credit (415 days / 30)	13.83 months

**Example 12:** Un-availed leaves as per Employer records = 475 days

Employer grant 28 days leave every year

Service period of Employee = 30 years &amp; 10 Months

Calculate leave at credit

Solution

## Calculation of Leave at credit available

Particulars	Amount
Unavailed leaves as per employer	475 days
Less : Extra leaves as per employer	-
Unavailed Leaves as per Income Tax Act	475 days
Leave at credit (475 days / 30)	15.833 months

**Example 13**

Leave Encashment Received = 6,00,000

Available Leaves = 32 days/year

Un-availed leave as per Employer = 420 days.

Service period = 26 years &amp; 11 Month.

Basic Salary = 50,000 w.e.f. 1/7/25 before that it was ₹ 40,000

Dearness Allowance = 100% of Basic Salary (60% forms part of Retirement Benefit)

Retirement Date = 1/12/25

Calculate Taxable leave Encashment

Solution

## Calculation of Taxable Leave Encashment

Particulars	Amount
Leave Encashment received	6,00,000
Less : Least of the following shall be exempt :	
a) Leave encashment received i.e. 6,00,000	
b) Ceiling Limit i.e. 25,00,000	
c) 10m x average salary i.e. 10m x 72,000 = 7,20,000	
d) Leave at credit x avg salary i.e. 12.26 x 72000 = 8,83,200	6,00,000
Taxable Leave Encashment	Nil

## Working Notes :

## Calculation of Average Salary (Feb 2025 – Nov 2025)

Particulars	Amount
Basic Salary	
Feb – June i.e. $40,000 \times 5 = 2,00,000$	
July – Nov i.e. $50,000 \times 5 = 2,50,000$	4,50,000
Dearness Allowance (100% of basic salary) $\times 60\%$	2,70,000
	7,20,000
Average Salary ( $7,20,000 / 10m$ )	72,000

## Calculation of Leave at credit available

Particulars	Amount
Unavailed leaves as per employer	420 days
Less : Extra leaves (2 days $\times$ 26 years)	52 days
Unavailed Leaves as per Income Tax Act	368 days
Leave at credit ( $368 \text{ days} / 30$ )	12.26 months

**Illustration 13:** Mr. J is retired from F Ltd. on 1.11.2025 after serving the employer for 20 years and 10 months. The employer has paid him leave salary of ₹ 5,00,000. The employee was entitled for 2 months leave per year of service. During entire service, he has availed 6 months leave and has encashed 7 month leave. The employee was getting basic pay ₹27,000 p.m. but it was increased to ₹ 33,000 p.m. w.e.f. 01-07- 2025. He was getting DA ₹9,000 per month but it was increased to ₹ 12,000 per month w.e.f. 01-07-2025. 50% of DA forms part of salary. Compute his GTI

## Solution

## Computation of Gross Total Income Mr. J (Old Regime)

Particulars	Amount	Amount
Basic Pay – April to June $27,000 \text{ pm} \times 3$	81,000	
July to Oct $33,000 \text{ pm} \times 4$	1,32,000	2,13,000
Dearness Allowance April to June $9,000 \text{ pm} \times 3$	27,000	
July to Oct $12,000 \text{ pm} \times 4$	48,000	75,000
Leave Salary [Sec 10 (10AA)] $5,00,000 - 2,41,500 = 2,58,500$		2,58,500
Gross Salary		5,46,500
Less : Standard Deduction		50,000
Income under the head Salary		4,96,500
Gross Total Income		4,96,500

Particulars	Days	Amount
<b>Working Note :</b> Computation of Leave at Credit :-		
Maximum Leave Entitlement = 30 days $\times$ 20 years	600	
Less: Leave Availed in months =	180	

Less : Leave Encashed in months	210	
Leave at Credit	210	
Leave at Credit Month	7 months	
Calculation of Average Salary for last 10 months Jan 25 to Oct 25	Amount	Amount
Basic pay From Jan to June Rs 27,000 x 6		1,62,000
From July to Oct Rs 33,000 x 4		1,32,000
D.A From Jan to June Rs 4,500 x 6		27,000
From July to Oct Rs 6,000 x 4		24,000
Total Salary for last 10 months Jan to Oct		3,45,000
Average Salary for last 10 months = Rs 3,45,000/10		34,500
Particulars	Amount	Amount
Leave Salary is Exempt from Tax Least of the following :		
1. Amount of Leave Salary Received	5,00,000	
2. Rs 25 lakh	25,00,000	
3. 10 month X Average Salary = 10 x 34,500	3,45,000	
4. Average Salary X Leave Credit Period = 34,500x7months	2,41,500	
Exempt amount		2,41,500
Maximum Leave Allowed shall be 30 days i.e. 1 month for each year of service completion		

**Illustration 14:** Mr. J is retired from F Ltd. w.e.f. 01.12.2025 after serving the employer for 20 years and 10 months. The employer has paid him leave salary of ₹ 3,75,000. The employee was entitled for 20 days leave per year of service. During entire service, he has availed 35 days of leave and has encashed 10 days of leave. The employee was getting basic pay ₹ 27,000 p.m. but it was increased to 30,000 p.m. w.e.f. 01-07-2025. The employer has allowed him pension of ₹ 6,000 p.m. and employee was allowed commutation of 1/3rd of his pension on 01.03.2026 Amounting to ₹ 2,40,000. Compute his GTI.

**Solution**

**Computation of Gross Total Income of Mr. J (Old Regime)**

Particulars	Amount	Amount
Basic Pay :		
From April to June Rs 27,000 x 3	81,000	
From July to Nov Rs 30,000 x 5	1,50,000	2,31,000
Un Commuted Pension Working Note 1		22,000
Commuted Pension Working Note 1		NIL
Leave Salary Working Note 2 Rs 3,75,000-2,85,000		90,000
Gross Salary		3,43,000
Less : Standard Deduction		50,000
Income under the head Salary		2,93,000
Gross Total Income		2,93,000

**Working Note 1 : Pension**

Particulars	Amount	Amount
UnCommuted Pension		
From Dec to Feb Rs 6,000 x 3	18,000	
For March Rs 6,000 x 2/3	4,000	22,000
Uncommuted Pension		22,000
Commuted Pension		
Amount Received	2,40,000	
Less: Exempt: $2,40,000 \times \frac{3}{1} \times \frac{1}{2} = 3,60,000$ (Restricted to 2,40,000)	2,40,000	NIL

**Working Note 2 : Leave Salary**

Particulars	Days
Computation of Leave at Credit Days :-	
Leave Entitlement Days [20 days x 20 years]	400
Less: Leave Availed	35
Less : Leave Encashed	10
Leave at Credit Days	355
Leave at Credit months	11.833

Calculation of Average Salary for last 10 months Feb 25 to Nov 25	Amount
From Feb to June Rs 27,000 x 5	1,35,000
From July to Nov Rs 30,000 x 5	1,50,000
Total Salary for last 10 months Feb 25 to Nov 25	2,85,000
Average Salary for last 10 months = Rs 285000/10	28,500
Particulars	Amount
Leave Salary is Exempt from Tax Least of the following :	
1. Amount of Leave Salary Received	3,75,000
2. Statutory Limit	25,00,000
3. 10 month X Average Salary = $10 \times 28500$	2,85,000
4. Average Salary X Leave Credit Period = $28500 \times 11.833$	3,37,250

**Illustration 15:** Mr. J retired w.e.f. 01.12.2025 after 20 years 10 months of service, receiving leave salary of ₹ 5,00,000. Other details of his salary income are:

- Basic Salary : ₹ 5,000 p.m. (1,000 was increased w.e.f. 01.04.2025)
- Dearness Allowance : 3,000 p.m. (60% of which is for retirement benefits)
- Commission : ₹ 500 p.m. and Bonus : ₹ 1,000 p.m.
- Leave availed during service: 480 days.

He was entitled to 30 days leave every year. You are required to compute his taxable leave salary assuming: (a) He is a government employee. (b) He is a non-government employee

## Solution

## Computation of Taxable Leave Salary of Mr. J – Govt Employee

Particulars	Amount
Leave Salary received at the time of Retirement	5,00,000
Less : Exemption u/s 10(10 AA)	5,00,000
<b>Taxable Leave Salary</b>	<b>NIL</b>

## Computation of Taxable Leave Salary of Mr. J – Non- Govt Employee

Particulars	Amount
Leave Salary received at the time of Retirement	5,00,000
Less : Exemption u/s 10(10 AA) Working Note 1	26,400
<b>Taxable Leave Salary</b>	<b>4,73,600</b>

**Working Note 1:** Exemption u/s 10(10 AA)

Leave Salary is Exempt from Tax Least of the following :

1. Amount of Leave Salary Received	5,00,000
2. Statutory Limit	25,00,000
3. 10 month X Average Salary = $10 \times 6,600$	66,000
4. Average Salary X Leave Credit Period = $6,600 \times 120/30$	26,400

**Working Note 2 :** Leave Salary

Particulars	Days	Amount
Computation of Leave at Credit Days :-		
Leave Entitlement Days 30 days x 20 years =	600	
Less: Leave Taken	480	
<b>Leave at Credit Days</b>	<b>120</b>	

Calculation of Average Salary for last 10 months Feb 25 to Nov 25	Amount	Amount
Basic Pay :		
From Feb to March Rs 4,000 x 2	8,000	
From April to Nov Rs 5,000 x 8	40,000	
Basic pay for last 10 months Feb 25 to Nov 25		48,000
Dearness Allowances : Rs 3,000 x 10 x 60%		18,000
Salary for last 10 months		66,000
Average Salary for last 10 months = Rs 66,000/10		6,600

**d) Retrenchment Compensation S. 10(10B) - [Allowed under Both Regime]**

Least of the following is exempt :

- Compensation actually received
- ₹ 5,00,000
- $15/26 \times \text{Average Pay} \times \text{Completed years of service and part thereof in excess of 6 months.}$

**Illustration 16:** Mr. J received retrenchment compensation of ₹ 10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was receiving basic salary of ₹ 20,000 p.m.; dearness allowance of ₹ 5,000 p.m. Compute his taxable retrenchment compensation

**Solution**

**Computation of Taxable Retrenchment Compensation of Mr. J**

Particulars	Amount	Amount
Retrenchment Compensation received		10,00,000
Less : Exempt u/s 10(10 B ) W.No.1		3,75,000
<b>Taxable Leave Salary</b>		<b>6,25,000</b>
<b>W.no.1 Retrenchment Compensation to be Exempt :</b>		
1. Retrenchment Compensation received	10,00,000	
2. 15 days Average pay x completed year of service [15/30 x 25,000 x 30 years]	3,75,000	
3. Ceiling Limit	5,00,000	
<b>Exempted Amount</b>		<b>3,75,000</b>
Sec 25 (F) b of the Industrial Disputes Act provides for payment of retrenchment compensation equivalent to 15 days average pay for every year of continuous service or part thereof in excess of 6 months		
Salary includes		
Basic pay 20,000pm x 3	60,000	
D.A 5,000 pm x 3	15,000	
		75,000
Average pay taken for 3 months 75,000/3		25,000

**e) Voluntary Retirement Compensation S. 10(10C) - [Allowed under Both Regime]**

Least of the following is exempt :

- (i) Compensation received
- (ii) ₹ 5,00,000
- (iii) 3 months' salary x completed years of service
- (iv) Last drawn salary x remaining months of services left.

**Meaning of Salary → Retirement Benefit Salary**

**Illustration 17**

Mr. J has taken voluntary retirement after completion of 18 years of service and at that time remaining service was 7 years and employer paid ₹ 6,00,000 on voluntary retirement and his retirement benefit salary at the time of voluntary retirement was 5,000 p.m., in this case taxable Amount shall be?

**Solution**

**Computation of Taxable Voluntary Retirement Compensation of Mr. J**

Particulars	Amount	Amount
Actual amount received at the time of Voluntary Retirement		6,00,000



Less: Exemption u/s 10(10 C ) [Working Note: 1]		2,70,000
<b>Taxable Voluntary Retirement Compensation</b>		<b>3,30,000</b>

**Working Note 1**

Particulars	Amount	Amount
<b>Voluntary Retirement Scheme -</b>		
Least of the following will be exempt from Tax		
1. Actual amount received at the time of Voluntary Retirement	6,00,000	
2. Rs 5,00,000	5,00,000	
3. 3 months Retirement Benefit Salary for each completed year of service = $3 \times 5,000 \times 18$	2,70,000	
4. Retirement Benefit Salary at the time of Retirement x Balance month of Service Left before the date of retirement = $5000 \times 12 \times 7$	4,20,000	
<b>Exemption u/s 10(10 C )</b>		<b>2,70,000</b>

**Illustration 18**

Mr. J received voluntary retirement compensation of ₹ 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 20,000 p.m.; Dearness allowance (which forms part of pay) ₹ 5,000 p.m. Compute his taxable voluntary retirement compensation.

**Solution****Computation of Taxable Voluntary Retirement Compensation of Mr. J**

Particulars	Amount	Amount
Actual amount received at the time of Voluntary Retirement		7,00,000
Less : Exemption u/s 10(10 C ) (WN-1)		5,00,000
<b>Taxable Voluntary Retirement Compensation</b>		<b>2,00,000</b>

**Working Note 1**

Particulars	Amount	Amount
<b>Voluntary Retirement Scheme -</b>		
Least of the following will be exempt from Tax		
1. Actual amount received at the time of Voluntary Retirement	7,00,000	
2. Rs 5,00,000	5,00,000	
3. 3 months Retirement Benefit Salary for each completed year of service = $3 \times 25,000 \times 30$	22,50,000	
4. Retirement Benefit Salary at the time of Retirement x Balance month of Service Left before the date of retirement = $25,000 \times 12 \times 6$	18,00,000	
<b>Exemption u/s 10(10 C )</b>		<b>5,00,000</b>
<b>Calculation of Retirement Benefit Salary :</b>		
Basic Salary		20,000

Dearness Allowance ( which forms part of Pay )		5,000
Retirement Benefit Salary		25,000

## f) Provident Fund - [Allowed under Both Regime]

Particulars	SPF	RPF	URPF	PPF
ER Contribution	EXEMPT	Exempt Up to 12% of RBS	Taxable at the time of withdrawal	Not Applicable
EE Contribution	Deduction u/s 80C	Deduction u/s 80C	No Deduction allowed u/s 80C	Deduction u/s 80C
Interest Credited	EXEMPT (See Note 3)	Exempt Up to 9.5% (See Note 3)	Taxable at the time of withdrawal	EXEMPT
Withdrawal	EXEMPT	EXEMPT (See Note 1)	See Note 2	EXEMPT

## Note

1. Exempt, If any of the following condition satisfied:
  - a) 5 years of continuous service with same employer
  - b) retires before rendering 5 years of service because of ill health, contraction or discontinuance of employer's business or reason beyond the control of the employee
  - c) on cessation of employment with existing ER, accumulated balance in RPF is transferred to new employer or transferred to his NPS account referred to in section 80CCD

2. Withdrawal from URPF shall be treated as follows:

ER Contribution	EE Contribution	Int On EE Cont.	Int On ER Cont.
Taxable u/h salary	Exempt	Taxable u/h Other Source	Taxable u/h Salary

3. Int on EE's Contribution towards SPF/RPF
  - a) Exemption u/s 10(11) and 10(12) not available for interest accrued during the PY to the extent it relates to the contribution made by EE exceeding ₹ 2,50,000 in any PY on or after 1/4/2021.
  - b) However, if ER do not contribute in that fund then exemption in respect of interest is allowed up to ₹ 5,00,000 instead of ₹ 2,50,000.

## Example 14

Basic Salary = ₹1,00,000

Dearness Allowance = 100% Basic Salary (70% forms Part of Retirement Benefit)

Both employer and employee contribute 20% each of Basic Salary to RPF

Interest credited to RPF (15%) is ₹ 18500

Show Tax implication

## Solution

## Taxability of Employer contribution

Particulars	Amount
Employer contribution $(1,00,000 \times 20\%) \times 12m$	2,40,000
Less : Exempt (12% of RBS i.e. $12\% \times 1,70,000$ ) $\times 12m = 2,44,800$ but restricted to maximum 2,40,000	2,40,000
Taxable	Nil

## Taxability of Employee contribution

Particulars	Amount
Employee contribution $(1,00,000 \times 20\%) \times 12m$	2,40,000
Less : Deduction u/s 80C subjected to maximum 1,50,000	1,50,000
Taxable	90,000

## Taxability of Interest

Particulars	Amount
Interest credited to RPF (15%)	18,500
Less : Interest exempt up to 9.5% i.e. $(18,500/15) \times 9.5$	11,717
Taxable Interest	6,783

## Working Note :

## Calculation of Retirement Benefit Salary

Particulars	Amount
Basic Salary	1,00,000
Dearness Allowance $(1,00,000 \times 70\%)$	70,000
Retirement benefit salary	1,70,000

## TAXABILITY OF PERQUISITES

## 1. Rent Free or Concessional accommodation Section 17(2)(i) Rule 3(1)

	Particulars	Amount
Step 1	Value Of Accommodation	
	Case 1: Accommodation Is owned by Employer	
	Specified % of Salary (See Note 1)	xx
	Case 2: Accommodation Is Taken on Rent by Employer	
	Rent Paid by the ER or 10% of Salary – whichever is lower.	xx
	Case 3: Government Employees (Central or State Government)	
	License Fee determined by the Government	xx
Step 2	Add: 10% p.a. of Cost Of Asset (If Asset is owned by ER)	xx
Step 3	Add: Hire Charges paid by the ER (Asset taken on rent by ER)	xx
Step 4	Less: Amount Recovered From EE	xx

## Note 1

Population	% Of Salary
Exceeds 40 Lakhs	10%
Exceeds 15 Lakhs but up to 40 Lakhs	7.5%
Upto 15 Lakhs	5%

a) Meaning of Salary Rent free accommodation salary shall include:

- (i) Basic pay
- (ii) Dearness Allowance/Dearness Pay. If it forms part of salary for retirement benefits as per service agreement.
- (iii) Taxable portion of all allowances.
- (iv) Bonus /Commission /Fees etc.
- (v) Leave salary (when the employee is in employment)

It will not include

- (i) Taxable portion of perquisites whether monetary or non-monetary
- (ii) Taxable portion of provident fund
- (iii) Any payment after retirement like gratuity/ commuted pension or provident fund etc.
- (iv) Arrear of salary or advance salary

**Note:** Salary only for the period for which rent free accommodation is provided shall be taken into consideration

### Accommodation provided at two places

If any employee has been transferred and employer has provided him accommodation at the new place also, in such cases only one of the accommodation shall be taxable having lower perquisite value but only for a period of 90 days (three months) and thereafter both of the accommodations shall be taxable

### Accommodation provided in a hotel

Perquisite value shall be 24% of salary or actual expenditure incurred whichever is less.

However, Perquisite shall not be taxable if both of the following conditions are satisfied:

1. Hotel accommodation is for a period not exceeding in aggregate 15 days
2. Employee has been transferred from one place to another

**Illustration 19:** Mr. J employed in F Ltd. and getting basic pay ₹20,000 p.m., dearness allowance ₹10,000 p.m. and 50% of DA forms part of salary. Employer has paid bonus ₹1,000 p.m. commission ₹2,000 p.m. children education allowance ₹150 p.m. per child for 3 children and hostel allowance ₹500 p.m. for one child and entertainment allowance ₹500 p.m., transport allowance ₹1,800 p.m. Employer has paid professional tax ₹200 p.m. on behalf of the employee. Employer has provided him club facility and has paid membership fee 1,000 p.m. Employer has provided him rent free accommodation for which rent paid by employer is ₹11,000 p.m. Compute his income and tax liability

## Solution

## Computation of Taxable Salary of J under Normal Tax Provisions

Particulars	Amount	Amount
Basic Salary Rs 20,000 pm		2,40,000
DA Rs 10,000 pm		1,20,000
Bonus Rs 1,000 pm		12,000
Commission Rs 2,000 pm		24,000
Children Education Allowance 3 Children Rs 150 pm	5,400	3,000
Less Exempt up to 2 children Rs 100 pm	2,400	
Hostel Allowance 1 child Rs 500 pm	6,000	2,400
Less : Exempt 1 child Rs 300 pm	3,600	
Entertainment Allowance Rs 500 pm		6,000
Transport Allowance Rs 1800 pm		21,600
Professional Tax paid by ER Rs 200 pm		2,400
Club facility – Membership fees paid by employer		12,000
Rent free Accommodation rent paid by employer Rs 11,000 pm Working Note 1		36,900
Gross Salary		4,80,300
Less : Deduction u/s 16		
Standard Deduction		50,000
Professional Tax		2,400
Taxable Salary		4,27,900

## Working Note 1 Value of Rent free Accommodation Perquisites

Particulars	Amount	Amount
Basic Salary Rs 20,000 pm x 12		2,40,000
DA Rs 5,000 pm x 12		60,000
Bonus Rs 1,000 pm x 12		12,000
Commission Rs 2,000 pm x 12		24,000
Children Education Allowance 3 Children Rs 150 pm	5,400	3,000
Less Exempt up to 2 children Rs 100 pm	2,400	
Hostel Allowance 1 child Rs 500 pm	6,000	2,400
Less : Exempt 1 child Rs 300 pm	3,600	
Entertainment Allowance Rs 500 pm x 12		6,000
Transport Allowance Rs 1800 pm x 12		21,600
Rent Free Accommodation Salary		3,69,000
Perquisites Value of Rent Free Accommodation		
Least of the following :		
i) Rent paid = Rs 11000 x 12	1,32,000	
ii) 10% of Rent free Accommodation Salary	36,900	
Value of Rent free Accommodation Perquisites		36,900

## Computation of Taxable Salary of J under Default Tax Provisions

Particulars	Amount	Amount
Basic Salary Rs 20,000 pm x 12		2,40,000
DA Rs 10,000 pm x 12		1,20,000
Bonus Rs 1,000 pm x 12		12,000
Commission Rs 2,000 pm x 12		24,000
Children Education Allowance 3 Children x Rs 150 pm x 12		5,400
Hostel Allowance 1 child x Rs 500 pm x 12		6,000
Entertainment Allowance Rs 500 pm x 12		6,000
Transport Allowance Rs 1800 pm x 12		21,600
Professional Tax Rs 200 pm x 12		2,400
Club facility – Membership fees paid by employer		12,000
Rent free Accommodation rent paid by employer Rs 11,000 pm (Working Note 2)		37,500
Gross Salary		4,86,900
Less : Deduction u/s 16		75,000
Taxable Salary		4,11,900
Gross Total Income		4,11,900
Less : Deduction u/s 80C to 80 U		0
Total Income		4,11,900

## Working Note 2 Value of Rent free Accommodation Perquisites

Particulars	Amount	Amount
Basic Salary Rs 20,000 pm x 12		2,40,000
DA Rs 5,000 pm x 12		60,000
Bonus Rs 1,000 pm x 12		12,000
Commission Rs 2,000 pm x 12		24,000
Children Education Allowance 3 Children x Rs 150 pm x 12		5,400
Hostel Allowance 1 child x Rs 500 pm x 12		6,000
Entertainment Allowance Rs 500 pm x 12		6,000
Transport Allowance Rs 1800 pm x 12		21,600
Rent Free Accommodation Salary		3,75,000
Perquisites Value of Rent Free Accommodation		
Least of the following :		
1. Rent paid = Rs 11000 x 12	1,32,000	
2. 10% of Rent free Accommodation Salary	37,500	
Value of Rent free Accommodation Perquisites		37,500

**Illustration 20:** Mr. J is employed in Central Government getting basic pay ₹73,000 p.m. Employer has provided him rent free accommodation and the rent determined as per Government rules is ₹6,000 p.m. The employer has provided him furniture with actual cost ₹1,00,000 and written down value ₹65,000. The employer has provided one air-conditioner also during April and May' 2025. Rent paid by the employer for the air-conditioner is ₹1,000 p.m. Compute GTI

## Solution

## Computation of Gross Total Income of J

Particulars	New Regime	Old Regime
Basic Salary Rs 73,000 pm x 12	8,76,000	8,76,000
Rent free accommodation Working Note : 1	84,000	84,000
Gross Salary	9,60,000	9,60,000
Less : Deduction u/s 16		
Standard deduction	75,000	50,000
Taxable Income under the head Salary	8,85,000	9,10,000

<b>Working Note 1 :</b> Perquisite Value of furnished house		
Perquisite Value of unfurnished house Rs 6000 x 12 =		72,000
Add: 10% of cost of furniture 1,00,000 x 10%		10,000
Add: Rent of air – conditioner Rs 1,000 x 2		2,000
Perquisite Value of furnished house		84,000

## Illustration 21

- a) Mr. J is employed in F Ltd. getting basic pay ₹37,000 p.m., dearness allowance ₹32,000 p.m. The employer has provided him rent free accommodation at a place with population of 13 lakhs and the rent paid by the employer is ₹10,000 p.m. The employer has provided him furniture with original cost ₹1,50,000. However, the employer has discontinued the facility of rent free accommodation and furniture both w.e.f. 1st March, 2026. He has paid him house rent allowance ₹7,000 p.m. The employee has shifted in his own house w.e.f. 01.03.2026. Compute GTI
- b) Presume in the above illustration the accommodation is owned by the employer

## Solution

House Is taken on Rent By ER

## Computation of Gross Total Income of J

Particulars	New Regime	Old Regime
Basic Salary Rs 37,000 pm x 12	4,44,000	4,44,000
Dearness Allowance Rs 32,000 pm x 12	3,84,000	3,84,000
Rent free accommodation (Working Note 1)	54,450	54,450
House Rent Allowance	7,000	7,000
Gross Salary	8,89,450	8,89,450
Less : Deduction u/s 16		
Standard deduction	75,000	50,000
Taxable Income under the head Salary	8,14,450	8,39,450

<b>Working Note 1:</b> Perquisite Value of furnished house		
Rent free accommodation Salary 37,000 x 11 =	4,07,000	
10% of Rent free accommodation Salary	40,700	
Rent paid 10,000 x 11= 1,10,000	1,10,000	



Perquisite Value of unfurnished house 10% of RFA or Rent paid which ever is lower		40,700
Add: 10% of cost of furniture ( 1,50,000 x 10% x 11/12)		13,750
Perquisite Value of furnished house		54,450

House is owned by the ER

#### Computation of Gross Total Income of J

Particulars	New Regime	Old Regime
Basic Salary Rs 37,000 pm x 12	4,44,000	4,44,000
Dearness Allowance Rs 32,000 pm x 12	3,84,000	3,84,000
Rent free accommodation (Working Note 2)	34,100	34,100
House Rent Allowance	7,000	7,000
Gross Salary	8,69,100	8,69,100
Less : Deduction u/s 16		
Standard deduction	75,000	50,000
Taxable Income under the head Salary	7,94,100	8,19,100

<b>Working Note 2 : Perquisite Value of furnished house</b>		
Rent free accommodation Salary 37,000 x 11 =	4,07,000	
5% of Rent free accommodation	20,350	
Perquisite Value of unfurnished house		20,350
Add: 10% of cost of furniture ( 1,50,000 x 10% x 11/12)		13,750
Perquisite Value of furnished house		34,100

#### FRINGE BENEFITS UNDER SECTION 17(2)(viii)

##### 1. Interest free or concessional loans Rule 3(7)(i)

Perquisite = Sum of Monthly Outstanding balance x (SBI Rate – ER Rate) x 1/12

Exception: No perquisite shall be computed in following cases:

- where aggregate amount of all such loan during a particular year is upto ₹20,000
- If employer has given loan for treatment of specified disease given under rule 3A, there is no perquisite value

##### Example 15

Housing loan from employer = ₹50,00,000 @ 4% interest p.a.

interest rate of SBI as on 1st day of PY = 10%

Calculate the value of Perquisite

##### Solution

$$\begin{aligned}
 \text{Value of Perquisite} &= \text{Amount of Loan} \times (\text{SBI rate} - \text{Employer Rate}) \\
 &= ₹50,00,000 \times (10\% - 4\%) \\
 &= ₹50,00,000 \times 6\% \\
 &= ₹3,00,000
 \end{aligned}$$



**Example 16**

Suppose in above question, Employer provided interest free loan.

**Solution**

$$\begin{aligned}
 \text{Value of Perquisite} &= \text{Amount of Loan} \times (\text{SBI rate} - \text{Employer Rate}) \\
 &= ₹50,00,000 \times (10\% - 0\%) \\
 &= ₹50,00,000 \times 10\% \\
 &= ₹5,00,000
 \end{aligned}$$

**Example 17**

Employee has taken car loan of ₹ 7,50,000 from Employer on 15/08/2025.

Employee Repays 25,000 every month on last day of each month.

Employer charged 2% Interest p.a. & SBI interest rate on 1/4/25 is 8%.

Calculate Perquisite Value for AY 2026-27

**Solution**

Ending Month	Outstanding balance
August	7,25,000
September	7,00,000
October	6,75,000
November	6,50,000
December	6,25,000
January	6,00,000
February	5,75,000
March	5,50,000
Total	51,00,000

$$\begin{aligned}
 \text{Value of Perquisite} &= \text{Sum of monthly O/s balance} \times (\text{SBI rate} - \text{Employer Rate}) \times 1/12 \\
 &= ₹51,00,000 \times 6\% \times 1/12 \\
 &= ₹25,500
 \end{aligned}$$

**Illustration 22:** Mr. J is employed in F Ltd. and he has taken a loan of ₹10 lakh from employer on 20.04.2025 at a rate of 4% p.a. but SBI rate is 10% p.a. and loan was repaid in monthly installment of ₹2 lakh each starting from 10.07.2025, in this case, taxable Amount shall be?

**Solution****Computation of Perquisites Value of Interest Free Loan of Mr. Y for AY 2025-26**

Months	Outstanding Balance at end	Amount of Interest
April	10,00,000	$10,00,000 \times 6\% \times 1/12 = 5,000$
May	10,00,000	$10,00,000 \times 6\% \times 1/12 = 5,000$
June	10,00,000	$10,00,000 \times 6\% \times 1/12 = 5,000$
July	8,00,000	$8,00,000 \times 6\% \times 1/12 = 4,000$
August	6,00,000	$6,00,000 \times 6\% \times 1/12 = 3,000$

September	4,00,000	$4,00,000 \times 6\% \times 1/12 = 2,000$
October	2,00,000	$2,00,000 \times 6\% \times 1/12 = 1,000$
Total		25,000

**Alternatively**

$$\begin{aligned}
 \text{Perquisite} &= \text{Sum of o/s balance at the end of month} \times \text{Concessional Int} \times 1/12 \\
 &= \text{Rs. } 50,00,000 \times 6\% \times 1/12 \\
 &= \text{Rs. } 25,000
 \end{aligned}$$

**Illustration 23:** Mr. J is employed in F Ltd. and he has taken interest free loan of ₹3,00,000 on 10.07.2025 for purchasing a new motor car in Delhi and the loan is to be repaid in monthly instalments of ₹10,000 and repayment shall start with effect from 21.09.2025, in this case perquisite value for the loan shall be computed in the manner given below (Presume SBI Rate 10%)

**Solution Computation of Perquisites Value of Interest Free Loan of Mr. Y for AY 2025-26**

Months	Outstanding Balance at end	Amount of Interest
July	3,00,000	$3,00,000 \times 10\% \times 1/12 = 2,500$
August	3,00,000	$3,00,000 \times 10\% \times 1/12 = 2,500$
September	2,90,000	$2,90,000 \times 10\% \times 1/12 = 2416.67$
October	2,80,000	$2,80,000 \times 10\% \times 1/12 = 2333.33$
November	2,70,000	$2,70,000 \times 10\% \times 1/12 = 2250.00$
December	2,60,000	$2,60,000 \times 10\% \times 1/12 = 2166.67$
January	2,50,000	$2,50,000 \times 10\% \times 1/12 = 2083.33$
February	2,40,000	$2,40,000 \times 10\% \times 1/12 = 2000.00$
March	2,30,000	$2,30,000 \times 10\% \times 1/12 = 1916.67$
Total		20,166.67

$$\begin{aligned}
 \text{Perquisite} &= \text{Sum of o/s balance at the end of month} \times \text{Concessional Int} \times 1/12 \\
 &= \text{Rs. } 24,20,000 \times 10\% \times 1/12 = \text{Rs. } 20,166.67
 \end{aligned}$$

**Illustration 24:** Mr. J is employed in F Ltd. and he has taken interest free loan of ₹13,000 on 10.07.2025 for personal purpose and the loan is to be repaid in monthly instalments of ₹1,300 and repayment shall start with effect from 21.09.2025, in this case, taxable Amount shall be?

**Solution****Computation of Perquisites Value of Interest Free Loan of Mr. Y for AY 2026-27**

Perquisite value of Interest Free loan is Nil in this case because it is a Petty loan .If the employer has given Petty Loan , there is no perquisite value. Petty Loans means loan given by the employer where value of loan is up to Rs 20,000

**2. Free food or refreshment Rule 3(7)(iii)**

- a) Free refreshments Tea or Non-Alcoholic Beverages / Snacks during working hours are Exempt.

## b) Free meals taxable as follows:

Perquisite = (Cost of Meal – Amount Recovered).

However, perquisite up to ₹ 50 per meal is exempt under OLD REGIME.

**Example 18**

Employer Provides 200 meals to Employee Raj

Cost of each meal = ₹ 210

Amount Recovered from Raj = ₹ 75/Meal

Calculate Perquisite value under both regimes

**Solution****Calculation of Perquisite Taxable under old regime**

Particulars	Amount
Cost incurred by employer ( 210/- per meal x 200 meal)	42,000
Less : Amount recovered from employee ( 75/- per meal x 200 meal)	15,000
	27,000
Less : Exempt (50/- per meal x 200 meals)	10,000
	17,000

**Calculation of Perquisite Taxable under New regime**

Particulars	Amount
Cost incurred by employer ( 210/- per meal x 200 meal)	42,000
Less : Amount recovered from employee ( 75/- per meal x 200 meal)	15,000
	27,000

**3. Facility of travelling, touring, accommodation (holiday home) etc. Rule 3(7)(ii)**

- a) Perquisite value shall be actual expenditure incurred by the employer, reduced by the amount recovered from the employee
- b) If the employee is on official tour and any member of his household has accompanied him, perquisite value is amount spent on Family Member
- c) If official tour was extended for personal purpose, expenditure for the extended part of the tour shall be taxable.

**Example 19**

X Ltd. (Employee) has got holiday facility to Singapore (4 days and 3 nights)

Facility is not maintained by Employer

X Ltd. spent ₹ 4,50,000 on such Tour of Employee & Recover ₹ 1,80,000 from Employee.

**Solution**

Value of taxable perquisite = Expense incurred by employer – amount recovered  
 = 4,50,000 – 1,80,000  
 = 2,70,000

## 4. Gifts to the employees Rule 3(7)(iv)

- a) Cash Gift = Fully Taxable
- b) Kind Gift = Exempt Up to Rs 5000 p.a.

## 5. Credit card facility Rule 3(7)(v)

Perquisite Value = Amount spent for personal use of employee.

## 6. Club facilities Rule 3(7)(vi)

Perquisite Value = Amount spent for personal use of employee.

## 7. Use of employer's assets by the employees Rule 3(7)(vii)

Asset	Perquisite
Laptop / Computer	NIL
Other	10% p.a. of actual cost of such asset (or hire charges paid by ER) Less: amount recovered from EE

## 8. Sale Of Movable Asset

Particulars	Amount	Asset	Dep
Cost of Asset	-	Computer & Peripherals	50 % WDV
(-) Depreciation	-	Motor Vehicle	20% WDV
(-) Amount Recovered From EE	-	Other Asset	10% SLM
Taxable Value	-		

**Note:** Depreciation in all cases is charged For Complete Year.

## Example 20

Employer sold "Computer" to Employee on 16/7/25 for ₹ 15000

Employer purchased Computer for ₹ 1,20,000 on 18/7/22

Calculate Perquisite value

## Solution

## Calculation of Perquisite Taxable

Particulars	Amount
Period of computer used by employer (18/07/22 - 15/07/25) = 2years	
Cost of Asset	1,20,000
Less : Depreciation @50% for year 01	60,000
	60,000
Less : Depreciation @50% for year 02	30,000
	30,000
Value of computer	30,000
Less : Amount recovered from employee	15,000
Taxable perquisite	15,000

**Example 21**

Employer sold car to Employee for ₹ 75,000 on 1/12/25

Car purchased by Employer for ₹ 4,00,000 15/5/2021

Employer changed Depreciation on car @15% WDV

Calculate Perquisite value

**Solution****Calculation of Perquisite Taxable**

Particulars	Amount
Period of car used by employer (15/05/21 – 30/11/25) = 4 years	
Cost of Asset	4,00,000
Less : Depreciation @20% for year 01	80,000
	3,20,000
Less : Depreciation @20% for year 02	64,000
	2,56,000
Less : Depreciation @20% for year 03	51,200
	2,04,800
Less : Depreciation @20% for year 04	40,960
	1,63,840
Value of car	1,63,840
Less : Amount recovered from employee	75,000
Taxable perquisite	88,840

**Example 22**

Employer Purchased Music system for ₹ 55,000 on 15/8/2021

Since then, Employee uses Music system for personal use.

On 1/8/2025 Employer sold Music system to Employee for ₹ 15,000.

Calculate Taxable Perquisite value

**Solution****Calculation of Perquisite Taxable**

Particulars	Amount
<b>Music system owned by employer and used by employee (Apr – July)</b>	
Perquisite value = 10% p.a. of cost of asset i.e. $10\% \times 55,000 \times 4/12$	1,834
<b>Sale of Music System to Employee</b>	
Period of music system used by employer (15/08/21 – 31/07/25) = 3 years	
Cost of Asset	55,000
Less : Depreciation ( $55,000 \times 10\% \times 3$ years)	16,500
	38,500
Less : Amount recovered from employee	15,000
Taxable Perquisite	23,500
Total Perquisite Taxable (1834 + 23,500)	25,334

**Illustration 25**

Mr. J, finance manager of KLM Ltd. Mumbai, furnishes the following particulars for the financial year 2025-26:

- a) Salary ₹46,000 per month
- b) Rent free accommodation owned by the company
- c) Housing loan of ₹6,00,000 at the interest rate of 5% p.a. (No repayment made during the year, but the loan is repayable in tenth year) (Presume SBI Rate 10.5% p.a.)
- d) Gifts made by the company in kind on the occasion of wedding anniversary of Mr. J ₹4,750
- e) A wooden table and 4 chairs were provided to Mr. J at his residence. These were purchased on 01.05.2021 for ₹60,000 and put to use on 01.06.2022 and sold to Mr. J on 01.08.2025 for ₹30,000
- f) Personal purchases through credit card provided by the
- g) company Amounting to ₹10,000 was paid by the company. No part of the Amount was recovered from Mr. J.
- h) An ambassador car which was purchased by the company on 16.07.2023 for ₹2,50,000 and put to use on the same date. It was sold to the assessee on 14.07.2025 for ₹80,000. Compute the Total Income of Mr. J.

**Solution****Computation of Tax Liability of Mr. J**

Particulars	New Regime	Old Regime
Salary Rs 46,000 x 12	5,52,000	5,52,000
Rent Free Accommodation (Working Note 1)	55,200	55,200
Interest on Loans Rs 6,00,000 x ( 10.5% - 5.00%)	33,000	33,000
Gift on the occasion of wedding Anniversary	NIL	NIL
Use Of table & Chair 10% of cost of furniture (60,000 x 10% x 4/12)	2,000	2,000
Perquisites Value of Table & Chair Sold to EE (WN 2)	12,000	12,000
Credit Card Facility	10,000	10,000
Perquisites Value of Ambassador Car (Working Note 3)	80,000	80,000
Gross Salary	7,44,200	7,44,200
Less: Standard Deduction	75,000	50,000
Gross Total Income	6,69,200	6,94,200
Less : Deductions under section 80C-80U	NIL	NIL
Total Income	6,69,200	6,94,200

Working Note 1 Perquisite Value Rent Free Accommodation	Amount	Amount
Rent Free Accommodation Salary= 5,52,000		
10% of Rent-Free Accommodation Salary =10% of Rs 5,52,000	55,200	
Value of Unfurnished house	55,200	
Perquisite Value Rent Free Accommodation		55,200

<b>Working Note 2</b> Perquisites Value of Table & Chair		
Cost	60,000	
Less: Depreciation on SLM @10% for 3 years	18,000	
Less : Amount paid by Assessee	30,000	12,000
<b>Working Note 3</b> Perquisite Value of Ambassador CAR		
Original Cost of Car	2,50,000	
Less : Depreciation from 16 July 2023 to 15 July 2024	50,000	
Less : Depreciation from 16 July 2024 to 15 July 2025	40,000	
Less : Amount received from the assessee	80,000	
Perquisite Value of Ambassador CAR	80,000	

**9. Amount or the aggregate of amounts of any contribution made to the account of the assessee by employer in a recognized provident fund/NPS/approved superannuation fund [Section 17(2)(vii)]**

The amount or aggregate of amounts of any contribution made

- in a recognized provident fund
- in NPS referred to in section 80CCD(1)
- in an approved superannuation fund

by the employer to the account of the assessee, to the extent it exceeds ₹ 7,50,000 shall be considered as perquisites

**10. Annual accretion to the balance at the credit of the recognized provident fund/NPS/approved superannuation fund which relates to the employer's contribution and included in total income**

$$TP = (PC/2) * R + (PC_1 + TP_1) * R$$

Where,

TP = Taxable Perquisite

PC = Amt or agg. of amt of ER's contribution in excess of ₹ 7.5 lakh

PC<sub>1</sub> = Amt or agg. of amt of ER's contribution in excess of ₹ 7.5 lakh for earlier years

TP<sub>1</sub> = Agg. of taxable perquisite under section 17(2)(vii) for earlier year

R = I / Fav.

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

## Solution

## Computation of Perquisite Value taxable u/s 17 (2)(vii) &amp; 17 (2) (vii a) for AY 25-26

Particulars		Amount
Perquisite value taxable u/s 17 (2) (vii) = Rs 7,77,600 being employer's contribution to RPF during the PY 2024-25	7,50,000	27,600
Perquisite value taxable u/s 17 (2) (vii)a = Annual accretion on perquisite taxable u/s 17 (2) vii= $(PC/2) \times R + (PC_1 + TP_1) - R$ (=27,600/2) X 0.111+0		1,532
PC ABC Ltd contribution in excess of Rs 7.50 lakh to RPF during PY2024-25 = Rs 27,600	27,600	
PC <sub>1</sub> : NIL Since Employer's Contribution is less than Rs 7.50 lakh to RPF in PY 2023-24 & there is no Employer's contribution in PY 2022-23		
TP <sub>1</sub>	NIL	
$R/I/Favg = 2,06,711/18,62,093 = 0.111$		
I RPF Balance as on 31.03.2025 – Employee's & Employer's Contribution during the year-RPF balance as on 1.4.2024=		
2,06,711( Rs 27,43,048- 7,77,600-7,77,600-9,81,137)		
Favg (Balance to the credit of RPF as on 1/4/2024 +		
Balance to the credit of RPF as on 31/3/25) /2=	18,62,093	
= 9,81,137+27,43,048/2		
Note –Interest on the aggregate of following will also be chargeable to tax during AY2025-26		
1. Rs 2,03,600 ( Employee contribution exceeding Rs 2.50 lakh during PY 2023-24)		
2. Rs 5,27,600 ( Employee contribution exceeding Rs 2.50 lakh during PY 2024-25)		
3. Interest accrued on Rs 2,03,600 being excess employee contribution of PY2023-24		

## Computation of Perquisite Value taxable u/s 17 (2)(vii) &amp; 17 (2) (vii a) for AY 2026-27.

Particulars		Amount
Perquisite value taxable u/s 17 (2) (vii) = Rs 7,77,600 being employer's contribution to RPF during the PY 2025-26	7,50,000	27,600
Perquisite value taxable u/s 17 (2) (vii)a = Annual accretion on perquisite taxable u/s 17 (2) vii= $(PC/2) \times R + (PC_1 + TP_1) - R$ (=27,600/2) X 0.09479 + (27,600+1,532) x 0.09479 = ( 1,308 + 2,761)		4,069
PC ABC Ltd ' contribution in excess of Rs 7.50 lakh to RPF during PY2025-26= Rs 27,600	27,600	
PC <sub>1</sub> NIL Since Employer's Contribution is less than Rs 7.50 lakh to RPF in PY 2022-23 & 2023-24 =27,600		
TP <sub>1</sub> Taxable Perquisites u/s 17(2)vii a for PY 2024-25 = Rs 1,532	1,532	
$R/I/Favg = 3,50,307/36,95,802 = 0.09479$		



I : RPF Balance as on 31.03.2026 – Employee's & Employer's		
Contribution during the year-RPF balance as on 1.4.2025=		
3,05,307 ( Rs 46,48,555 - 7,77,600-7,77,600)		
Favg (Balance to the credit of RPF as on 1/4/2025 +		
Balance to the credit of RPF as on 31/3/26) /2 =	36,95,802	
(27,43,048+46,48,555) /2		

**Note:** Interest on the aggregate of following will also be chargeable to tax during AY26-27

1. Rs 2,03,600 (Employee ' contribution exceeding Rs 2.50 lakh during PY 23-24)
2. Rs 5,27,600 (Employee ' contribution exceeding Rs 2.50 lakh during PY 24-25)
3. Rs 5,27,600 (Employee ' contribution exceeding Rs 2.50 lakh during PY 25-26)
4. Interest accrued on Rs 2,03,600 being excess employee 's contribution of PY2023-24
5. Interest accrued on Rs 5,27,600 being excess employee 's contribution of PY2024-25

### 11. Any other benefit Rule 3(7)(ix)

Perquisite = Cost to the employer – Amount Recovered

**Note:** If the employer has provided telephone facility including the mobile phone, it will be exempt. However if any telephone allowance has been received, then it shall be fully taxable.

### 12. Medical Facility

#### A. In India

Expenses Incurred/ Facility Provided By ER	Treatment
In ER Hospital	Exempt
In Govt. Hospital	Exempt
In Approved hospital For Specified Disease	Exempt
Health Insurance Premium of EE & Family Member	Exempt
Any other	Taxable

#### B. Outside India

Expenses Incurred by ER	Treatment
Stay Abroad	Exempt up to Permitted By RBI
Treatment Abroad	Exempt up to Permitted By RBI
Travel Abroad	
a) GTI > 2L	Fully Taxable
b) GTI ≤ 2L	Fully Exempt

**Note:**

- a) Exemption is allowed for medical treatment of EE, Spouse, Children, Dependent family member ( Parents, Brother & Sister)
- b) Exemption of stay and travel abroad is for patient and one attendant only.
- c) Exemption is allowed for COVID-19 treatment subject to conditions notified by CG.

**Example 23**

Treatment of depended brother has done in Govt hospital in ₹ 15000  
₹ 15000 is paid by Employee & then received reimbursement from Employer

**Solution**

₹15,000 is paid by employee and then received reimbursement from employer shall be fully exempt.

**Example 24**

Medical treatment of depended sister Rs. 25,000 paid by Employer  
Employee Received Reimbursement 20,000.

**Solution**

₹20,000, i.e. amount of reimbursement, shall be taxable as there is no information regarding hospital from where medical treatment has been received. Hence, it is considered to be other medical facility and shall be fully taxable.

**Illustration 27**

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

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

**Solution****Computation of Taxable Value of Perquisites in the hands of Mr. G**

Particulars	Amount	Amount
Treatment of Mrs. G in a Govt. Hospital		-
Treatment of Mr. G' Father (75 years & dependent) abroad	50,000	
Expenses of Staying Abroad of the patient & attendant	30,000	
	80,000	
Less: Exempt up to Limit specified by RBI	75,000	5,000
Medical Premium paid for insuring health of Mr. G		-
Treatment of Mr. G by his family doctor		5,000
Treatment of Mr. G's mother (dependent) by family doctor		8,000
Treatment of Mr. G's sister (dependent) in a nursing home		3,000
Treatment of Mr. G' Grandfather in a private clinic		12,000

Treatment of Mr. G's Brother (independent)		6,000
Taxable Value of Perquisite		39,000

### 13. Leave Travel Concession [Section 10(5) Rule 2B] - [Allowed Only under OLD Regime]

Journey Performed By	Maximum Exemption
Air	Economy Fare
Other Than Air	1st Class AC Fare Of Railway
Places Not connected By Rail	
a) Recognized Transport System (RTS) Exist	Deluxe or First Class Fare of RTS
b) No Recognized Transport System (RTS) Exist	1st Class AC Fare Of Railways on the basis of KM Travelled

#### Notes:

- Ceiling on number of journeys: The exemption shall be available to an individual two times in each block of four calendar year (current block is 2023-26)
- Family", shall include—
  - the spouse and children, however exemption shall be allowed maximum 2 children but in case of multiple birth after the birth of one child, exemption is allowed for all the children
  - wholly or mainly dependent parents, brothers and sisters

**Illustration 28:** Mr. J went on a holiday on 15.11.2025 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 2 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹60,000 (₹45,000 for adults and ₹15,000 for the three minor children). Compute the Amount of LTC exemption.

#### Solution

##### Computation of LTC Amount to be exempt under normal provisions of Tax

Since the age of his son is more than that of Twin Daughters, Mr. J can avail exemptions for all his 3 children. The restriction of 2 children is not applicable in this case of multiple births after one child.

The holiday being in India & the journey is being performed by air (Economy Class), the entire reimbursement met by the employer is fully exempt in the hands of Mr. J

**Illustration 29:** In the above illustration, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.

##### Solution Computation of LTC Amount to be exempt under normal provisions of Tax

Particulars	Amount	Amount
Cost of Tickets reimbursed by the employer :		
For Adults		40,000
For 3 Children		15,000
Total Reimbursement by the employer		60,000
Less : LTC taxable in respect of one child =15,000/3		5,000
LTC Exempted Amount		55,000

Since the Twins Daughter age is more than the age of Son. Mr. J can avail LTC Exemption in respect of only 2 children Hence Taxable LTC is in respect of one child i.e. son.

**Illustration 30:** Mr. X, an employee of XYZ Ltd., submits the following information  
 Salary: ₹2,56,000 , City compensatory allowance ₹8,000 , Bonus ₹10,200 , Education allowance 4,000 (for her grandchildren) , Income tax penalty paid by the employer ₹2,000 , Leave travel concession ₹1,000 (expenditure incurred by the employee nil) , Free residential telephone ₹4,000 , Free refreshment during office hours ₹4,000 , reimbursement of electricity bill by the employer ₹1,060 , reimbursement of gas bills ₹1,000 , Professional tax paid by the employer ₹300 on behalf of MR.X , Professional tax paid by MR. X ₹150. Determine the Total Income

### Solution

#### Computation of Total Income of Mr. X

Particulars	Old Regime	New Regime
Salary	2,56,000	2,56,000
City Compensatory Allowance	8,000	8,000
Bonus	10,200	10,200
Education Allowance	4,000	4,000
Income Tax penalty paid by employer	2,000	2,000
Leave Travel Concession	1,000	1,000
Free Refreshment	NIL	NIL
Free Residential Telephone	NIL	NIL
Payment of Electricity bills by employer	1,060	1,060
Reimbursement of Gas Bills	1,000	1,000
Professional Tax paid by the Employer	300	300
Gross Salary	2,83,560	2,83,560
Less : Standard Deduction	50,000	75,000
Less : Professional Tax	450	NA
Gross Total Income	2,33,110	2,08,560
Less : Deductions under section 80C – 80U	NIL	NIL
Total Income	2,33,110	2,08,560
Tax on Rs 2,33,560	NIL	NIL
Tax Liability	NIL	NIL

#### PERQUISITES ARE TAXABLE ONLY IN THE HANDS OF SPECIFIED EMPLOYEES

##### 1. Gardener/watchman/ sweeper or any other servant

Perquisite = Amount Spent By ER less Amount Recovered from EE

##### 2. Transport Facilities

a) ER business is carriage of goods or passengers

b) Perquisite Shall be Fair Market Value as reduced by Amount Recovered From EE

**Example 25**

XYZ passenger transports (Employer) Run Buses on different Routes in India

Employee has availed Transport facility

Journey	Ticket	Employee
Kanpur – Delhi = 15 Journey	₹800	₹500
Delhi – Kanpur = 15 Journey	₹750	₹500

**Solution**

$$\begin{aligned}
 \text{Value of perquisite} &= 15 \times (800-500) + 15 \times (750-500) \\
 &= 4500 + 3750 \\
 &= 8250/-
 \end{aligned}$$

**3. Education facility**

Nature Of Expenditure	Perquisite
Training of Employees	Not Taxable
Education to Family Member	Fully Taxable
Education to Children of Employees	
a) school maintained by the ER or the school sponsored by the ER	Cost of education IN similar locality / institution as reduced by amount recovered from EE
b) Other Schools	Cost to the Employer as reduced by amount recovered from EE

**Note:** If the Cost of Education per Child does not exceed ₹ 1,000 p.m. then such benefit is Not Taxable, otherwise fully taxable.

**Example 26**

Mr. X Employed with A Ltd. And Employer provided following education facilities to Employee & his family member.

- 5 days training of Mr. X on Income Tax Amendments come into force w.e.f. ₹ 1/11/25 – ₹15000
- Re-imbursed ₹ 7000/- coaching fees of his younger son.
- Daughter of Mr. X studied in Institute owned by A LTD.
- Cost of education in similar institute = ₹ 50,000
- Amount recovered from Employee = 35000.

Calculate taxable Perquisite

**Solution**

- Fully exempt
- Reimbursement of coaching fees i.e. ₹7,000 shall be fully taxable
- Taxable perquisite = Cost of similar institute – amount recovered from employee  

$$= 50,000 - 35,000 = 15,000/-$$

**Illustration 31**

Mr. J is employed in F Ltd. and is a specified employee. Compute perquisite value of educational facilities in the following situations:

- The employer has deputed him on one day seminar on Industrial Finance and Corporate Taxation and has paid participation fees of ₹3,000.
- The employer has made arrangements for the education of his three children's in his own school and has incurred ₹1,500 per month per child and has recovered ₹300 per month per child from the employee.
- If the employee himself has made arrangements of the education of his three children in a public school and the employer has reimbursed ₹1,500 per month per child.

**Solution****Computation of Perquisite Value of Education Facilities in the hands of Mr. X**

Particulars	Amount	Amount
a) There is no perquisite value		-
b) Employer paid per child Rs 1,500 pm for 3 child own school	54,000	
Less : Exemption up to Rs 1,000 per child for 3 child	36,000	
Less : Amount paid by employee Rs 3,00 per child for 3 child	10,800	
Value of perquisites		7200
c) Employer reimbursed per child Rs 1,500 pm for 3 child – no exemption of Rs. 1000 pm per child shall be allowed in this case.		54,000

**4. Gas/Electricity or Water Facility**

Particulars	Perquisite
ER has his own business	Manufacturing cost to the employer
Sourced From Third Party	Amount Paid To Third Party

Amount recovered from EE Shall be Deducted

**5. Sweat Equity Share/ESOP**

- Perquisite = FMV on Exercise Date – Amount Paid by Employee
- FMV should be taken on the date on which option is exercised by the EE.

**Example 27**

Employee received 1,000 shares from Employer

Fair Market Value on exercise date = ₹ 500/-

Amount recovered from Employee = ₹ 270/-

**Solution**

Taxable perquisite

= No. of shares x (FMV of share – Amount recovered from EE)

= 1,000 x (500-270)

$$= 1,000 \times 230$$

$$= 2,30,000/-$$

### 6. Payments Of Life Insurance Premium By The Employer

Premium so paid shall be taxable. However premium paid for personal accident policy or for staff group insurance scheme shall be exempt.

### 7. Motor car facility

Valuation of Motor Car facility			
Car Owned By ER And Used By EE			
Purpose	Expenses Met By	Perquisite Value	
Partly Official And Partly Personal (Amount Recovered From Ee Is Ignored)	Employer	Small Car- ₹1800 Pm Big Car- ₹2400 Pm	For Driver - ₹900 Pm
Partly Official And Partly Personal (Amount Recovered From Ee Is Ignored)	Employee	Small Car- ₹600 Pm Big Car- ₹900 Pm	For Driver - ₹900 Pm
Personal	Employer	Expenses Incurred By ER	-
		+ Driver Salary	-
		+ 10% P.A. Of Cost Of Car	-
		+ Hire Charges Of Car	-
		(-) Amount Recovered From EE	-
		Perquisite Value	-
Car Owned By EE & Used By EE			
Purpose	Expenses Met By	Perquisite Value	
Partly Official And Partly Personal	Employer	Expenses Incurred By ER	-
		+ Driver Salary	-
		(-) Fixed Official Expense	
		Small Car (Per month)	(₹1,800)
		Big Car (Per month)	(₹2,400)
		Driver (Per month)	(₹900)
		Perquisite Value	-
Personal	Employer	Expenses Incurred By ER	-
		+ Driver Salary	-
		(-) Amount Recovered From EE	(-)
		Perquisite Value	-

Other Vehicle		
Purpose	Expenses Met By	Perquisite Value
Partly Official And Partly Personal	Employer	Expenditure By Employer - ₹ 900 P.M

**Note 1:** More than one motor car is provided to the employee for official/personal use – Any 1 car shall be treated as used for partly official and partly personal purpose and other car(s) shall be treated as used for personal.

**Note 2:** If car is used for 100% official use then it shall not be considered as perquisite.

### Example 28

Employee uses car for official As well as personal Purpose

Particulars	₹
Expenses Incurred by Employer on Running & Maintenance	25,000
Driver salary	15,000
Amt Recovered from Employee	12,000
Cost of Car	5,00,000
CC	1400 CC

Calculate Perquisite value

Car owned by ER

Car owned by EE

### Solution

### Calculation of Perquisite Taxable

Particulars	Amount
<b>a) Car is owned by employer</b>	
Car = 1800 p.m. x 12m	21,600
Driver = 900 p.m. x 12m	10,800
<b>Taxable perquisite</b>	<b>32,400</b>
<b>b) Car is owned by employee</b>	
Expenses incurred by employer	25,000
Add : Driver salary	15,000
	40,000
Less : Car usage (official) 1800 p.m. x 12m	21,600
Less : Driver usage (official) 900 p.m. x 12m	10,800
	7600
Less : Amount recovered from employee	12,000
<b>Taxable perquisite</b>	<b>Nil</b>

### Illustration 32

Determine the value of perquisite in the following cases.

- a) Motor car (cubic capacity of engine below 1.60 liters) owned by employer and provided to employee. It is partly used for official and personal purposes by the employee.



Expenditure fully met by the employer ₹25,600 (car is self-driven by the employee).

- b) The company has given a motor car of 1.8 liter both for personal and official use. The actual expenditure for running and maintenance of car is ₹25,000 plus ₹3,000 for salary of the driver.
- c) Mr. A was provided with company's car (self-driven) also for personal use and it is not possible to determine expenditure on personal use and all expenses were borne by the employer.
- d) Motor car running and maintenance charges fully paid by employer (motor car is owned and driven by employee. The engine cubic capacity is below 1.60 litres. The motor car is used for both official and personal purpose by the employee. Expenditure incurred by the Company 36,000. How much value of car is taxable.

### Solution

#### Computation of value of Perquisites

Particulars	Amount	Amount
a) Perquisite value (Rs 1800 p.m. x 12) Note : Expenditure incurred by employer is irrelevant		21,600
b) Perquisite value Car (Rs. 2400 p.m. x 12) Driver (Rs. 900 p.m. x 12)	28,800 10,800	39,600
c) If car's engine is up to 1600cc then perquisite value = 1800 p.m. x 12 If car's engine exceeds 1600cc then perquisite value = 2400 p.m. x 12		21,600 28,800
d) Expenses incurred by employer	36,000	
Less : Car official usage (1800 x 12)	21,600	
Taxable perquisite		14,400

### Illustration 33

Mr. J is employed in F Ltd. getting basic pay ₹22,000 p.m. Employer has paid professional tax of ₹75 p.m. on behalf of the employee and employee himself has paid professional tax of ₹25 p.m. The employer has provided him rent free accommodation which is owned by the employer himself and it is provided at a place with population of ₹5,00,000. The employer has provided him three motor cars for official as well as personal use with particulars as given below:

Particulars	I	II	III
Actual cost	₹4,00,000	₹3,00,000	₹2,50,000
Engine capacity	1.8 litres	1.6 litres	1.4 litres
Petrol expenses	₹3,000	₹10,000	₹15,000
Repairs	₹5,000	₹4,000	₹3,000
Driver	₹4,000 p.m.	₹3,000 p.m.	No Driver

All the expenses met by the employer. Compute his Income under the head Salary

## Solution

## Computation of Income from Salary of Mr. J for AY 2026-27

Particulars	Amount	Amount
Basic Salary Rs 22,000 x 12		2,64,000
Professional tax paid by the employer [Rs 75 x 12]		900
Rent Free Accommodation		13,200
5% of Rent Free Accommodation = Rs 2,64,000 x 5 %		
Motor car Working Note :1		1,62,600
Gross Salary		4,40,700
Less: Standard Deduction [50,000 + 1200 Prof. Tax]		51,200
Income from Salary		3,89,500
<b>Working Note 1</b>		
<b>Option 1</b>		
Presuming Car 1 is for official & personal purposes & Car 2 & Car 3 personal use perquisites value shall be :		
Car I- (Rs 2,400+900) x 12= 39,600		
Car ii- Rs 30,000+10,000+4000+36,000 = Rs 80,000		
Car iii- Rs 25,000+15,000+3,000 =Rs 43,000		
Perquisite Value = Rs 1,62,600	1,62,600	
<b>Option 2</b>		
Presuming Car 2 is for official & personal purposes & Car 1 & Car 3 for personal use perquisites value shall be :		
Car 1- (Rs 40,000+3,000+5,000+48,000)= 96,000		
Car 2- (Rs 1,800+900) X 12 = Rs 32,400		
Car 3- (Rs 25,000+15,000+3,000) =Rs 43,000		
Perquisite Value = Rs 1,71,400	1,71,400	
<b>Option 3</b>		
Presuming Car 3 is for official & personal purposes and Car 1 & Car 2 for personal use perquisites value shall be :		
Car 1- (Rs 40,000+3,000+5,000+48,000)= 96,000		
Car 2- Rs 30,000+10,000+4000+36,000 = Rs 80,000		
Car 3- Rs 1,800 X 12 = Rs 21,600		
Perquisite Value = Rs 1,97,600	1,97,600	

## Illustration 34

F Ltd. provided the following perquisites to its employee Mr. Y for the Relevant Previous Year

- Accommodation taken on lease by F Ltd. for ₹15,000 p.m. , ₹5,000 p.m. is recovered from the salary of Mr. Y
- Furniture, for which the hire charges paid by F Ltd. is ₹3,000 p.m. No Amount is recovered from the employee in respect of the same.
- A Santro Car which is owned by F Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.

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

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

### Solution

#### Computation of taxable value of perquisites in hands of Mr. Y

Particulars	Amount	Amount
1. Value of concessional accommodation :		
Least of the following :		
Actual amount of lease rental paid by F Ltd or 10% of salary		
Actual amount of lease rental paid by F Ltd. = Rs. 1,80,000		
10% of salary = 10 lakh x 10% = 1,00,000		
Least amount	1,00,000	
Less : Rent paid by Y = Rs. 5000 x 12	60,000	
	40,000	
Add : hire charges paid by F Ltd. for furniture provided for the use of Mr. Y	36,000	76,000
2. Perquisite value of Santro Car owned by F Ltd. & provided to Mr. Y for his personal use & official use (1800+900)x12		32,400
3. Value of gift voucher (As value of gift exceed 10,000, it is fully taxable)		10,000
Value of perquisites		1,18,400

### Illustration 35

Mr. J is employed with F Ltd. on a monthly salary of ₹25,000 per month and an entertainment allowance and commission of ₹1,000 p.m. each. The company provides him with the following benefits:

- A company owned accommodation is provided to him in Delhi. Furniture costing ₹2,40,000 was provided on 01.08.2025.
- A personal loan of ₹5,00,000 on 01.07.2025 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (Assume SBI rate of interest to be 12.75% p.a.)
- His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹60,000 on 01.05.2022. The motor cycle was finally sold to him on 01.08.2025 for ₹30,000.
- Professional tax paid by Mr. J is ₹2,000

### Solution

#### Computation of Income from Salary of Mr. J

Particulars	Amount	Old Regime	New Regime
Basic Salary Rs 25,000 x 12		3,00,000	3,00,000
Commission Rs 1000 x 12		12,000	12,000
Entertainment Allowance Rs 1000 x 12		12,000	12,000

Rent free accommodation			
10% of salary for the relevant period = basic salary + commission + entertainment allowance = Rs 3 lakh + 12,000 + 12,000 = 3,24,000	32,400		
Add: Value of furniture (2,40,000 x 10% x 8/12 months)	16,000	48,400	48,400
Interest on personal loan (Rs 5 lakh x 12.75%-6.75% x 9/12)		22,500	22,500
Use of motor cycle Rs 60,000 x 10% x 4/12		2,000	2,000
Transfer of motor cycle [60,000 – (60,000 x 10% x 3 Year)]	42,000		
Less: Motor cycle sold at price	30,000		
Perquisite value		12,000	12,000
Gross Salary		4,08,900	4,08,900
Less: Standard deduction		50,000	75,000
Less Professional Tax		2,000	-
Income from salary		3,56,900	3,33,900

## CHAPTER 3B: INCOME U/H HOUSE PROPERTY

### Basis Of Charge (Section 22)

1. Property should consist of any building or land appurtenant thereto
2. Assessee must be the owner or Deemed Owner
3. HP Must be used for any purpose except business or profession of Assessee

**Note:** Annual value of HP held as SIT will also be taxable under this head. However, As per Section 23(5) NAV of HP held as SIT shall be Nil for 2 years from the end of FY in which completion certificate is issued, if Not Let Out for such period.

### Computation of Income Under House Property

Particulars	Rs.
Gross Annual Value (GAV)	-
Less: Municipal Tax (MT) Paid by Owner	-
Net Annual Value (NAV)	-
Less: Standard Deduction u/s 24(a)	-
Less: Interest On Capital Borrowed u/s 24(b) – Due Basis	-
Income U/H House Property	-

### Calculation Of GAV (Section 23)

1. Fair Rent	-
2. Municipal Value	-
3. Standard Rent	-
4. Expected Rent (Higher of 1 or 2 but restricted to 3)	-
5. Actual rent Received or Receivable	-
6. GAV (Higher of 4 or 5)	-

#### Note: Municipal Taxes

1. Deducted from GAV if paid by Owner during previous year.
2. Deductible in PY of Payment even if they relate to past years.

#### Example 01

Calculate GAV

Fair Rent = ₹2,40,000

Municipal Valuation = ₹2,30,000

Standard Rent = ₹1,90,000

Actual Rent = ₹2,25,000

## Solution

## Computation of Gross Annual Value

Particulars	Amount
a. Fair Value	2,40,000
b. Municipal Value	2,30,000
c. Higher of a and b	2,40,000
d. Standard Rent	1,90,000
e. Expected Rent (lower of c and d)	1,90,000
f. Actual Rent	2,25,000
GAV (Higher of e and f)	2,25,000

## Example 02

Calculate GAV

Fair Rent = ₹2,40,000; Municipal Valuation = ₹2,50,000; Actual Rent = ₹2,40,000

## Solution

## Computation of Gross Annual Value

Particulars	Amount
a. Fair Value	2,40,000
b. Municipal Value	2,50,000
c. Higher of a and b	2,50,000
d. Standard Rent	N/A
e. Expected Rent (lower of c and d)	2,50,000
f. Actual Rent	2,40,000
GAV (Higher of e and f)	2,50,000

## Example 03

Calculate GAV

Municipal Valuation = ₹50,000 p.m.

Standard Rent = ₹45,000 p.m.

Actual Rent = ₹42,000 p.m.

## Solution

## Computation of Gross Annual Value

Particulars	Amount
a. Fair Value	N/A
b. Municipal Value (50,000x12)	6,00,000
c. Higher of a and b	6,00,000
d. Standard Rent (45,000x12)	5,40,000
e. Expected Rent (lower of c and d)	5,40,000
f. Actual Rent (42,000x12)	5,04,000
GAV (Higher of e and f)	5,40,000

**Illustration 01**

Mr. X owns five houses in Chennai, all of which are let-out. Compute the GAV of each house from the information given below –

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

**Solution****Computation of GAV**

Particulars	CASE 1	CASE 2	CASE 3	CASE 4	CASE 5
a. Fair Rent	90,000	60,000	65,000	25,000	80,000
b. Municipal Value	80,000	55,000	65,000	24,000	75,000
c. Higher of a and b	90,000	60,000	65,000	25,000	80,000
d. Standard Rent	NA	75,000	58,000	NA	78,000
e. Expected Rent (Lower of c and d)	90,000	60,000	58,000	25,000	78,000
f. Actual Rent	72,000	72,000	60,000	30,000	72,000
GAV (Higher of e and f)	90,000	72,000	60,000	30,000	78,000

**Illustration 02**

Mr. X has one house property which is let out @₹ 80,000 p.m. Fair rent ₹90,000 p.m., Municipal Valuation ₹70,000 p.m., Standard Rent ₹81,000 p.m. Municipal tax paid ₹60,000 and interest paid on loan for construction of house property is ₹50,000. Compute his Income.

**Solution****Computation of Income under head House Property**

Particulars	Amount	Amount
Gross Annual Value (WN)	81000x12m	9,72,000
Less: Municipal Taxes Paid		60,000
Net Annual Value		9,12,000
Less: Standard Deduction @30%		2,73,600
Less: Interest on capital borrowed		50,000
Income Under head House Property		5,88,400

**Working Note:****Calculation of GAV**

Particulars	Amount
a. Fair Rent	90,000
b. Municipal Value	70,000
c. Higher of a and b	90,000
d. Standard Rent	81,000

e. Expected Rent (Lower of c and d)	81,000
f. Actual Rent	80,000
GAV (Higher of e and f)	81,000

**Illustration 03**

Mr. X has let out one House property @ ₹62,000 p.m., Municipal Valuation ₹72,000 p.m., Fair Rent ₹90,000 p.m., Standard Rent ₹1,00,000 p.m., Municipal Tax paid ₹40,000 and Interest on loan taken for construction ₹60,000 She has completed the age of 60 years on 01.04.2025. Compute Income

**Solution****Computation of Income under head House Property**

Particulars	Amount	Amount
Gross Annual Value (WN)	90,000x12m	10,80,000
Less: Municipal Taxes Paid		40,000
Net Annual Value		10,40,000
Less: Standard Deduction @30%		3,12,000
Less: Interest on capital borrowed		60,000
Income Under head House Property		6,68,000

**Working Note:****Calculation of GAV**

Particulars	Amount
a. Fair Rent	90,000
b. Municipal Value	72,000
c. Higher of a and b	90,000
d. Standard Rent	1,00,000
e. Expected Rent (Lower of c and d)	90,000
f. Actual Rent	62,000
GAV (Higher of e and f)	90,000

**CASE A. Income of House Lying Vacant for Some Period**

1. Calculate Expected Rent (ER) for whole year
2. Calculate Actual Rent (AR) for Let out period
3. Compare Expected Rent and AR

**Situation 1:** If  $AR > ER$ , then  $GAV = AR$ .

**Situation 2:** If  $AR < ER$  due to vacancy i.e.  $AR + VR \geq ER$ , then  $GAV = AR$ .

**Situation 3:** If  $AR < ER$  due to other reason i.e.  $AR + VR < ER$ , then  $GAV = ER$

**Example 04 Calculate GAV**

Expected Rent = ₹ 2,40,000; Actual Rent = ₹ 35,000 p.m.; Vacancy = 3 month



**Solution**

Particulars	Amount
Expected Rent	2,40,000
Actual Rent (35,000p.m. x 9)	3,15,000
GAV (Actual Rent)	3,15,000

**Example 05 Calculate GAV**

Expected Rent = ₹ 2,40,000; Actual Rent = ₹ 25,000 p.m.; Vacancy = 3 Month

**Solution**

Particulars	Amount
Expected Rent	2,40,000
Actual Rent (25,000p.m. x 9)	2,25,000
GAV (Actual Rent)	2,25,000

if there would have been no vacancy then Actual rent will be (25000x12) 3,00,000

Therefore, AR < ER due to Vacancy

Therefore, GAV = Actual Rent (AR)

**Example 06 Calculate GAV**

Expected Rent = ₹ 2,40,000; Actual Rent = ₹ 18,000 p.m.; Vacancy = 3 Months

**Solution**

Particulars	Amount
Expected Rent	2,40,000
Actual Rent (18,000p.m. x 9)	1,62,000
GAV (Expected Rent)	2,40,000

if there would have been no vacancy then Actual rent will be (18000x12) 2,16,000

Therefore, AR < ER not due to Vacancy

Therefore, GAV = Expected Rent (ER)

**Illustration 04**

Compute gross annual value in the following cases:

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Fair Rent (p.m.)	₹9,000	₹13,000	₹16,000	₹12,000
Municipal Valuation (p.m.)	₹10,000	₹9,000	₹18,000	₹19,000
Standard Rent (p.m.)	₹12,000	₹11,000	₹16,000	₹7,000
Rent received/ receivable (p.m.)	₹7,000	₹11,500	₹16,000	₹20,000
Vacancy (Months)	1	1	2	2

**Solution****Situation 01:**

Particulars	Amount
Expected Rent (10,000p.m. x 12)	1,20,000

Actual Rent (7,000p.m. x 11)	77,000
GAV (Expected Rent)	1,20,000

As AR < ER Not due to Vacancy, if there would have been no vacancy then AR (7000x12) 84,000

Therefore, GAV = Expected Rent (ER)

#### Situation 02:

Particulars	Amount
Expected Rent (11,000p.m. x 12)	1,32,000
Actual Rent (11,500p.m. x 11)	1,26,500
GAV (Actual Rent)	1,26,500

if there would have been no vacancy then AR (11500x12) 1,38,000

As, AR < ER due to Vacancy

Therefore, GAV = Actual Rent (AR)

#### Situation 03:

Particulars	Amount
Expected Rent (16,000p.m. x 12)	1,92,000
Actual Rent (16,000p.m. x 11)	1,60,000
GAV (Actual Rent)	1,60,000

if there would have been no vacancy then AR (16000x12) 1,92,000

As, AR < ER due to Vacancy

Therefore, GAV = Actual Rent (AR)

#### Situation 04:

Particulars	Amount
Expected Rent (7,000p.m. x 12)	84,000
Actual Rent (20,000p.m. x 10)	2,00,000
GAV (Actual Rent)	2,00,000

#### Illustration 05

Mr. X constructed one house in 2020 and it is let out for 4 months and self occupied for 6 months and vacant for 2 months during previous year 2025-26. Municipal valuation of the house is ₹40,000 p.m. and fair rent ₹30,000 p.m. Standard rent of the house is ₹38,000 p.m. It was let out @ ₹32,000 p.m. Municipal tax levied is ₹6,000 out of which ₹2,000 was paid by the tenant and ₹2,000 by the assessee and balance ₹2,000 yet to be paid. Interest on the capital borrowed for construction of the house is ₹30,000. Compute his Income Under The Head House Property

#### Solution

##### Computation of Income under head House Property

Particulars	Amount
Gross Annual Value (WN)	4,56,000

Less: Municipal Taxes Paid	2,000
<b>Net Annual Value</b>	<b>4,54,000</b>
Less: Standard Deduction @30%	1,36,200
Less: Interest on capital borrowed	30,000
<b>Income Under head House Property</b>	<b>2,87,800</b>

**Working Note:**

#### Calculation of GAV

Particulars	Amount
Expected Rent (38,000p.m. x 12)	4,56,000
Actual Rent (32,000p.m. x 4)	1,28,000
<b>GAV (Expected Rent)</b>	<b>4,56,000</b>

As AR < ER Not due to Vacancy, if there would have been no vacancy then AR (32000x6) 1,92,000. Therefore, GAV = Expected Rent (ER)

#### CASE B. Income of House Let out For Part of the Year & Self Occupied for part of the year

1. Calculate Expected Rent (ER) for whole year
2. Calculate Actual Rent (AR) for Let out period
3. GAV = Higher of ER Or AR.

#### Example 07

##### Calculate income under head House Property

- Fair Rent = 2,40,000
- Municipal Valuation = 2,00,000
- Standard Rent = 2,20,000
- Actual Rent = 21,000 p.m.
- Let Out Period = 10 month
- Self Occupied = 2 month

#### Solution

##### Computation of Income under head House Property

Particulars	Amount
Gross Annual Value (WN)	2,20,000
Less : Municipal Taxes Paid	Nil
<b>Net Annual Value</b>	<b>2,20,000</b>
Less : Standard Deduction @30%	66,000
Less : Interest on capital borrowed	Nil
<b>Income Under head House Property</b>	<b>1,54,000</b>

**Working Note:**

#### Calculation of GAV

Particulars	Amount
<b>g.</b> Fair Rent	2,40,000
<b>h.</b> Municipal Value	2,00,000
<b>i.</b> Higher of a and b	2,40,000
<b>j.</b> Standard Rent	2,20,000
<b>k.</b> Expected Rent (Lower of c and d)	2,20,000

<b>i.</b> Actual Rent for let out period (21,000x10)	2,10,000
<b>GAV</b> (Higher of e and f)	2,20,000

**Example o8****Calculate Income under head House property**

- Fair Rent = 2,40,000
- Municipal Valuation = 2,50,000
- Actual Rent = 30,000 p.m.
- Let Out period = 6 month
- Vacancy = 2 months
- Self Occupied = 4 month

**Solution****Computation of Income under head House Property**

Particulars	Amount
Gross Annual Value (WN)	2,50,000
Less : Municipal Taxes Paid	Nil
Net Annual Value	2,50,000
Less : Standard Deduction @30%	75,000
Less : Interest on capital borrowed	Nil
Income Under head House Property	1,75,000

**Working Note:****Calculation of GAV**

Particulars	Amount
<b>a.</b> Fair Rent	2,40,000
<b>b.</b> Municipal Value	2,50,000
<b>c.</b> Higher of a and b	2,50,000
<b>d.</b> Standard Rent	Nil
<b>e.</b> Expected Rent (Lower of c and d)	2,50,000
<b>f.</b> Actual Rent for let out period (30,000x6) If there would be no vacancy, then AR would be 30,000x8 = 2,40,000 Therefore, AR < ER not due to vacancy	1,80,000
<b>GAV</b> (Expected Rent)	2,50,000

**CASE C. Self-Occupied/Unoccupied House Property (For Maximum 2 House Property)**

- GAV = Nil for 2 houses
- Deduction of MT Paid shall not be allowed
- Thus NAV = Nil
- Interest on capital borrowed allowed subject to maximum 2,00,000 or 30,000 as the case may be. (Only in case of Old regime)

**Note:** Under default regime, no deduction is allowed for interest on capital borrowed of Self occupied property. Hence, income of Self occupied property shall always be nil under default regime.

## CASE D. More Than 2 House Self Occupied

- Any 2 Houses Shall be considered as Self occupied and dealt with accordingly.
- Remaining house(s) shall be Deemed to be Let Out and its GAV Shall be Expected Rent.

## Illustration 06

Mr. X has 3 houses which are self-occupied and the details of these houses is as under.

Particulars	House 1	House 2	House 3
Fair Rent	₹11,00,000	₹12,00,000	₹11,50,000
Municipal Valuation	₹11,24,000	₹11,78,000	₹11,25,000
Standard Rent	₹13,00,000	₹12,50,000	₹11,40,000
Municipal Taxes Paid	₹1,00,000	₹80,000	₹90,000
Interest on Capital Borrowed	₹3,20,000	₹2,90,000	₹1,90,000
Repair charges	₹10,000	₹3,000	₹8,000

Compute income under the head house property

## Solution

## Income under head House Property (Deemed Let Out) (Old/New Regime)

Particulars	HP-01	HP-02	HP-03
Gross Annual Value (ER)	11,24,000	12,00,000	11,40,000
Less: Municipal Taxes Paid	1,00,000	80,000	90,000
Net Annual Value	10,24,000	11,20,000	10,50,000
Less: Standard Deduction @30%	3,07,200	3,36,000	3,15,000
Less: Interest on capital borrowed	3,20,000	2,90,000	1,90,000
Income Under head House Property	3,96,800	4,94,000	5,45,000

## Income under head House Property (Self Occupied) (New Regime)

Particulars	HP-01	HP-02	HP-03
Net Annual Value	NIL	NIL	NIL
Less: Standard Deduction @30%	NIL	NIL	NIL
Less: Interest on capital borrowed	NIL	NIL	NIL
Income Under head House Property	NIL	NIL	NIL

## Income under head House Property (Self Occupied) (Old Regime)

Particulars	HP-01	HP-02	HP-03
Net Annual Value	NIL	NIL	NIL
Less: Standard Deduction @30%	NIL	NIL	NIL
Less: Interest on capital borrowed	2,00,000	2,00,000	1,90,000
Income Under head House Property	(2,00,000)	(2,00,000)	(1,90,000)

## Calculation of Income under head House Property (New Regime)

Option 01		Option 02		Option 03	
Particulars	Amount	Particulars	Amount	Particulars	Amount
HP 1 (Self-occupied)	NIL	HP 1 (Self-Occupied)	NIL	HP 1 (Deemed let-out)	3,96,800
HP 2 (Self-occupied)	NIL	HP 2 (Deemed Let-out)	4,94,000	HP 2 (Self-occupied)	NIL
HP 3 (Deemed let-out)	5,45,000	HP 3 (Self-occupied)	NIL	HP 3 (Self-occupied)	NIL
	5,45,000		4,94,000		3,96,800

Under Default Regime, Assessee should opt for Option 03

Therefore, Income under head house property = 3,96,800

## Calculation of Income under head House Property (Old Regime)

Option 01	Amount
HP 1 (Self Occupied) (2,00,000)	
HP 2 (Self Occupied) (2,00,000)	
(4,00,000) Restricted to Max 2,00,000	(2,00,000)
HP 3 (Deemed Let Out)	5,45,000
	3,45,000

Option 02	Amount
HP 1 (Self Occupied) (2,00,000)	
HP 3 (Self Occupied) (1,90,000)	
(3,90,000) Restricted to Max 2,00,000	(2,00,000)
HP 2 (Deemed Let Out)	4,94,000
	2,94,000

Option 03	Amount
HP 2 (Self Occupied) (2,00,000)	
HP 3 (Self Occupied) (1,90,000)	
(3,90,000) Restricted to Max 2,00,000	(2,00,000)
HP 1 (Deemed Let Out)	3,96,800
	1,96,800

Under the old Regime, Assessee should Opt Option 03

Therefore, Income under head house property = 1,96,800

**CASE E. Part (Portion) of the house if Let Out And Other Part (Portion) Is Self-Occupied**

Let Out (LO) Portion	Self-Occupied Portion
<p>Compute income of let out portion normally considering Following:</p> <p>a) ER shall be Computed for the part of property LO.</p> <p>b) MT Allowed for the part of property LO.</p> <p>c) ICB shall be Allowed for the part of property LO. (Suppose 60% portion is LO and 40% Is Self Occupied, then above 3 points shall be calculated for 60% only)</p>	<ol style="list-style-type: none"> <li>1. GAV = Nil</li> <li>2. Deduction of MT Paid shall not be allowed</li> <li>3. Thus NAV = Nil</li> <li>4. ICB Shall be allowed for the part of property Self Occupied only under old regime (Subject To Maximum 30,000/2,00,000)</li> </ol>

**Example 09**

- Fair Rent = ₹2,40,000
- Municipal Valuation = ₹ 2,00,000
- Standard Rent = ₹2,10,000
- Municipal Taxes Paid for property = ₹10,000
- Interest on capital borrowed for construction of Property = ₹1,50,000
- 50% of House property is Let out & 50% of house property is Self-Occupied
- Calculate Income Under head House Property As per optional Regime.

**Solution****Income under head House Property (50% Let out Portion)**

Particulars	Amount
Expected Rent (2,10,000 x 50%)	1,05,000
Actual Rent (taken Fair Rent as Actual Rent) (2,40,000x50%)	1,20,000
Gross Annual Value(Higher of ER/AR)	1,20,000
Less : Municipal Taxes Paid (10,000x50%)	5,000
Net Annual Value	1,15,000
Less : Standard Deduction @30%	34,500
Less : Interest on capital borrowed (1,50,000 x 50%)	75,000
Income Under head House Property	5,500

**Income under head House Property (50% Self Occupied)**

Particulars	Old Regime	New Regime
Net Annual Value (Self Occupied)	NIL	NIL
Less : Standard Deduction @30%	NIL	NIL
Less : Interest on capital borrowed	75,000	NIL
Income Under head House Property	(75,000)	NIL

## Computation of Income under head House Property

Particulars	Old Regime	New Regime
Self Occupied Property	(75,000)	NIL
Let Out Property	5,500	5,500
	(69,500)	5,500

## Example 10

House property is 50% let out + 25% self-occupied +25% used for Business

- Fair Rent ₹3,60,000
- Municipal Valuation ₹3,00,000
- Standard Rent ₹3,20,000
- Actual Rent from let out property is 15000 p.m. (2 month Vacancy)
- Municipal Taxes Paid ₹ 15,000
- Interest on Capital Borrowed for repair of HP = ₹2,10,000

Calculate the income Under head house property under optional regime.

## Solution

## Income under head House Property (50% Let out Portion)

Particulars	Amount
Expected Rent (3,20,000 x 50%)	1,60,000
Actual Rent (15,000x10)	1,50,000
If no vacancy, then Actual rent = 15,000x12 = 1,80,000 Therefore, AR<ER due to vacancy	
Gross Annual Value(Actual Rent)	1,50,000
Less : Municipal Taxes Paid (15,000x50%)	7,500
Net Annual Value	1,42,500
Less : Standard Deduction @30%	42,750
Less : Interest on capital borrowed (2,10,000 x 50%)	1,05,000
Income Under head House Property	(5,250)

## Income under head House Property (25% Self Occupied)

Particulars	Amount
Net Annual Value (Self Occupied)	NIL
Less : Standard Deduction @30%	NIL
Less : Interest on capital borrowed (2,10,000x25%) but restricted to max 30,000	30,000
Income Under head House Property	(30,000)

## Computation of Income under head House Property under Old Regime

Particulars	Amount
Self Occupied Property	(30,000)
Let Out Property	(5,250)
	(35,250)



**Illustration 07**

Mr. X owns a house in Madras. During the previous year 2025-26, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹8,000 p.m. Municipal value of the property is ₹3,00,000 p.a., fair rent is ₹2,70,000 p.a. and standard rent is ₹3,30,000 p.a. He paid municipal taxes @ 10% of municipal value during the year. A loan of ₹25,00,000 was taken by him during the year 2020 for acquiring the property. Interest on loan paid during the previous year 2025-26 was ₹ 1,20,000. Compute Mr. X's income from house property for the A.Y. 2026-27. All the conditions for higher deduction of interest in case of self-occupied property is satisfied.

**Solution****Income under head House Property (1/3 Let out Portion)**

Particulars	Amount
Expected Rent (3,00,000 x 1/3)	1,00,000
Actual Rent (8000 x 12)	96,000
Gross Annual Value(Higher of ER/AR)	1,00,000
Less: Municipal Taxes Paid (3,00,000 x 1/3 x 10%)	10,000
Net Annual Value	90,000
Less: Standard Deduction @30%	27,000
Less: Interest on capital borrowed (1,20,000 x 1/3)	40,000
Income Under head House Property	23,000

**Income under head House Property (2/3 Self Occupied)**

Particulars	Old Regime	New Regime
Net Annual Value (Self Occupied)	NIL	NIL
Less : Standard Deduction @30%	NIL	NIL
Less : Interest on capital borrowed)	80,000	NIL
Income Under head House Property	(80,000)	NIL

**Computation of Income under head House Property**

Particulars	Old Regime	New Regime
Self-Occupied Property	(80,000)	NIL
Let Out Property	23,000	23,000
	(57,000)	23,000

**Treatment Of Unrealised Rent**

Actual rent received/receivable should not include unrealised rent if all the conditions are satisfied:

- Tenancy is bona fide.
- defaulting tenant has vacated HP

- c) defaulting tenant is not in occupation of another HP Of Assessee
- d) Assessee initiated legal steps to recover unrealized rent or satisfy AO that such will be useless.

**Example 11**

- Expected Rent = ₹2,40,000
- Actual Rent = ₹30,000 p.m.
- Vacancy = 2 Month
- Unrecovered Rent = 1 Month

Calculate GAV (all condition are Rule 4 are satisfied)

**Solution****Calculation of GAV**

Particulars	Amount
Expected Rent	2,40,000
Actual Rent (30,000 x 10m) 3,00,000	
Less : unrealized (30,000 x 1m) 30,000	2,70,000
GAV (Higher of ER or AR)	2,70,000

**Example 12**

- Expected Rent = ₹2,40,000
- Actual Rent = ₹30,000 p.m.
- Vacancy = 2 Months
- Unrecovered Rent = 3 Month

Calculate GAV (Assume all Rule 4 conditions are satisfied)

**Solution****Calculation of GAV**

Particulars	Amount
Expected Rent	2,40,000
Actual Rent (30,000 x 10m) 3,00,000	
Less : unrealized (30,000 x 3m) 90,000	2,10,000
If no vacancy, then AR = 2,10,000 + (30,000x2) = 2,70,000	
Therefore, AR < ER due to vacancy	
GAV (Actual Rent)	2,10,000

**Illustration o8**

Mr. X owns a house property at Adyar in Chennai. The municipal value of the property is ₹5,00,000, fair rent is ₹4,20,000 and standard rent is ₹4,80,000. The property was let-out for ₹50,000 p.m. up to December 2025. Thereafter, the tenant vacated the property and Mr. X used the house for self-occupation. Rent for the months of November and December 2025 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @ 12% during the year. She had paid interest of ₹25,000 during the year for Amount borrowed for repairs for the house property. Compute his Income Under the Head House Property.

**Solution****Alternative 01: (Deduct Unrealized Rent from AR)****Computation of Income under head House Property**

Particulars	Amount	Amount
Expected Rent (12m)		4,80,000
Actual Rent (50,000 x 9m)	4,50,000	
(-) Unrealized Rent (50,000 x 2m)	1,00,000	3,50,000
Gross Annual Value (Higher of ER/AR)		4,80,000
Less: Municipal Taxes Paid (5,00,000x12%)		60,000
Net Annual Value		4,20,000
Less: Standard Deduction @30%		1,26,000
Less: Interest on capital borrowed		25,000
Income Under head House Property		2,69,000

**Alternative 02: (Deduct Unrealized Rent from GAV)****Computation of Income under head House Property**

Particulars	Amount
Expected Rent (12m)	4,80,000
Actual Rent (50,000 x 9m)	4,50,000
Gross Annual Value (Higher of ER/AR)	4,80,000
(Less) Unrealized Rent (50,000 x 2m)	1,00,000
Less: Municipal Taxes Paid (5,00,000x12%)	60,000
Net Annual Value	3,20,000
Less: Standard Deduction @30%	96,000
Less: Interest on capital borrowed	25,000
Income Under head House Property	1,99,000

**Note:** Alternative 2 is more beneficial for assessee. However, Follow alternative 1 for exam

**Tax liability in respect of arrears of rent / Recovery of Unrealised Rent (Section 25A)**

Recovery of unrealized rent or arrears of rent received shall be taxable in the year of receipt after standard deduction of 30%

**Illustration 09**

Mr. X has let out his house to State Bank @ ₹20,000 p.m. The bank has increased the rent on 1st July, 2025 to ₹27,000 p.m. retrospectively w.e.f. 01.11.2024. The assessee has paid municipal taxes of ₹7,000 during the previous year 2025-26. Compute income under the head House Property.

**Solution****Computation of Income under head House Property**

Particulars	Amount
Gross Annual Value (27000x12)	3,24,000

Less: Municipal Taxes Paid	7000
<b>Net Annual Value</b>	<b>3,17,000</b>
Less: Standard Deduction @30%	95100
Less: Interest on capital borrowed	NIL
	2,21,900
Arrears of Rent (7000 x 5)	35,000
Less: Standard Deduction @30%	(10,500)
	24,500
<b>Income Under head House Property (24,500 + 221900)</b>	<b>2,46,400</b>

### Statutory Deduction (Section 24(a))

Section 24(a), assessee shall be allowed a notional expenditure equals to 30% of NAV

#### Illustration 10

Mr. X, a British national, is a resident and ordinarily resident in India during the P.Y.2025-26. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the P.Y.2025-26. The value of one £ in Indian rupee to be taken at 82.50. Compute Mr. X's taxable income for the A.Y. 2026-27.

#### Solution

Since, Mr. X is R-OR . Therefore, Global Income shall be taxable

#### Computation of Income under head House Property

Particulars	Amount
Gross Annual Value (£10,000 x 12x ₹82.50/£)	99,00,000
Less: Municipal Taxes Paid (£8000 x ₹82.50/£)	6,60,000
<b>Net Annual Value</b>	<b>92,40,000</b>
Less: Standard Deduction @30%	27,72,000
Less: Interest on capital borrowed	NIL
<b>Income Under head House Property</b>	<b>64,68,000</b>

### Interest On Capital Borrowed (Section 24(b))

#### 1) Pre- Construction Period Interest

It is the interest paid before the year in which construction is completed. Pre period interest is accumulated and allowed in 5 installments from the year in which construction is completed.

**E.g.** Loan is taken on 15/7/2022; construction is completed on 25/4/2025.

In this case interest for the period 15/7/2022 to 31/4/2025 shall be accumulated and allowed in 5 installments from 2025-26 till 2029-30.

#### 2) Current Year interest (Relevant PY) – Allowed in same previous year on due basis.

**Note:**

1. Interest on loan is allowed as deduction if it is taken for the purpose of construction, repair, renovation, reconstruction etc. of house property.
2. Loan can be raised from banks, FI, NBFC, friends, family etc.
3. Interest is allowed on due basis.
4. Interest on fresh loan taken to repay original loan taken for house property shall be allowed as deduction.
5. Brokerage/commission for Arrangement of loan is Not allowed.
6. Interest on unpaid interest is Not allowed.
7. If loan is taken from o/s India, Interest is deductible only if TDS is deducted.

**Example 13**

Loan of 15,00,000 @ 12% p.a. interest rate is taken on 01/12/2022

Construction completion date = 21/01/2026 (2025-26)

Entire loan is outstanding

Calculate deduction u/s 24(b) for PY 2025-26

**Solution**

Pre-Construction Period = 01/12/2022-31/03/25 = 28months

**Calculation of deduction u/s 24(b)**

Particulars	Amount
Interest on pre-construction period $(15,00,000 \times 12\% \times 28/12)/5$	84,000
Interest on current period $(15,00,000 \times 12\%)$	1,80,000
<b>Deduction u/s 24(b)</b>	<b>2,64,000</b>

**Example 14**

Loan of ₹ 17,50,000 @ 12% p.a. interest rate is taken on 01/04/2019

Construction completion date = 15/12/2021 (2021-22)

₹50,000 repay on 01/10 every year Since 01/10/2020

Calculate deduction u/s 24(b) for PY 2025-26

**Solution**

Pre-Construction Period = 01/04/2019-31/03/2021 = 24months

**Calculation of deduction u/s 24(b)**

Particulars	Amount
Interest on pre-construction period $(3,15,000 + 1,02,000)/5$ $01/04/2019-30/09/2020 = (17.50 \text{L} \times 12\% \times 18/12) = 3,15,000$ $01/10/2020-31/03/2021 = (17 \text{L} \times 12\% \times 6/12) = 1,02,000$	83,400
Interest on current period $01/04/2025-30/09/2025 = (15 \text{L} \times 12\% \times 6/12) = 90,000$ $01/10/2025-31/03/2026 = (14.5 \text{L} \times 12\% \times 6/12) = 87,000$	1,77,000
<b>Deduction u/s 24(b)</b>	<b>2,60,400</b>

**Working Note:**

Loan outstanding as on 01/04/2025 = 17.50 Lakhs – (50,000 x 5) = Rs. 15,00,000

**Example 15**

loan of 10,00,000 @ 12% p.a. Interest rate is taken on 01/7/2023

Construction completion date = 31/12/2025 (2025-26)

Assume 100% of loan is outstanding

Calculate deduction of Interest on capital borrowing u/s 24(b)

**Solution**

Pre-Construction Period = 01/07/2023-31/03/25 = 21 months

**Calculation of deduction u/s 24(b)**

Particulars	Amount
Interest on pre-construction period $(10,00,000 \times 12\% \times 21/12)/5$	42,000
Interest on current period $(10,00,000 \times 12\%)$	1,20,000
<b>Deduction u/s 24(b)</b>	<b>1,62,000</b>

**Example 16**

loan of 20,00,000 @ 12% p.a. Interest rate is taken on 01/06/2020

Construction completion date = 28/02/2024 (2023-24)

Assessee Repays 2,00,000 on 1/4 of every year since 01/04/2023

**Solution**

Pre-Construction Period = 01/06/2020-31/03/23 = 34 months

**Calculation of deduction u/s 24(b)**

Particulars	Amount
Interest on pre-construction period $(20,00,000 \times 12\% \times 34/12)/5$	1,36,000
Interest on current period $(14,00,000 \times 12\%)$	1,68,000
<b>Deduction u/s 24(b)</b>	<b>3,04,000</b>

**Working Note:**

Loan outstanding as on 01/04/2024 = 20 Lakhs – (2,00,000 x 3) = 14,00,000

**Illustration 11**

Mr. X took a loan of ₹5,00,000 on 01.10.2022 @ 10% p.a. for construction of house which was completed on 31.03.2025. Compute interest on capital borrowed for the previous year 2025-26.

**Solution**

Interest of Pre-Construction Period =  $5,00,000 \times 10\% \times 18/12 = 75,000 / 5 = 15,000$

Interest of Current Year =  $5,00,000 \times 10\% = 50,000$

Interest on Capital Borrowed for PY 2025-26 =  $15,000 + 50,000 = 65,000$

**Illustration 12**

Mr. X has taken a loan of ₹15,00,000 on 01.07.2021 from State Bank of India @ 12% p.a. for construction of one house which was completed on 01.05.2025 and was let out @ ₹90,000 p.m. w.e.f. 01.07.2025 and Fair rent is ₹1,25,000 p.m. and the assessee has paid municipal tax of ₹30,000 in P.Y. 2025-26 and the assessee has repaid the loan Amount in annual instalment of ₹1,00,000 starting from 01.01.2024. Compute his income for the assessment year 2026-27.

**Solution****Computation of Income under head House Property**

Particulars	Amount
Gross Annual Value (WN-1)	13,75,000
Less: Municipal Taxes Paid	30,000
Net Annual Value	13,45,000
Less: Standard Deduction @30%	4,03,500
Less: Interest on capital borrowed (WN-2)	2,84,400
Income Under head House Property	6,57,100

**Working Note 1:****Calculation of GAV**

Particulars	Amount
Expected Rent (Fair Rent) (125000x11) (May-March)	13,75,000
Actual Rent (90,000 x 9) (July – March)	8,10,000
GAV (ER/AR – higher)	13,75,000

If No vacancy of 2 months (May and June) then Actual rent = 90,000x11 = 9,90,000

As, Actual Rent < Expected Rent not due to vacancy

Therefore, GAV = Expected Rent

**Working Note 2 :**

$$01/07/21 - 31/12/23 = 15,00,000 \times 12\% \times 30/12 = 4,50,000$$

$$01/01/24 - 31/12/24 = 14,00,000 \times 12\% \times 12/12 = 1,68,000$$

$$01/01/25 - 31/03/25 = 13,00,000 \times 12\% \times 3/12 = 39,000$$

$$\text{Interest of Pre-Construction Period} = 450000 + 168000 + 39000 = 657000 / 5 = 1,31,400$$

$$\text{Interest of Current Year (2025-26)} = 1/4/25 - 31/12/25 = 13,00,000 \times 12\% \times 9/12 = 1,17,000$$

$$1/1/26 - 31/3/26 = 12,00,000 \times 12\% \times 3/12 = 36,000$$

$$\text{Interest of Current Year (2025-26)} = 1,17,000 + 36,000 = 1,53,000$$

$$\text{Total Deduction} = 1,31,400 + 1,53,000 = 2,84,400$$

**Illustration 13**

Mr. X has taken a loan of ₹15,00,000 on 01.07.2021 from State Bank of India @ 12% p.a. for construction of one house which was completed on 01.04.2025 and was let out @ ₹90,000 p.m. w.e.f. 01.05.2025 and Fair rent is ₹1,00,000 p.m. and the assessee has paid municipal tax of ₹30,000 in P.Y. 2025-26 and the assessee has repaid the loan Amount in annual instalment of ₹1,00,000 starting from 01.01.2024. Compute his income.

**Solution****Computation of Income under head House Property**

Particulars	Amount
Gross Annual Value (WN-1)	12,00,000
Less: Municipal Taxes Paid	30,000
Net Annual Value	11,70,000
Less: Standard Deduction @30%	3,51,000
Less: Interest on capital borrowed (WN-2)	2,84,400
Income Under head House Property	5,34,600

**Working Note 1:****Calculation of GAV**

Particulars	Amount
Expected Rent (Fair Rent) (1,00,000x12)	12,00,000
Actual Rent (90,000 x 11)	9,90,000
GAV (ER/AR – higher)	12,00,000

If No vacancy, then Actual rent =  $90,000 \times 12 = 10,80,000$

Therefore, Actual Rent < Expected Rent not due to vacancy

Therefore, GAV = Expected Rent

**Working Note 2:**

$$01/07/21 - 31/12/23 = 15,00,000 \times 12\% \times 30/12 = 4,50,000$$

$$01/01/24 - 31/12/24 = 14,00,000 \times 12\% \times 12/12 = 1,68,000$$

$$01/01/25 - 31/03/25 = 13,00,000 \times 12\% \times 3/12 = 39,000$$

$$\text{Interest of Pre-Construction Period} = 450000 + 168000 + 39000 = 657000 / 5 = 1,31,400$$

$$\text{Interest of Current Year (2025-26)} = 1/4/25 - 31/12/25 = 13,00,000 \times 12\% \times 9/12 = 1,17,000$$

$$1/1/26 - 31/3/26 = 12,00,000 \times 12\% \times 3/12 = 36,000$$

$$\text{Interest of Current Year (2025-26)} = 1,17,000 + 36,000 = 1,53,000$$

$$\text{Total Deduction} = 1,31,400 + 1,53,000 = 2,84,400$$

**Illustration 14**

Mr. X has constructed one house on 01.09.2024 and it was let out @ ₹1,25,000 p.m. and municipal taxes paid are ₹35,000. The house was constructed after taking a loan from outside India and interest allowed under section 24(b) is ₹2,10,000, but the assessee has not deducted tax at source. Compute assessee's GTI for the year ended 31st March 2026.

**Solution****Computation of Income under head House Property**

Particulars	Amount
Expected Rent (Fair Value) 1,25,000 x 12	15,00,000
Actual Rent (125000 x 12)	15,00,000
Gross Annual Value (Higher of ER/AR)	15,00,000
Less: Municipal Taxes Paid	35,000



Net Annual Value	14,65,000
Less: Standard Deduction @30%	4,39,500
Less: Interest on capital borrowed (Loan raised O/s India and NO TDS deducted)	-
Income Under head House Property	10,25,500

**Illustration 15**

Mrs. X has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighborhood is ₹25,000 p.m. The municipal valuation is ₹23,000 p.m. Municipal taxes paid is ₹8,000. The loan of ₹20,00,000 was taken on 01.01.2019 from SBI Housing Finance Ltd. The construction was completed on 30.11.2021. The accumulated interest up to 31.03.2021 is ₹3,00,000. During the previous year 2025-26, Mrs. X paid ₹1,88,000 which included 1,44,000 as interest. Compute Mrs. X's income from house property for A.Y. 2026-27. All the conditions for higher deduction of interest in case of self-occupied property is satisfied.

**Solution****Computation of Income under head House Property**

Particulars	Old Regime	New Regime
Net Annual Value (Self Occupied)	NIL	NIL
Less: Standard Deduction @30%	NIL	NIL
Less: Interest on capital borrowed (2,04,000 shall be restricted to max 2,00,000 in case of old regime)	2,00,000	NIL
Income Under head House Property	(2,00,000)	NIL

Interest on capital borrowed (old Regime)

Pre-Construction Period =  $3,00,000 / 5 = 60,000$

Current Period = 1,44,000

Total Deduction =  $1,44,000 + 60,000 = 2,04,000$

**Illustration 16**

Mr. X has taken a loan of ₹5,00,000 on 01.10.2021 @ 10% p.a. for construction of a house which was completed on 01.10.2023 and the house remained self-occupied throughout the previous year 2025-26. The assessee has income under the head salary ₹4,00,000. Compute tax liability for assessment year 2026-27

**Solution****Computation of Tax Liability for AY 2026-27**

Particulars	Old Regime	New Regime
Income under head Salary	4,00,000	4,00,000
Income Under head house property (WN)	(65,000)	NIL
Total Income	3,35,000	4,00,000
Tax Liability	NIL	NIL

**Working Note:****Computation of Income under head House Property**

Particulars	Old Regime	New Regime
Net Annual Value (Self Occupied)	NIL	NIL
Less : Standard Deduction @30%	NIL	NIL
Less : Interest on capital borrowed)	65,000	NIL
Income Under head House Property	(65,000)	NIL

Interest on capital borrowed (old Regime):

Pre-Construction Period =  $1/10/21-31/3/23 = 5,00,000 \times 10\% \times 18/12 = 75000 / 5 = 15000$

Current Period =  $5,00,000 \times 10\% = 50,000$

Total Deduction =  $15000 + 50000 = 65000$

**Restriction of deduction in case of Self Occupied House property**

Situation	Max. Deduction
Loan for acquisition or construction of HP taken on/after 1.4.1999 & such acquisition or construction is completed within 5 year from end of FY In Which loan is taken.	Rs. 2 Lakh
Other Cases	Rs. 30,000

**Note:** ICB in respect of SO property is allowed only under New regime.

**Example 17**

Particulars	HP-1	HP-2
	Self-Occupied	Let Out
Fair Rent	₹1,00,000	₹1,50,000
Municipal Valuation	₹90,000	₹1,20,000
Standard Rent	₹1,50,000	₹1,60,000
Actual Rent	NA	₹1,80,000
Municipal Taxes Paid	10%	10%
Interest on Capital Borrowed	₹25,000	₹25,000

Calculate Income of Mr. X for PY2025-26 under both regime.

**Solution****Computation of Total Income of Mr. X for PY 2025-26 under New Regime**

Particulars	Self Occupied (HP1)	Let-Out (HP2)
Expected Rent	Nil	1,50,000
Actual Rent	Nil	1,80,000
GAV	Nil	1,80,000
Less : Municipal taxes paid	Nil	12,000
NAV	Nil	1,68,000
Less : Standard Deduction @30%	Nil	50,400

Less : Interest on capital borrowed	Nil	25,000
Income under head House Property	Nil	92,600

**Calculation of Total Income of Mr. X**

Particulars	Amount
Income from self occupied house property	Nil
Income from let out house property	92,600
<b>Total Income</b>	<b>92,600</b>

**Computation of Total Income of Mr. X for PY 2025-26 under Old Regime**

Particulars	Self Occupied (HP1)	Let-Out (HP2)
Expected Rent	Nil	1,50,000
Actual Rent	Nil	1,80,000
<b>GAV</b>	<b>Nil</b>	<b>1,80,000</b>
Less : Municipal taxes paid	Nil	12,000
<b>NAV</b>	<b>Nil</b>	<b>1,68,000</b>
Less : Standard Deduction @30%	Nil	50,400
Less : Interest on capital borrowed	(25,000)	25,000
Income under head House Property	(25,000)	92,600

**Calculation of Total Income of Mr. X**

Particulars	Amount
Income from self occupied house property	(25,000)
Income from let out house property	92,600
<b>Total Income</b>	<b>67,600</b>

**Co-owned House Property**

Co-owned Property Is Let Out	Co-owned Property is Self Occupied
<ol style="list-style-type: none"> <li>1. Calculate income of let out property normally as a single owner.</li> <li>2. Income so calculated shall be divided between each co-owner on the basis of ownership right.</li> </ol>	<ol style="list-style-type: none"> <li>1. Calculated for each co-owner separately.</li> <li>2. NAV= Nil</li> <li>3. Each co-owner is entitled for deduction of ICB of Rs.30,000 or Rs.2 lakh respectively (only in case of old regime)</li> </ol>

**Illustration 17**

Mr. X is a co-owner of a house property alongwith his brother. Municipal value of the Property ₹1,60,000; Fair Rent ₹1,50,000; Standard Rent under the Rent Control Act ₹1,70,000; Rent received 15,000 p.m. The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹25,000 out of which ₹21,000 have been paid. Interest on the unpaid interest is ₹450. To repay this loan, X and his brother have taken a

fresh loan and interest charged on this loan is ₹5,000. The Municipal taxes of ₹5,100 have been paid by the tenant. Mr. X has 50% share in the house property. Mr. X has income from Other Sources ₹2,60,000. Compute the income from this property chargeable in the hands of Mr. X.

**Solution****Computation of Income under head House Property**

Particulars	Amount
Expected Rent	1,60,000
Actual Rent (15000 x 12)	1,80,000
Gross Annual Value (Higher of ER/AR)	1,80,000
Less: Municipal Taxes Paid	NIL
Net Annual Value	1,80,000
Less: Standard Deduction @30%	54000
Less: Interest on capital borrowed (25000 + 5000)	30000
Income Under head House Property	96000

**Computation of Income chargeable in Hands of Mr. X**

Particulars	Amount
Share in House Property Income (96000 x 50%)	48,000
Other Income	2,60,000
GTI	3,08,000

**Deemed Owner (Section 27)**

<b>Transfer of HP to Spouse for Inadequate consideration</b>	Transferor Spouse is deemed to be owner of HP transferred. However, if Transferred under an agreement to live apart, then transferee spouse shall be considered as owner
<b>Transfer of HP to Minor Child for inadequate consideration</b>	Transferor is deemed as owner of HP. However, HP is transferred to a minor married daughter, then deemed ownership not applied.
<b>Member of a Co-operative Society</b>	Member to whom a building or part thereof is allotted or leased under a House Building Scheme of a society / company /association, shall be deemed to be owner of that building
<b>Person in possession of a property</b>	If possession is received for part performance of the contract, then person having the possession is deemed owner for income tax purpose
<b>Holder Of Impartible Estate</b>	Deemed as owner of all properties in the estate
<b>Lease for 12 years or more</b>	A person who acquires any building by way of lease for a period of 12 years or more shall be deemed to be the owner of that building.

## CHAPTER 3C: PROFIT & GAINS FROM BUSINESS & PROFESSIONS

### Section 28 Basis Of Charge

1. The profit of any business or profession carried at any time during the relevant PY.
2. Export incentives (Cash assistance/ sale of import license / duty drawback)
3. Profit on sale of Duty Entitlement Pass Book.
4. The value of any benefit or perquisite arising from business or Profession (Gift received from customers/client)
5. Any interest, salary, bonus, commission or remuneration, received by a partner of a firm from such firm.
6. Non - competing fees
  - a) for not carrying out any activity in relation to any Business
  - b) not sharing any know-how, patent, copyright, trademark, license, franchise or any other business or commercial right
7. Any sum received by ER under a Keyman insurance policy
8. Income from speculative transaction
9. Amount received in connection with termination or modification of terms and conditions of any Business contracts.
10. If any person has converted any inventory or stock in trade in to a capital asset.(  
Business Income = FMV on Date of Conversion
11. Any income from letting out of residential house or part thereof by the owner shall be chargeable under the head "Income from house property" rather than PGBP

#### Note:

#### Meaning of Speculative Transaction

It means a transaction in which a contract for the purchase or sale of any commodity including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or securities.

#### Transactions not deemed to be speculative transactions

The following forms of transactions shall not be deemed to be speculative transaction:

- a) Hedging contract in respect of raw materials or merchandise or stocks and shares
- b) Forward contract
- c) Trading in derivatives carried out electronically through SEBI registered stockbroker or sub broker or intermediary in a recognized stock exchange.
- d) Trading in commodity derivatives carried out electronically through a registered member or intermediary in a recognised stock exchange, which is chargeable to commodities transaction tax.

However, the requirement of chargeability of commodities transaction tax is not applicable in respect of trading in agricultural commodity derivatives.

## Section 29 How to Compute PGBP

The income referred to in section 28 shall be computed in accordance with the provisions contained in sections 30 to 43D.

## Rent, Rates, Taxes, Repairs and Insurance for Buildings [Section 30]

Building Used As	Expenses Allowed
Tenant	Rent, Current Repairs, Municipal Taxes & Insurance
Owner	Current Repairs, Taxes, Insurance and also Dep (u/s 32)

**Note:**

1. Capital repairs incurred by the owner are not allowed as a deduction but instead, assessee can claim depreciation on such repairs.
2. Capital repairs incurred by tenant is treated as deemed building and depreciation is allowed to tenant.
3. If assessee is owner of building then assessee cannot claim notional rent.

## Section 31 Deduction relating to plant, machinery &amp; furniture

- Current Repairs and Insurance related to P/M & Furniture used in business is allowed u/s 31.
- Rent Paid for P/M & Furniture if taken on hire, shall also be allowed but in u/s 37.

## Section 32 Depreciation

## 1. Conditions for claiming Depreciation

- a) Asset must be owned by the assessee, wholly or partly.
- b) Asset must be used for the purpose of business or profession.
- c) Asset must be used during the previous year.

If any of the above condition is not satisfied, depreciation shall not be allowed.

**Note:**

- a) It is mandatory for Assessee to claim depreciation.
- b) Depreciation is allowed when asset is put to use and not when it is ready to use.

## 2. Methods Of Depreciation

- (a) Normal Depreciation For Block Of Assets on WDV basis
- (b) Additional Depreciation For Eligible Asset
- (c) Asset Wise Depreciation For An Undertaking Engaged In Generation or Generation & Distribution Of Power

**3. Section 2(11): Block of Assets**

It means a group of assets falling within a class of assets comprising:

- a) Tangible assets, being building, plant and machinery or furniture
  - b) Intangible assets, being know how, patents, copyrights, trademarks etc.
- in respect of which same rate of depreciation is charged.

**4. Rate Of Depreciation**

<b>Building</b>	
• Residential Purpose Building other than Hotel	5%
• Non Residential Purpose Building including Hotel	10%
• Temporary erections	40%
<b>Machinery and Plant</b>	
<b>Machinery and Plant (General)</b>	15%
• Motor cars	
• Used in a business of running them on hire	
Generally	30%
Acquired and Put To Use between 23/8/19 – 31/3/20	45%
• Other than Used in a business of running them on hire	
Generally	15%
Acquired and Put To Use between 23/8/19 – 31/3/20	30%
• Ships	20%
• Airplanes	40%
• Computers including computer software and computer peripherals (Excluding Mobile)	40%
• Books	40%

**5. WDV For Charging Depreciation**

Particulars	Amount
Opening WDV of Block	xxx
Add: Assets acquired During the previous year	
Put To Use for 180 days or more	xxx
Put To Use for Less than 180 days	xxx
Not Put To Use	xxx
Less: Money Payable (Selling Price Of Asset)	(xxx)
Closing WDV Before Depreciation	xxx
Less: Depreciation actually Allowed	xxx

**Note:** If asset is acquired but not put to use, then depreciation on such asset shall not be allowed.

## Example 01

<b>Block 15%</b>	₹
Opening WDV (A/B/C) as on 1/4/25	10,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D	₹5,00,000	01/07/25	01/08/25
E	₹6,00,000	01/08/25	16/08/25
F	₹7,00,000	01/12/25	14/05/26

On 01/03/26 asset B was sold for ₹4,00,000

Calculate depreciation for PY 2025-26 & Opening WDV for PY 2026-27

## Solution

## Calculation of depreciation (Block 15%)

Particulars	₹
Opening WDV (A/B/C) on 01/04/2025	10,00,000
Add: Purchased & Put to use during the year	
D 5,00,000	
E 6,00,000	11,00,000
Add: Purchased but not put to use during year (F)	7,00,000
Less: Asset sold or discarded (B)	(4,00,000)
Closing WDV (A/C/D/E/F)	24,00,000
Depreciation $[15\% \times (24,00,000 - 7,00,000)]$	(2,55,000)
Opening WDV (A/C/D/E/F) on 01/04/2026	21,45,000
Add: Purchased & Put to use during the year	Nil
Less: Asset sold or discarded	Nil
Closing WDV as on 31/03/2027	21,45,000
Depreciation $[15\% \times 21,45,000]$	3,21,750

## Example 02

<b>Block 15%</b>	₹
Opening WDV (A/B/C) as on 1/4/2025	15,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D	₹6,00,000	01/07/25	01/08/25
E	₹4,00,000	01/03/26	01/04/26

On 15/12/2025 asset C was sold for ₹2,50,000

Calculate depreciation for PY 2025-26 & Opening WDV for next year.

## Solution

## Calculation of depreciation (Block 15%)

Particulars	₹
Opening WDV (A/B/C) on 01/04/2025	15,00,000
Add: Purchased & Put to use during the year (D)	6,00,000



Add: Purchased but not put to use during year (E)	4,00,000
Less: Asset sold or discarded (C)	(2,50,000)
Closing WDV (A/B/D/E)	22,50,000
Depreciation $[15\% \times (22,50,000 - 4,00,000)]$	(2,77,500)
Opening WDV (A/C/D/E/F) on 01/04/2026	19,72,500

**Example 03**

Suppose in above example, Machine E was sold instead of machine C for 2,50,000. Calculate Depreciation for PY 2025-26

**Solution****Calculation of depreciation (Block 15%)**

Particulars	₹
Opening WDV (A/B/C) on 01/04/2025	15,00,000
Add: Purchased & Put to use during the year (D)	6,00,000
Add: Purchased but not put to use during year (E)	4,00,000
Less: Asset sold or discarded (E)	(2,50,000)
Closing WDV (A/B/C/D)	22,50,000
Depreciation $[15\% \times 22,50,000]$	(3,37,500)
Opening WDV on 01/04/2026	19,12,500

**6. Depreciation allowed at Half Rate**

Depreciation will be restricted to 50% of the normal depreciation, if the following conditions are satisfied:

1. Asset is purchased and put to use in the same Year.
2. Period of put to use for less than 180 days.

**Note:**

1. Half rate of depreciation is charged on value of asset, not on Block value.
2. No depreciation is charged when assets purchased is not put to use.
3. Charge Full rate of depreciation on balance value of asset remaining after charging half rate of depreciation

**Example 04**

<b>Block 15%</b>	₹
Opening WDV (A/B/C) as on 1/4/2025	10,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D	₹5,00,000	15/07/25	01/08/25
E	₹6,00,000	15/09/25	05/10/25

Asset B and C was sold for ₹7,00,000. Calculate depreciation for PY 2025-26

## Solution

## Calculation of depreciation (Block 15%)

Particulars	₹
Opening WDV (A/B/C) on 01/04/2025	10,00,000
Add: Purchased & Put to use during the year	
Put to use for 180 days or more: D - 5,00,000	
Put to use for less than 180 days: E - 6,00,000	11,00,000
Add: Purchased but not put to use during year	Nil
Less: Asset sold or discarded (B/C)	(7,00,000)
Closing WDV (A/D/E)	14,00,000
Half rate of depreciation: $E = 7.5\% \times 6,00,000$	45,000
Full rate of depreciation: Remaining Block $(14,00,000 - 6,00,000) \times 15\%$	1,20,000
Total Depreciation	1,65,000

## Example 05

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/2025	10,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
P	₹2,00,000	16/07/25	18/08/25
Q	₹3,00,000	15/09/25	31/10/25
R	₹4,00,000	01/01/26	05/05/26
S	₹1,00,000	01/07/26	31/12/26

Following Assets were sold :-

1. B sold for ₹1,00,000 on 31/12/2025
2. C sold for ₹70,000 on 31/01/2027

Calculate depreciation for PY 2025-26 & PY 2026-27

## Solution

## Calculation of depreciation (Block 15%) for PY 2025-26

Particulars	₹
Opening WDV (A/B/C/D) on 01/04/2025	10,00,000
Add: Purchased & Put to use during the year	
Put to use for 180 days or more: P - 2,00,000	
Put to use for less than 180 days: Q - 3,00,000	5,00,000
Add: Purchased but not put to use during year (R)	4,00,000
Less: Asset sold or discarded (B)	(1,00,000)
Closing WDV (A/C/D/P/Q/R)	18,00,000
Half rate of depreciation: $7.5\% \times 3,00,000$	22,500
Full rate of depreciation: $(18,00,000 - 3,00,000 - 4,00,000) \times 15\%$	1,65,000
Total Depreciation	1,87,500

## Calculation of depreciation (Block 15%) for PY 2026-27

Particulars	₹
Opening WDV (A/C/D/P/Q/R) on 01/04/2026	16,12,500
Add: Purchased & Put to use during the year	
Put to use for 180 days or more: Nil	
Put to use for less than 180 days: S - 1,00,000	1,00,000
Add: Purchased but not put to use during year	Nil
Less: Asset sold or discarded (C)	(70,000)
Closing WDV (A/D/P/Q/R/S)	16,42,500
Half rate of depreciation: $S = 7.5\% \times 1,00,000$	7,500
Full rate of depreciation: $(16,42,500 - 1,00,000) \times 15\%$	2,31,375
Total Depreciation	2,38,875

### 7. When No Depreciation Shall Be Allowed

#### a) All the assets of the block are transferred (Block Ceases To Exist)

In case all the assets in any block are transferred during the previous year then the block shall cease to exist and no depreciation will be allowed. It can happen in the following two cases:

- Sale price exceeds (Op. WDV + Assets purchased during the year)  
 $STCG \text{ u/s } 50 = \text{Sale Price} - (\text{Op. WDV} + \text{Assets purchased during the year})$
- Sale price < (Op. WDV + Assets purchased during the year then)  
 $STCL \text{ u/s } 50 = \text{Sale Price} - (\text{Op. WDV} + \text{Assets purchased during the year})$

#### b) Part of block is sold and the sale consideration of assets exceeds block Value

- Sale price > (Op. WDV + Assets purchased during the year)
- Although certain assets exist in block, but the WDV of the block shall be reduced to NIL and no Depreciation shall be allowed.
- Excess shall be treated as short-term capital gain.

### Example 06

Calculate depreciation from the following information's:

Block 15%

Opening WDV A/B/C ₹12,00,000

D purchased and Put to use on 01/05/25 ₹3,00,000

- Asset B and C were sold for ₹16,00,000 on 01/12/25
- Asset B and C were sold for ₹11,80,000

### Solution

#### Calculation of depreciation (Block 15%)

Particulars	₹
Under head PGBP	
Opening WDV (A/B/C)	12,00,000
Add: Purchased & Put to use during the year (D)	3,00,000
Less: Asset sold or discarded (B/C)	(15,00,000)

Closing WDV (A/D)	Nil
Depreciation	Nil
Under head Capital Gain	
STCG u/s 50 = Sale value – Block value i.e. 16,00,000 – 15,00,000	1,00,000

### 8. Additional depreciation on new machinery or plant [Section 32(1)(ia)] – Only For Old Regime

- A.** Allowed to assessee engaged in manufacture of any article or generation or generation and distribution of power.
- B Assets for which additional depreciation is allowed:**  
Any new machinery or plant which has been acquired and installed. However, additional depreciation shall not allowed for:
- Ships and aircraft;
  - Second Hand Plant/Machinery ;or
  - Any machinery or plant installed office or residential accommodation or office appliances or road transport vehicles;
  - Any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise)
- C.** Additional depreciation shall be allowed @ 20% in the first year in which it is put to use.
- D.** If the asset is put to use for less than 180 days, then additional depreciation is allowed @ 10% in the first year, and balance of 10% shall be allowed in next year.
- E. Notes:**
- Printing or printing and publishing is treated as manufacturing business – eligible for additional dep.
  - Forklift used in factory is not treated as transport vehicle hence eligible for add. Dep.
  - Add. Dep. Shall not be allowed to power units if they opted SLM method.

### Example 07

<b>Block 15%</b>	₹
Opening WDV (A/B/C) as on 1/4/2025	10,00,000

Assessee engaged in Manufacturing

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D (New)	₹3,00,000	10/07/25	10/08/25
E (Second Hand)	₹2,00,000	10/08/25	10/09/25
F (New)	₹3,00,000	10/09/25	10/10/25
G (New)	₹1,00,000	10/10/24	10/04/26

Asset B was sold for ₹3,60,000. Calculate depreciation for PY 2025-26

## Solution

## Calculation of depreciation (Block 15%)

Particulars	₹
Opening WDV (A/B/C)	10,00,000
Add: Purchased & Put to use during the year	
Put to use for 180 days or more: D/E - 5,00,000	
Put to use for less than 180 days: F - 3,00,000	8,00,000
Add: Purchased but not put to use during year (G)	1,00,000
Less: Asset sold or discarded (B)	(3,60,000)
Closing WDV (A/C/D/E/F/G)	15,40,000
<b>Normal Depreciation</b>	
Half rate of depreciation: $7.5\% \times 3,00,000$	22,500
Full rate of depreciation: $(15,40,000 - 1,00,000 - 3,00,000) \times 15\%$	1,71,000
<b>Additional Depreciation</b>	
D = $3,00,000 \times 20\%$	60,000
F = $3,00,000 \times 10\%$	30,000
<b>Total Depreciation</b>	<b>2,83,500</b>

## Note:

- Balance additional depreciation of Machine F ( $3,00,000 \times 10\% = 30,000$ ) shall be allowed in Next year i.e. 2026-27
- 20% additional depreciation of asset G shall be allowed in the next year 2026-27 i.e. year in which it is actually put to use.

## 9. Actual cost

It means,

- Actual cost of the asset to the assessee, and
- It should not include any portion of the cost which has been incurred directly or indirectly by any other person or authority.

## Note:

- If the assessee makes a payment or aggregate of payment more than Rs.10,000 to a person in a day, by mode other than an A/c payee cheque, A/c payee bank draft, or electronic clearing system through a bank account, such payment shall be ignored for the purpose of determination of actual cost.
- Interest paid before commencement of production on amounts borrowed for acquisition and installation of machinery forms the part of actual cost.

## Example 08

Loan of ₹15,00,000 was taken on 01/07/2024 @12% interest rate for construction of office building. Construction completed on 01/12/2025 and building put to use immediately.

- Calculate Actual cost of building
- Calculate Depreciation of building for PY 2025-26
- Calculate interest on loan debited to profit and loss A/c

**Solution**

- a) Interest from the date of loan till the date of actual put to use shall be added to the cost of building.

Interest from 01/07/24 – 01/12/25 =  $15,00,000 \times 12\% \times 17/12 = 2,55,000$

Hence, Cost of Building =  $15,00,000 + 2,55,000 = 17,55,000$

- b) Period of put to use of Building = 01/12/25-31/03/26

Since, period of put to use is for less than 180 days. Hence, depreciation shall be allowed at half rate i.e. 5%

Hence, Depreciation on Building =  $17,55,000 \times 5\% = 87,750$

- c) Amount of interest debited to Profit & Loss A/c =  $15,00,000 \times 12\% \times 4/12 = 60,000$

**Actual cost in certain special situations [Explanations to section 43(1)]**

Situation	Actual Cost
Acquisition of Asset: Where assessee himself acquires the asset.	Purchase Price Add: (a) Interest on Loan for the period upto the date of usage of the asset (b) Freight and Insurance (c) Loading, Unloading Charges (d) Installation and Erection Charges Less: (a) Any amount met by any Authority or any other person by way of Subsidy or Grant, (b) GST ITC Credit availed
Assets used in Scientific Research subsequently put into use for business.	Nil. As Asset Cost wholly deductible u/s 35
Conversion of Stock into Capital Asset	FMV which has been taken into account for the purpose of Sec.28(via)
Asset received under Gift, Will or Inheritance.	WDV to the Previous Owner.
Acquisition of Second Hand asset to claim depreciation on enhanced cost to reduce tax liability, in the opinion of A.O.	Cost as determined by the AO, having regard to circumstances of the case, with the prior approval of Joint Commissioner of Income Tax.
Transfer and Re-acquisition: Transfer of an asset and re-acquisition of the same.	WDV at the time of Original Transfer or repurchase price, whichever is less.
Sale and Lease Back: Sale of an asset to the Lessor and taking them back on lease.	WDV to the Transferor.
Building used for private purpose and subsequently put into use in business	Cost of Acquisition or Construction Less: Notional / Deemed Depreciation for the period of personal use.
Assets brought into India by a Non-	Actual Cost of Acquisition

Resident.	Less: Notional Depreciation for the period held outside India
Receipt of Subsidy / Grant / Reimbursement for the acquisition of asset from Central Government or State Government	Actual Cost shall be reduced by cost as related with such Subsidy/ Grant / Reimbursement

**Note:** For any other asset which was earlier used for personal purpose but now put to use in business, then actual cost shall be actual cost to assess i.e. Notional depreciation shall not be deducted.

**Example:** Computer purchased on 01/04/2023 for Rs. 1,00,000 and used for personal purpose. On 01/04/2025, Computer was put to use in business. In this case, actual cost shall be Actual cost to assessee i.e. Rs. 1,00,000.

### 10. Depreciation On SLM Basis

Assessee	Engaged in Generation, transmission, Distribution of Power
Time to Exercise	Before RFD u/s 139(1) of PY in which they begin to generate power. The option once exercised shall not be reversed.

**Note:** Option of SLM is For Tangible Assets only; For Intangible Assets only WDV is applicable. Depreciation can be charged on tangible assets individually; i.e. SLM/WDV whichever is more beneficial.

### Sale of Asset By Assessee Engaged In Power Generation

#### ➤ Case 1: Sale Value < Book Value

Terminal Depreciation (Dr. to P/L) = Book Value – Sale Value

#### ➤ Case 2: Sale Value > Book Value But ≤ Actual Cost

Balancing Charge (Cr. To P/L) = Sale Value – Book Value

#### ➤ Case 3: Sale Value > Actual Cost

Balancing Charge (Cr. To P/L) = Actual Cost – Book Value

LTCG/STCG Depending on Period of Holding = Sale Value – Actual Cost

### **Example 09 Calculate depreciation**

Asset was purchased on 01/04/2023 for ₹10,00,000 (life 10 years)

It was sold on 15/07/2025

- Case-1 : Sale value = ₹7,50,000
- Case-2 : Sale value = ₹8,90,000
- Case-3 : Sale Value = ₹11,50,000

### **Solution**

- a) Asset book value = Cost of asset – Depreciation for PY 2023-24 & 2024-25
- $$= 10,00,000 - [1,00,000 + 1,00,000]$$
- $$= 8,00,000$$

Since, Sale value < Book Value

Therefore, terminal depreciation = Book value – sale value



$$= 8,00,000 - 7,50,000 = 50,000/-$$

$$\begin{aligned} \text{b) Asset book value} &= \text{Cost of asset} - \text{Depreciation for PY 2023-24 \& 2024-25} \\ &= 10,00,000 - [1,00,000 + 1,00,000] \\ &= 8,00,000 \end{aligned}$$

Since, sale value > Book value i.e. in excess of 90,000

Therefore, Balancing charge under PGBP = Sale Value – Book Value

$$= 8,90,000 - 8,00,000 = 90,000/-$$

$$\begin{aligned} \text{c) Asset book value} &= \text{Cost of asset} - \text{Depreciation for PY 2023-24 \& 2024-25} \\ &= 10,00,000 - [1,00,000 + 1,00,000] \\ &= 8,00,000 \end{aligned}$$

Since, Sale value > Actual cost of asset

Therefore, Balancing charge under PGBP

$$= \text{Sale Value} - \text{Book Value} = 10,00,000 - 8,00,000 = 2,00,000$$

$$\text{STCG u/s 50} = \text{Sale value} - \text{Cost of Acquisition} = 11,50,000 - 10,00,000 = 1,50,000/-$$

### 11. Unabsorbed Depreciation

- Where in any previous year profit before depreciation is not sufficient to absorb full depreciation expense, then depreciation is allowed to the extent of profit and balance depreciation shall be termed as unabsorbed depreciation.
- Such unabsorbed depreciation shall be carried forward to next year for adjustment.
- Unabsorbed dep shall be carried forward for indefinite years till it gets fully set off.

#### For example:

$$\text{Profit before depreciation} = ₹1,50,000$$

$$\text{Depreciation} = ₹2,10,000$$

In this case depreciation allowed shall be ₹1,50,000 (to the extent of profit) and balance 60,000 shall be treated as unabsorbed depreciation.

### 12. Carry forward and set off of unabsorbed depreciation

If Depreciation claim is more than profits before depreciation, then excess depreciation shall be deducted to the extent profits available and excess shall be c/f as unabsorbed depreciation.

After C/F Following shall be the order of setoff

- (i) PY Depreciation
- (ii) B/F Business Loss
- (iii) C/F Unabsorbed Depreciation

#### Illustration 01

Written down value of 4 machines at the beginning of the previous year 2024-25, forming part of a block of assets carrying 15% rate of depreciation was 5,00,000. The following 4 machines of the same block were bought:



Machines	Date of purchase	Date when put to use	Cost
P	5.1.2025	14.4.2025	₹50,000
Q	5.4.2025	15.5.2025	₹1,00,000
R	15.5.2025	31.7.2025	₹2,00,000
S	15.7.2025	27.8.2025	₹1,50,000

Calculate the depreciation for the assessment year 2025-26 and 2026-27

### Solution

#### Computation of Depreciation (Block 15%)

Particulars	Amount
Opening WDV as on 01/04/2024	5,00,000
(+) Purchase and Put to use	NIL
(+) Purchase but not Put to Use	50,000
(-) Sold / Discarded	NIL
Closing WDV	5,50,000
Depreciation for PY 2024-25 $(550000 - 50000) \times 15\%$	75,000
Opening WDV as on 01/04/2025	4,75,000
(+) Purchase and Put to use	
Q 1,00,000	
R 2,00,000	
S 1,50,000	4,50,000
(-) Sold / Discarded	NIL
Closing WDV	9,25,000
Depreciation for PY 2025-26 $(925000 \times 15\%)$	1,38,750
Opening WDV as on 01/04/2026	7,86,250

### Illustration 02

written down value of 4 machines at the beginning of the previous year 2025-26, forming part of a block of assets carrying 15% rate of depreciation was 5,00,000. The following 4 machines of the same block were bought:

Machines	Date of purchase	Date when put to use	Cost
P	5.1.2025	14.1.2025	₹50,000
Q	5.4.2025	15.5.2025	₹1,00,000
R	15.5.2025	31.1.2026	₹2,00,000
S	15.11.2025	27.3.2026	₹1,50,000

Four machines of this block (other than those which were acquired and put to use for less than 180 days) were sold for ₹4,00,000.

(a) Calculate the depreciation for the assessment year 2026-27.

(b) What will be the answer if four machines were sold for 7,00,000 instead of ₹4,00,000?

**Solution**

a) Sale Value is 4,00,000

**Computation of Depreciation (Block 15%) for PY 2025-26**

Particulars	Amount
Opening WDV (including Machine P)	5,00,000
(+) Purchase and Put to use during PY 2025-26	
1. Put to use $\geq$ 180 days : Q 1,00,000	
2. Put to use $<$ 180 days : R 2,00,000	
S 1,50,000	4,50,000
(-) Sold / Discarded	(4,00,000)
Closing WDV	5,50,000
Depreciation	
Half Rate = $3,50,000 \times 7.5\%$	26,250
Full Rate = $2,00,000 \times 15\%$	30,000
Total Depreciation	56,250

b) Sale Value is 7,00,000

**Computation of Depreciation (Block 15%) for PY 2025-26**

Particulars	Amount
Opening WDV (including Machine P)	5,00,000
1. Put to use $\geq$ 180 days : Q 1,00,000	
2. Put to use $<$ 180 days : R 2,00,000	
S 1,50,000	4,50,000
(-) Sold / Discarded	(7,00,000)
Closing WDV	2,50,000
Depreciation	
Half Rate = $2,50,000 \times 7.5\%$	18,750
Total Depreciation	18,750

**Illustration 03**

W.D.V of the block having two machines namely X & Y as on 1.4.2025 is ₹6,00,000. Machine Z was acquired on 5.11.2025 for 3,00,000 and put to use on the same date. Machine Z is sold on 28.3.2026 for ₹4,00,000.

- Compute the depreciation allowable for the assessment year 2026-27.
- What will be the Amount of depreciation allowed, if machine 'X' is sold instead of machine 'Z'?
- What will be the Amount of depreciation allowed if both 'X' and Y machines are sold instead of machine Z.

**Solution****a) Z is sold for 4,00,000****Computation of Depreciation (Block 15%)**

Particulars	Amount
Opening WDV (X/Y)	6,00,000
(+) Purchase and Put to Use < 180 days (Z)	3,00,000
(-) Sold / Discarded (Z)	(4,00,000)
Closing WDV (X/Y)	5,00,000
Depreciation ( $5,00,000 \times 15\%$ )	75,000

As asset Z does not exist on last day of PY, therefore No half rate of depreciation shall be applicable

**b) X is sold for 4,00,000****Computation of Depreciation (Block 15%)**

Particulars	Amount
Opening WDV (X/Y)	6,00,000
(+) Purchase and Put to Use < 180 days (Z)	3,00,000
(-) Sold / Discarded (X)	(4,00,000)
Closing WDV (Y/Z)	5,00,000
Depreciation:	
Half rate (Z) ( $3,00,000 \times 7.5\%$ )	22,500
Full rate (remaining block) ( $2,00,000 \times 15\%$ )	30,000
Total depreciation	52,500

**c) X and Y sold for 4,00,000****Computation of Depreciation (Block 15%)**

Particulars	Amount
Opening WDV (X/Y)	6,00,000
(+) Purchase and Put to Use < 180 days (Z)	3,00,000
(-) Sold / Discarded (X/Y)	(4,00,000)
Closing WDV (Z)	5,00,000
Depreciation:	
Half rate (Z) ( $3,00,000 \times 7.5\%$ )	22,500
Full rate (remaining block) ( $2,00,000 \times 15\%$ )	30,000
Total depreciation	52,500

**Illustration 04**

The written down value of a block of asset as on 1.4.2025 was ₹8,00,000. An asset of the same block was acquired during the year for ₹3,00,000. Thereafter, all the assets of the block are sold for ₹12,00,000.

**(a)** Compute the depreciation for the assessment year 2026-27 and also indicate if there is any short-term capital gain /loss.

**(b)** would your answer change if the sale consideration is ₹9,00,000.

(c) Part of block is sold and the sale consideration of assets exceed value of the block

### Solution

a) Sale value is 12,00,000

Under head PGBP: as all assets of the block have been sold, Block ceases to exist and therefore, No depreciation shall be allowed

Under head Capital Gain:

$$\begin{aligned}\text{STCG u/s 50} &= \text{Sale value} - \text{Block value} \\ &= 12,00,000 - (8,00,000 + 3,00,000) \\ &= 12,00,000 - 11,00,000 \\ &= 1,00,000 \text{ /-}\end{aligned}$$

b) Sale value is 9,00,000

Under head PGBP: No depreciation shall be allowed as closing WDV of block will become NIL when part of block is sold but sale value exceeds block value

Under head Capital Gain:

$$\begin{aligned}\text{STCG u/s 50} &= \text{Sale value} - \text{Block value} \\ &= 9,00,000 - (8,00,000 + 3,00,000) \\ &= 9,00,000 - 11,00,000 \\ &= (2,00,000)\end{aligned}$$

### Illustration 05

X owns the following machinery as on 1.4.2025:

Machinery	WDV as on 1.4.2025	Rate of depreciation (%)
Machinery A	₹70,000	15
Machinery B	₹1,64,000	15
Machinery C	₹84,000	15

He acquired a new machinery i.e. machinery D For ₹60,000 on 2.11.2025. Machine B & C are sold on 31st January 2026 for ₹5,00,000 .

- (a) Compute the depreciation for the assessment year 2026-27 and also indicate if there is any short-term capital gain/loss.
- (b) What Will Be your answer if Machinery B and machinery C are sold on 15.3.2026 for consideration of ₹80,000 and ₹40,000 respectively.

### Solution

#### Computation of Depreciation (Block 15%)

Particulars	Amount
Opening WDV as on 01/04/2025 (A/B/C)	3,18,000
(+) Purchase and Put to use for 180 days or more	-
(+) Purchase and Put to Use for less than 180 days (D)	60,000
(+) Purchase but not put to use	-

(-) Sold / Discarded (B/C)	(5,00,000)
Closing WDV as on 31/03/2026	NIL

Under head PGBP: No depreciation shall be allowed as closing WDV of block will become NIL when part of block is sold but sale value exceeds block value

Under head Capital Gain:

$$\begin{aligned}
 \text{STCG u/s 50} &= \text{Sale value} - \text{Block value} \\
 &= 5,00,000 - (3,18,000 + 60,000) \\
 &= 5,00,000 - 3,78,000 \\
 &= 1,22,000 \text{ /-}
 \end{aligned}$$

if Machinery B and machinery C are sold on 15.3.2026 for consideration of 80,000 and 40,000 respectively:

#### Computation of Depreciation (Block 15%)

Particulars	Amount
Opening WDV as on 01/04/2025 (A/B/C)	3,18,000
(+) Purchase and put to use for 180 days or more	-
(+) Purchase and Put to Use for less than 180 days (D)	60,000
(+) Purchase but not put to use	-
(-) Sold / Discarded (B/C)	(1,20,000)
Closing WDV as on 31/03/2026	2,58,000
Depreciation : Half Rate (60,000 x 7.5%)	4,500
Full Rate (1,98,000 x 15%)	29,700
Total Depreciation	34,200

#### Illustration 06

R Ltd. Has started a new business of manufacturing paints on 1-4-2022. The company has purchased the following assets during the financial year 2025-26:

Asset	Actual cost of acquisition	Date of purchase	Rate of depreciation as per Income Tax	Date of put to use
Furniture	₹2,00,000	10-4-2025	10%	10-4-2025
Air –conditioner installed in office	₹1,00,000	16-6-2025	15%	18-6-2025
Car	₹8,00,000	12-4-2025	15%	12-7-2025
Plant A	₹50,00,000	11-4-2025	15%	28-4-2025
Plant B	₹20,00,000	15-9-2025	15%	16-11-2025
Plant C	₹80,000	1-8-2025	40%	15-9-2025
Computer for office	₹1,00,000	1-7-2025	40%	1-7-2025
Computer for factory	₹1,50,000	2-7-2025	40%	4-7-2025

Compute the Amount of normal and additional depreciation for the assessment year 2026-27.

**Solution**

**Furniture – 10%**

Particulars	Amount
Opening WDV	-
Add: Purchase & Put To Use For 180 days or more	2,00,000
Add: Purchase & Put To Use For less than 180 days	-
Add: Purchase but not Put To Use	-
Less: Asset Sold & Discarded	-
Closing WDV (A/D)	2,00,000
Depreciation (2,00,000 x 10%)	20,000

**Plant & Machinery – 15%**

Particulars	Amount
Opening WDV	-
Add: Purchase & Put To Use For 180 days or more	
AC – office	1,00,000
Car	8,00,000
Plant A	50,00,000
Add: Purchase & Put To Use For less than 180 days	
Plant B	20,00,000
Less: Asset Sold & Discarded	Nil
Closing WDV (A/D)	79,00,000
Normal Depreciation	
Half Rate 20,00,000 x 7.5%	1,50,000
Full Rate 59,00,000 x 15%	8,85,000
Additional Depreciation	
Half Rate 20,00,000 x 10%	2,00,000
Full Rate 50,00,000 x 20%	10,00,000
Total Depreciation	22,35,000

**Plant & Machinery – 15%**

Particulars	Amount
Opening WDV	-
Add: Purchase & Put To Use For 180 days or more	
Plant C	80,000
Computer – Office	1,00,000
Computer – Factory	1,50,000
Add: Purchase & Put To Use For Less than 180 days	-
Less: Sold/Discarded	-

	Closing WDV	3,30,000
Normal Depreciation		
Full Rate 3,30,000 x 40%		1,32,000
Additional Depreciation		
Full Rate 2,30,000 x 20%		46,000
	Total depreciation	1,78,000

**Illustration 07**

R furnishes the following particulars of his income for the previous year 2025-26:

Particulars	Amount
Business income (before providing for depreciation)	₹72,000
Depreciation	₹94,000
Income from house property	₹60,000
Income from other source	₹6,000
Income from salary	₹3,00,000

Compute the taxable income of R for the assessment year 2026-27

**Solution**

Particulars	Amount	Amount
Income u/h Salary		3,00,000
Income u/h House Property	60,000	
Less: Depreciation	22,000	38,000
PGBP		
Profit Before Depreciation	72,000	
Less: Depreciation	72,000	Nil
Income u/h Other sources		6,000
	GTI	3,44,000
Less: Deductions		-
	Total Income	3,44,000

**Illustration 08**

An electricity company which was charging depreciation on SLM and whose actual cost of the asset was ₹5,00,000 and written down value ₹4,50,000 sold the said asset during 2025-26 after 2 years. What will be the tax treatment if the asset is sold for:

- (i) ₹3,50,000
- (ii) ₹4,80,000
- (iii) ₹6,00,000

**Solution**

- a. Since sale value (i.e. 3,50,000) is less than book value (i.e. 4,50,000)  
Therefore, Terminal Depreciation shall be allowed as expense in P/L
- $$\begin{aligned} \text{Terminal Depreciation} &= \text{Book Value} - \text{Sale Value} \\ &= 4,50,000 - 3,50,000 \end{aligned}$$

$$= 1,00,000$$

- b. Since sale value (i.e. 4,80,000) is less than actual cost (i.e. 5,00,000)

Therefore, Balancing charge shall be shown as income in P/L

$$\begin{aligned}\text{Balancing Charge} &= \text{Sale Value} - \text{Book Value} \\ &= 4,80,000 - 4,50,000 \\ &= 30,000\end{aligned}$$

- c. Since sale value (i.e. 6,00,000) exceeds actual cost (i.e. 5,00,000)

Therefore, Capital Gain shall be computed

$$\begin{aligned}\text{STCG} &= \text{Sale Value} - \text{Cost of Acquisition} \\ &= 6,00,000 - 5,00,000 \\ &= 1,00,000\end{aligned}$$

$$\begin{aligned}\text{Balancing charge} &= \text{Actual cost} - \text{Book Value} \\ &= 5,00,000 - 4,50,000 \\ &= 50,000\end{aligned}$$

### Section 35 Scientific Research

#### 1. In-house Research ( Research – Related To Business)

Assessee	All Assesseees
Research During PY	100% of revenue as well as capital expenditure incurred during the previous year shall be allowed as deduction except capital expenditure on purchase of LAND.
Research before commencement of business	<ul style="list-style-type: none"> <li>Exp Incurred upto 3 years before the commencement of business shall be allowed in the year of commencement of business.</li> <li>Revenue Expenditure – Only Salary (Excluding Perq) + Material</li> </ul> <p><b>Note:</b> Other Revenue Exp Not Allowed</p> <ul style="list-style-type: none"> <li>Capital Expenditure – Allowed Except LAND</li> </ul>

#### 2. Sale of assets used for scientific research Section 41(3)

- Asset Sold Without Being Put to use for business purpose:**
  - Sale Value  $\leq$  Actual Cost, then sale value is Business Income
  - Sale Value  $>$  Actual Cost, then actual value is business income and difference between sale value and actual cost shall be STCG/LTCG depending upon period of holding
- Asset Sold After Being Put to use for business purpose:**  
Asset will be added to the respective block with NIL value and deducted from the block with sale value

#### Example 10

Calculate income under head PGBP

- Profit before depreciation for PY 2025-26 = ₹5,00,000



2. Opening WDV of block of machine = ₹6,00,000
3. Scientific research machine was purchased in year 2022-23 for ₹5,00,000 and put to use in business on 01/04/2025
4. Machine is sold for ₹1,50,000 on 31/12/2025

**Solution****Calculation of depreciation (Block 15%)**

Particulars	₹
Opening WDV	6,00,000
Add: Purchased & Put to use during the year (S/R)	Nil
Less: Asset sold or discarded (S/R)	(1,50,000)
Closing WDV	4,50,000
Depreciation [15% x 4,50,000]	67,500

**Calculation of Income under head PGBP**

Particulars	₹
Profit before depreciation	5,00,000
Less: Depreciation	67,500
Income under head PGBP	4,32,500

**3. Carried forward of unadjusted capital expenditure of scientific research**

- If profit before deducting capital expenditure on scientific research is less than capital expenditure on scientific research, then excess capital expenditure is carried forward.
- Revenue expenditure on Scientific Research is always allowed irrespective of availability of profits.

**Example 11**

	Case 1	Case 2	Case 3
Profit before S/R Exp.	₹10,00,000	₹6,00,000	₹1,00,000
Revenue Exp. of S/R	₹4,00,000	₹4,00,000	₹4,00,000
Capital Exp. of S/R	₹5,50,000	₹5,50,000	₹5,50,000

**Show Tax Implications****Solution****Calculation of income under head PGBP**

Particulars	Case 1	Case 2	Case 3
Profit before Scientific research Expenditure	10,00,000	6,00,000	1,00,000
Less: Scientific research Revenue Expenditure	4,00,000	4,00,000	4,00,000
	6,00,000	2,00,000	(3,00,000)
Less: Scientific research Capital Expenditure	(5,50,000)	(2,00,000)	Nil
Income under head PGBP	50,000	Nil	(3,00,000)
C/F Scientific research capital expenditure	Nil	3,50,000	5,50,000

#### 4. Contribution To Outside Agency (Research – Business Relation not compulsory) – Old Regime

Donation given to an Approved scientific research association	100%
Donation is given to an Indian company approved for the purpose of scientific research or to any approved institution social science or statistical research.	100%
Donation is given to IIT/National Laboratory for scientific research	100%

##### Note:

Deduction shall not be denied if after making donation by the assessee, approval of such institution has been withdrawn.

#### Illustration 09

X Ltd. purchased one plant and machinery for ₹30 lakhs on 01.10.2024 for scientific research and entire Amount was debited to the Profit and loss account, subsequently the asset was sold for ₹33 lakhs in the year 2025-26. WDV of machine as on 1st April 2025 is ₹60 lakhs. Profit before depreciation is ₹40 lakhs. Show tax implications if:

- Asset is sold after being put to use in business.
- Asset is sold without being put to use in business.

#### Solution

##### a) Asset is sold after being put to use in business.

Particulars	Amount
Profit Before Depreciation	40,00,000
Less: Depreciation	4,05,000
PGBP	35,95,000

#### Calculation of Depreciation

Particulars	Amount
Opening WDV	60,00,000
Add: Asset Put To Use (Scientific Research Asset)	Nil
Less: Sale / Discarded (Scientific Research Asset)	33,00,000
Closing WDV	27,00,000
Depreciation $30,00,000 \times 15\%$	4,05,000

##### b) Asset is sold without being put to use in business

Particulars	Amount	Amount
PGBP		
Profit Before Depreciation	40,00,000	
Sale Of Scientific Research Asset	30,00,000	
Less: Depreciation	9,00,000	61,00,000
Income u/h Capital Gains		
Sale Value	33,00,000	

Less: Cost of Acquisition	30,00,000	3,00,000
GTI		64,00,000

### Calculation of Depreciation

Particulars	Amount
Opening WDV	60,00,000
Add: Asset Put To Use	Nil
Less: Sale / Discarded	Nil
Closing WDV	60,00,000
Depreciation 60,00,000 x 15%	9,00,000

### Illustration 10

Mr. X has furnished the following particulars relating to payments made towards scientific research for the year ended 31.03.2026:

Particulars	Amount(in Lakhs)
Payments made to K Research Ltd	20
Payment made to LMN College	15
Payment made to OPQ College	10
Payment made to National Laboratory	8
Machinery purchased for in-house scientific research	25
Salaries to research staff engaged in in-house scientific research	12

**Note:** K Research Ltd. and LMN College are approved research institutions and these payments are to be used for the purposes of scientific research.

Compute the Amount of deduction available under section 35 of the Income-tax Act, 1961 while arriving at the business income of the assessee.

### Solution

#### Calculation Of Deduction Available u/s 35

Particulars	Amount
Payments made to K Research Ltd	20,00,000
Payment made to LMN College	15,00,000
Payment made to OPQ College (Disallowed as it is not approved college)	-
Payment made to National Laboratory	8,00,000
Machinery for in-house research	25,00,000
Salary to research staff for in-house research	12,00,000
Total Deduction u/s 35	80,00,000

### Illustration 11

XY Bio-medicals Ltd. is engaged in the business of manufacture of bio-medical items. The following expenses were incurred in respect of activities connected with scientific research:

Year ended	Item	Amount
------------	------	--------

31.03.2023 (Incurred after 01.09.2022)	Land	₹10,00,000
31.03.2024	Plant and machinery	₹5,00,000
31.03.2025	Raw materials	₹2,20,000

The business was commenced on 01.09.2025 and expenditure incurred on raw materials and salaries is ₹1,80,000. In view of availability of better model of plant and machinery, the existing plant and machinery were sold for ₹8,00,000 on 01.03.2026.

Discuss the implications of the above for the Assessment Year 2026-27 along with brief computation of deduction permissible under section 35 assuming that necessary conditions have been fulfilled.

### Solution

#### Calculation Of Deduction Available u/s 35

Particulars	Amount
Expenses Incurred 3 Years before the commencement Of Business	
Land (Deduction not allowed u/s 35)	-
Plant & Machinery	5,00,000
Raw Material	2,20,000
Expenses Incurred During PY 2025-26	
Raw Material & Salaries	1,80,000
Total Deduction u/s 35	9,00,000

### Sale of Scientific Research Asset

As the sale value of S/R asset exceeds Actual Cost, there shall be both Business income as well as Capital Gains. Period of holding of Asset is less than 36 months, there shall be STCG.

Business Income for PY 2025-26	=	Actual cost i.e. 5,00,000
STCG	=	Sale Value – COA
	=	8,00,000 – 5,00,000
	=	3,00,000

### Illustration 12

A Ltd. which is engaged in manufacturing, furnishes the following particulars for the P.Y.2025-26. Compute the deduction allowable under section 35 for A.Y. 2026-27, while computing its income under the head “Profits and gains of business or profession”.

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

- (b) Capital expenditure (including cost of acquisition of land ₹5,00,000) on scientific research is ₹7,50,000

### Solution

#### Calculation Of Deduction Available u/s 35

Particulars	Amount
Amount paid to Indian Institute of Science, Bangalore	1,00,000
Amount paid to IIT, Delhi	2,50,000
Amount paid to X Ltd., (Indian Company) which has as its main object scientific research	4,00,000
In-House Research	
1. Revenue Expenditure	3,00,000
2. Capital Expenditure Excluding Land	2,50,000
Total Deduction u/s 35	13,00,000

#### Section 35AD Deduction in case of Specified Businesses – Only For Old Regime

##### 1. Specified business means

Specified Business	Commencement
(a) Laying & operating a cross-country Natural Gas or Crude or Petroleum Oil Pipeline Network for distribution, including Storage Facilities being an integral part of such network.	on or after 01.04.2007
(b) Setting up and operating a Cold Chain Facility,	on or after 01.04.2009
(c) Setting up and operating a Warehousing Facility for storage of Agricultural Produce.	on or after 01.04.2009
(d) Building and operating a Hotel of two star or above category as classified by the Central Government.	on or after 01.04.2010
(e) Building and operating a Hospital with atleast 100 beds for patients.	on or after 01.04.2010
(f) Developing and building a Housing Project under a scheme for Affordable Housing Slum Redevelopment or Rehabilitation Scheme framed by Central or State Government and notified by CBDT.	on or after 01.04.2010
(g) Developing and building a Housing Project under a scheme for Affordable Housing framed by the Central Government or State Government and notified by CBDT	on or after 01.04.2010
(h) New Plant or in newly installed capacity in an existing Plant, for production of Fertilizer.	on or after 01.04.2010
(i) Setting up and operating an Inland Container Depot or Container Freight Station notified or approved under the Customs Act.	on or after 01.04.2012
(j) Bee-keeping and production of Honey and Beeswax.	on or after 01.04.2012

(k) Setting up and operating a Warehousing Facility for storage of Sugar.	on or after 01.04.2012
(i) Laying and operating a Slurry Pipeline for the transportation of Iron Ore.	on or after 01.04.2014
(m) Setting up and operating Semi-Conductor Wafer Fabrication Manufacturing Unit notified by CBDT.	on or after 01.04.2014
(n) Business of developing or maintaining and operating or developing, maintaining and operating a New Infrastructure Facility	On or after 01.04.2017

2. **Deduction:** 100% of capital expenditure except (Land, Goodwill and financial instrument). Also expenses incurred before commencement of business shall be allowed if capitalized in books of accounts.
3. However, Any Expenditure for Acquisition of any Asset for which aggregate payment made to A Person in A Day, otherwise than by A/c Payee Cheque/Draft or Electronic clearing system is more than Rs. 10,000, then such payment Not Eligible for Deduction u/s 35AD
4. **Conditions and Notes:**
  - a) Business Not Formed by Splitting/Reconstruction of Existing Business
  - b) Not Formed by Transfer of Used P&M (However, Used P&M is Allowed upto 20%)
  - c) Depreciation shall not be allowed if deduction is allowed u/s 35AD.
  - d) Loss of specified business can be adjusted only against specified business income.
  - e) Loss of Specified business can be carried forward for indefinite period.
  - f) Asset must be used in business for 8 AY for which deduction Is claimed u/s 35AD otherwise, in the year of sale or put to use in other business shall be business income which is equals to:  
PGBP Income = Total Deduction Claimed (i.e. Cost of Asset)– Deemed Depreciation.
  - g) If asset is sold after 8 years then entire sales consideration shall be treated as business income as per section 28.

### Illustration 13

An Assessee starts business of setting up and operating a warehousing facility for agricultural produce on 01.06.2025. Following information is given to you:

1. Profits from operating warehousing facility ₹40,00,000
2. The following assets have been purchased for warehousing facility and the profit of ₹40,00,000 is computed without giving effect to the following:
  - a) Machinery purchased on 31.07.2025 ₹10,00,000
  - b) Land purchased on 31.07.2025 ₹10,00,000
  - c) Machinery purchased on 31.10.2025 ₹6,00,000
  - d) Building purchased on 31.8.2025 ₹4,00,000
  - e) Building Constructed on 31.05.2025 ₹19,00,000

Compute income or loss for the assessment year 2026-27

### Solution

#### Computation of income under head PGBP

Particulars	Amount
Profits from operating warehouse facility	40,00,000
Less: Deduction u/s 35AD	
1. Machinery purchased on 31.07.2025 (10,00,000)	
2. Machinery purchased on 31.10.2025 (6,00,000)	
3. Building purchased on 31.08.2025 (4,00,000)	
4. Building constructed on 31.05.2025 (19,00,000)	(39,00,000)
Income under head PGBP	1,00,000

### Illustration 14

Mr. Ram commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 01.04.2025. He incurred capital expenditure of ₹80 lakh, ₹60 lakh and ₹50 lakh, respectively, on purchase of land and building during the period January, 2025 to March, 2025 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2025. The cost of land included in the above figures are ₹50 lakh, ₹40 lakh and ₹30 lakh, respectively.

Further, during the P.Y.2025-26, it incurred capital expenditure of ₹10 lakh, ₹20 lakh and ₹12 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses. Compute the income under the head “Profits and gains of business or profession” for the A.Y.2026-27 and the loss to be carried forward, assuming that Mr. X has fulfilled all the conditions specified for claim of deduction under section 35AD. The profits from the business of setting up a warehousing facility (before claiming deduction under section 35AD and section 32 for the A.Y. 2026-27 is ₹16 lakhs, ₹14 lakhs and ₹31 lakhs, respectively.

### Solution

Expenditure incurred prior to commencement of business (cost of building):

- Food Grains = 80,00,000 – 50,00,000 = 30,00,000
- Sugar = 60,00,000 – 40,00,000 = 20,00,000
- Edible Oil = 50,00,000 – 30,00,000 = 20,00,000

Expenditure incurred on construction of buildings during PY 2025-26

$$= 10,00,000 + 20,00,000 + 12,00,000 = 42,00,000$$

#### Computation of income under head PGBP

Particulars	Specified u/s 35AD		Normal Business
	Food Grains	Sugar	Edible Oil
Profit before deduction u/s 35AD/u/s 32	16,00,000	14,00,000	31,00,000
Less : Deduction u/s 35AD			



Prior to commencement of business	(30,00,000)	(20,00,000)	-
During the year	(10,00,000)	(20,00,000)	-
Less : Deduction u/s 32 (20L + 12L) x 10%	-	-	(3,20,000)
Income under head PGBP	(24,00,000)	(26,00,000)	27,80,000

Specified business loss = 24,00,000 + 26,00,000 = 50,00,000 shall be C/F

Income under head PGBP shall be 27,80,000

### Illustration 15

Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil. Unit A commenced operations on 1.4.2023 and it claimed deduction of ₹100 lacs incurred on purchase of two buildings for ₹50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2024-25. However, in February, 2026, Unit A transferred one of its buildings to Unit B. Examine the tax implications of such transfer in the hands of Mr. Arnav

### Solution

During PY 2025-26, Building of Unit A transferred to Unit B, then there shall be Business income under head PGBP

Business income = Deduction allowed u/s 35AD – Notional Depreciation

Particulars	Amount
Deduction allowed u/s 35AD	50,00,000
Less: Notional Depreciation for PY 2023-24 @10%	(5,00,000)
	45,00,000
Less: Notional Depreciation for PY 2024-25 @10%	(4,50,000)
Income under head PGBP (Business Income)	40,50,000

### Section 35D Preliminary Expenditure

- Meaning:** Preliminary expenses are expenses incurred before setting up of the business; or the expenses are incurred in connection with extension (same line of business) of an undertaking or in connection with setting up a new business. (Setting up new factory, opening a new branch)
- Assessee:** The Assessee should be an -Indian Company, or Non-Corporate Resident Assessee.
- Eligible Expenses:**
  - Preparation of feasibility report
  - Conducting market survey or any other survey necessary for the business.
  - Preparation of project report.
  - Engineering services relating to the business.
  - Legal charges for drafting any agreement relating to the setting up or conduct of the business.



- (vi) Legal charges for drafting and printing of Memorandum of Association (MOA) and Articles of Association (AOA).
- (vii) Registration fees of a company paid to Registrar of Companies.
- (viii) Expenses and legal charges incurred in drafting, printing and advertising of prospectus.
- (ix) Expenditure incurred on issue of shares or debentures like underwriting commission, brokerage, advertisement etc.

**Note:** Salary to employees, rent of premises, interest on borrowed capital are not treated as preliminary expenses hence deduction never allowed. These are treated as dead expenses.

#### 4. Deduction

- (i) An Indian company  
Lower of following shall be allowed as deduction in 5 equal installments
  - (a) Aggregate Amount of eligible expenditure or
  - (b) 5% of the cost of project or 5% of the capital employed-whichever is higher
- (ii) a resident non-corporate assessee.
  - (a) Aggregate Amount of eligible expenditure or
  - (b) 5% of the cost of project
 whichever is lower is allowed as deduction in 5 equal installments

#### 5. Note:

- a) Cost of project includes actual cost of the fixed assets, being land, buildings, leaseholds, plant, machinery, furniture, fittings and railway sidings (including expenditure on development of land and buildings).
- b) Capital employed is the aggregate of the issued share capital, debentures and long-term borrowings
- c) Reserve and Surplus including security premium shall not be part of Capital Employed.

#### Example 12

X Ltd. (Indian Co.) commences business in 2025 – 26

Capital Employed = ₹50,00,000

Cost of Project = ₹ 40,00,000

Eligible P/E = ₹90,000

Calculate Deduction u/s 35D

#### Solution

##### Calculation of deduction u/s 35D

Particulars	₹
Higher of	
a) 5% of capital expenditure i.e. 2,50,000 or	
b) 5% of cost of project i.e. 2,00,000	2,50,000
Lower of	

a) 2,50,000 or	
b) actual preliminary expenditure i.e. 1,90,000	1,90,000
Deduction u/s 35D (1,90,000 / 5)	38,000

**Example 13**

Mr. X commences business in 2025 – 26

Cost of Project = ₹15,00,000

Eligible P/E = ₹90,000

Calculate Deduction u/s 35D

**Solution****Calculation of deduction u/s 35D**

Particulars	₹
Lower of	
a) 5% of cost of project i.e. 15,00,000 x 5% = 75,000 or	
b) eligible preliminary expenditure i.e. 90,000	75,000
Deduction u/s 35D (75,000 / 5)	15,000

**Illustration 16**

X Ltd. is an existing Indian company which sets up a new industrial unit. It incurs the following expenditure in connection with the new unit:

1. Preparation of project report - ₹4,00,000
2. Market survey - ₹5,00,000
3. Legal and other charges for issue of additional capital required for the new unit - ₹2,00,000

The following further data is given: Cost of project ₹30,00,000 Capital employed in the new unit ₹40,00,000 What is the deduction admissible to the company under section 35D?

**Solution****Solution****Computation of Eligible preliminary expenditure**

Particulars	Amount
Preparation of project report	4,00,000
Market survey	5,00,000
Legal and other charges	2,00,000
	11,00,000

**Calculation of deduction admissible to the company under section 35D**

Particulars	Amount
5% of cost of project	1,50,000
5% of capital employed	2,00,000
Higher	2,00,000
Eligible Preliminary Expenditure	11,00,000

Lower	2,00,000
	/ 5
Deduction u/s 35	40,000

**Illustration 17:** Presume Assessee is Mr. X.

**Solution**

#### Computation of Eligible preliminary expenditure

Particulars	Amount
Preparation of project report	4,00,000
Market survey	5,00,000
Legal and other charges	2,00,000
	11,00,000

#### Calculation of deduction admissible to the company under section 35D

Particulars	Amount
5% of cost of project	1,50,000
Eligible Preliminary Expenditure	11,00,000
Lower	1,50,000
	/ 5
Deduction u/s 35	30,000

#### Section 35DDA Amortisation of expenditure incurred under Voluntary Retirement Scheme

If any employer has given voluntary retirement to the employees and has paid any Amount in connection with such voluntary retirement, such payment shall be allowed to assessee in 5 annual equal installments commencing from the year in which payment is made.

#### Illustration 18

XYZ Ltd. has given voluntary retirement to 100 employees and has paid ₹5,00,000 to each of the employee and total payment made is ₹500 lakhs . Show the Tax treatment of expenditure

**Solution**

In case of Voluntarily Retirement Scheme, deduction is allowed in 5 equal installments commencing from year in which scheme is given  
in this case expenditure is allowed in 5 annual equal installments of 100 Lakh Each.

#### Section 36 Other Deductions

The following expenses are allowed to be debited in the profit & Loss Account

1. Insurance Premium
  - a) Stock (including livestock)

- b) Medical Insurance of EE (provided not paid in cash)
2. Bonus Or Commission Paid to the EEs [not payable as dividend], subject to section 43B.  
Note: there is no restriction on the amount of the bonus, it may exceed the bonus payable under the Payment Of Bonus Act, 1965
  3. Interest On Loan taken for business or profession. However, if a loan is taken from a scheduled bank or financial institution including NBFC, deduction is allowed subject to section 43B.  
Note: loan taken for asset – Interest prior to the date the asset is put to use is capitalized and depreciation is allowed.
  4. Discount on Zero coupon bonds is allowed on a pro-rata basis over the life of ZCB.

**Example 14**

Zero Coupon Bonds issued @ ₹25/bond

Face Value = ₹100/Bond

No. of bonds = 1,00,000 bonds

It is redeemable after 20 years

Calculate deduction u/s 36.

**Solution**

Amount of Discount =  $(100-25) \times 1,00,000 = 75,00,000/-$

Deduction u/s 36 =  $75,00,000 / 20 \text{ years} = 3,75,000/-$  each year

**5. ER contribution to**

- |   |  |
|---|--|
| <ol style="list-style-type: none"> <li>1. Statutory Provident Fund</li> <li>2. Recognized Provident Fund</li> <li>3. Approved superannuation fund</li> <li>4. Approved gratuity fund</li> <li>5. Any other Approved Fund</li> </ol> | <p><b>Allowed subject to the provisions of Section 43B i.e. if paid upto RFD</b></p> |
|---|--|

**6. ER Contribution to NPS referred u/s 80CCD, lower of following shall be allowed as deduction:**

- i) Amount contributed
- ii) 10% of RBS

However, in case of Default tax regime, lower of following shall be allowed as deduction:

- i) Amount contributed
- ii) 14% of RBS

**7. EE contribution deducted by the ER from his salary will be allowed if ER Deposited the amount in the relevant A/c up to the due date in relevant Act (i.e. 15<sup>th</sup> of Next Month)**

**Note:** if the amount is deposited after the due date of the Fund, then such amount shall be considered as PGBP income of ER and never be allowed as deduction to ER.

**8. Bad Debts**

Bad debts written off from the books of accounts – allowed as a deduction

**Note:** Such debts have been taken into account for computing income of PY or any earlier PY.

**Provision for bad debts is** not allowed as a deduction.

**Bad Debts recovered** – Income of recovery year, whether or not business or profession is in existence.

**Example 15**

During PY 2023-24, Bad debts claimed by assessee = ₹50,000

But A.O. allowed only ₹42,000 as an expense

During PY 2025-26, Assessee recovered ₹35,000

What shall be the business income?

**Solution**

Out of ₹35,000, 8,000 has been disallowed earlier i.e. already taxed in PY 2022-23. Hence, it cannot be taxed again

Balance 27,000 shall be considered as bad debts recovered and hence become income under head PGBP.

**9. Family planning Expenditure is allowed to company assessee as follows**

<b>Revenue Expenditure</b>	Full
<b>Capital Expenditure</b>	In 5 Installments

If Sufficient profit is not available, then expenditure (R/C) shall be deducted to the extent of profit available.

**10. STT/CTT paid is allowed as deduction if securities/commodities are held as stock in trade.****SECTION 37(1) GENERAL DEDUCTIONS**

If any expenditure is not covered under section 30 to 36, then such expense shall be allowed under this section subject to following conditions:

- (a) Expenditure is of revenue nature
- (b) Expenditure is incurred for the purpose of business and profession.

Various expenditure which may be allowed under section 37(1) are as given below:

1. Expenditure in connection with advertisement. If the expenditure incurred is capital nature, depreciation is allowed.
2. Expenditure on travelling including the expenses of boarding and lodging in connection with business/profession.
3. Salary paid to the employees.
4. Expenditure in connection with entertainment of the employees or the customer

5. Expenditure in connection with opening ceremony (Mahurat) of the business/profession.
6. Expenditure on the occasion of various festivals like Diwali etc. for employees or customer
7. Interest on late payment of GST.
8. Expenditure in connection with legal proceedings.
9. Professional tax paid by a person carrying on business or profession.
10. Expenditure on the filing of return of income, filing of appeal or audit fee etc. is allowed.
11. Expenditure incurred on Keyman insurance policy
12. Any other expenditure which is revenue in nature and it is related to business or profession.

Following expenses are not allowed as deduction:

- a) CSR expenses incurred by company.
- b) Advertisement in any souvenir, brochure, tract, pamphlet or the like published by a political party.
- c) Penalty for breach of law.  
**Note:** Penalty for breach of contract – Allowed as deduction.
- d) Interest on loan taken for payment of income tax
- e) Illegal expenses like, hafta, bribe etc.
- f) Expenditure incurred to settle proceedings related to legal contraventions as notified by the Central Government

### Illustration 19

Determine admissibility of following expenditure

1. Expenditure incurred for repairing a property taken on lease for business.
2. Current repairs
3. Capital repairs
4. The Amount of rent includes an Amount ₹1,800 being rent of office premises, the premises belong to the proprietor.
5. Insurance of premises used for the purposes of the business.
6. The car was used both for business and personal purposes. 2/3rd is for the business purposes.
7. The property tax of ₹4,000 was in respect of her self - occupied house whose rental value is ₹18,000.
8. Health Insurance premium of employees.
9. Salary includes bonus paid Amounting to ₹1,80,000. However, bonus payable under the Payment of Bonus Act, 1965 works out to ₹1,20,000. Payment made by the Company was in pursuance of settlement approved by the Labour Court.
10. Purchased a building for ₹5,00,000, to be used exclusively as a family planning center for the employees.

**Solution**

1. Since, Repair is of current nature. Therefore, Expenditure shall be allowed
2. Current repairs is allowed as deduction
3. Only depreciation is allowed in case of capital repairs
4. Notional rent shall not allowed as expenditure
5. Insurance of premises used for business purpose shall be allowed as deduction
6.  $\frac{2}{3}$ <sup>rd</sup> portion of expenditure towards Car shall be allowed as expenditure
7. Property tax of 4,000 in respect of self-occupied house shall be disallowed under PGBP
8. Health insurance premium of employees shall be allowed provided payment is made through any mode other than cash
9. Whole amount of Bonus (i.e. 1,80,000) shall be allowed as expenditure. Amount prescribed in payment of bonus act shall be irrelevant
10. Purchase of building is capital expenditure, and it shall be allowed in 5 equal installments of 1,00,000 each

**Illustration 20**

Show Tax Implication for the Following cases:

1. Purchased a new plant costing ₹3,00,000 on deferred payment (interest payable for the period subsequent to the installation Amounting to ₹1,00,000 has been capitalised along with the cost).
2. Interest on own capital.
3. Interest on overdraft facility.
4. Interest on loan taken for business.
5. Interest on loan before the asset is put to use.
6. Interest includes an Amount of ₹50,000 paid to the bank for loan taken for purchase of new machinery. It includes an interest of ₹4,000 till the asset is put to use.
7. The interest includes ₹10,000 paid on late payment of GST
8. X raised a loan from LIC of India on the security of his life insurance policy and used the same for the payment of expenses relating to repairs of machinery.

**Solution**

1. Interest of 1,00,000 shall be debited to P/L instead of capitalization as it has been accrued subsequent to the installation
2. Interest on own capital shall be disallowed
3. Interest on overdraft facility shall be allowed
4. Interest on loan taken for business shall be allowed
5. Interest on loan before the asset is put to use shall be capitalized in cost of asset and assessee can claim depreciation on it
6. Interest on loan before the machine is put to use (i.e. 4,000) shall be capitalized in cost of asset and assessee can claim depreciation on it whereas balance 46,000 shall be debited to P/L
7. Interest on late payment of GST shall be allowed as expense
8. Repairs of Machinery is business expense and hence allowed as expenditure

**Illustration 21**

How will you deal with the following in computing the business income?

1. Profit on transfer of Duty Entitlement Pass Book Scheme.
2. Profit on sale of securities
3. The Manager admitted that during the year purchases to the extent of 10 lakhs were not recorded in the books and also sales to the extent of ₹5 lakhs were kept out.
4. Gift from Father-in-law
5. Dividend on Shares of Indian company.
6. Profit from Business of dealing in equity shares.
7. Sales includes a sum of ₹6,000 representing the value of goods withdrawn by Mr. Rocky for his personal use. These goods were purchased at a cost of ₹4,000.
8. Loss by theft occurred as embezzlement by the employees.
9. Paid interest of ₹30,000 for shortfall in advance tax paid.
10. The Amount of interest on loan includes an Amount of ₹1,300 being interest on loan taken from wife of X. She gave this loan from her stridhan. The Amount of loan taken from wife was utilised for the payment of arrears of income tax.
11. Anticipated loss on forward contract for purchase of raw material as a result of fall in market price.
12. Provision of CGST and SGST.

**Solution**

1. Profit on transfer of duty entitlement passbook shall be treated as business income and credited to P/L
2. If securities are held as stock in trade, then profit on sale of securities shall be treated as business income and credited to P/L  
However, If securities are held as Investments, then profit on sale of securities shall be treated as Capital Gain
3. Purchase of 10,00,000 shall be debited to P/L and sales of 5,00,000 shall be credited to P/L
4. Gift from relative is exempt
5. Dividend on shares is not a business income
6. Profit from business of dealing in equity shares is business income and shall be credited to P/L
7. Amount of drawings wrongly treated as sales (i.e. 6,000) shall be debited to P/L and actual cost of purchase (i.e. 4,000) shall be credited to P/L
8. Loss by theft occurred as embezzlement of employees shall be debited to P/L as it is a business loss
9. Interest paid on shortfall in advance tax shall be disallowed
10. Loan taken for the purpose of payment of income tax shall be disallowed
11. Anticipated loss is not allowed as deduction  
Provision is not an actual expense and hence, no deduction is allowed



**Illustration 22**

How will you deal with the following in computing the total income of the company

1. Donation in Temple.
2. Donation of ₹ 25,000 to a political party.
3. The donation includes ₹1 lakh to an approved Scientific Research Association.
4. Administrative charges include expenses in respect of donation of ₹1,000 to the trade association for the purpose of an advertisement in the souvenir published by it.
5. Opening stock overvalued by ₹2,00,000.
6. Closing stock undervalued by ₹50,000.
7. It was found, some stocks were omitted to be included in both the opening and closing stock, the values of which were—opening stock: ₹9,000; closing stock: ₹18,000.
8. Penalty levied by GST department for non-compliance of GST laws.
9. Miscellaneous Expenses include ₹30,000 paid towards penalty for non-fulfilment of delivery conditions of a contract of sale for reasons beyond control.
10. Purchases also include ₹10,000 paid by way of compensation to a supplier as the assessee was unable to take the delivery of goods due to lack of storage space and finances.
11. Rent, rates and taxes also include a penalty of ₹10,000 levied for non-payment of sales tax.
12. Penalty levied for non-fulfilment of listing laws

**Solution**

- a) No deduction is allowed for donation in temple under head PGBP
- b) No deduction is allowed for donation to Political Party under head PGBP
- c) Donation towards approved scientific research association shall be allowed as deduction only in case of old regime
- d) Donations to the trade association for the purpose of advertisement in the souvenir published by it shall be allowed as expenditure
- e) Overvaluation of opening stock shall be credited to P/L
- f) Undervaluation of closing stock shall be credited to P/L
- g) Amount of opening stock (i.e. 9000) shall be debited to P/L whereas amount of closing stock (i.e. 18,000) shall be credited to P/L
- h) Penalty towards infringement of law shall be disallowed
- i) Penalty for non-fulfillment of delivery conditions shall be allowed as deduction
- j) Amount of compensation paid to supplier shall be allowed as deduction
- k) Penalty towards infringement of law shall be disallowed
- l) Penalty towards infringement of law shall be disallowed

### SECTION 38 EXPENDITURE WHICH ARE PARTLY IN BUSINESS USE AND PARTLY IN PERSONAL USE

If any person has any asset in business or profession as well as in personal use, expenditure is allowed only to the extent the asset is in the use of the business or profession

#### Expenses Not Allowed As Deduction

#### Payments on Which TDS Provisions Apply

Disallowance will be attracted if any of the following conditions are satisfied:

- a) TDS not Deducted upto last day of Relevant PY
- b) TDS Not deposited with govt. upto return filing date u/s 139(1).  
Return filling due date as per section 139(1)
 

<b>Audit</b>	-	31/10/AY
<b>No Audit</b>	-	31/7/AY

Disallowance shall be:

Section	Payment To	Disallowance
40(a)(i)	Payment to any person O/S India or in India to Non-resident	100%
40(a)(ia)	Payment In India To Resident	30%

Disallowed amount shall be allowed in the year in which TDS is deposited with GOVT.

**Note:**

However, no disallowance shall be attracted if payee has furnished the return of income taking into account such amount in total income and has paid tax on such amount.

#### Example 16

Mr. X made payment outside India to Mr. John during 2025-26

Show TDS implication in the following cases:

1. Commission = ₹5,00,000  
Date of payment = 15/07/2025  
TDS Deducted on 14/07/2025  
TDS deposited on 31/12/2025  
Return Filing Date = 31/10/2026
2. Commission = ₹5,00,000  
Date of payment = 15/03/2026  
TDS Deducted on 31/03/2026  
TDS deposited on 31/12/2026  
Return Filing Date = 31/10/2026
3. Commission = ₹5,00,000  
Date of payment = 15/03/2026  
TDS Deducted on 15/04/2026

TDS deposited on 15/07/2026  
Return Filing Date = 31/07/2026

4. Commission = ₹5,00,000  
Date of payment = 15/03/2026  
TDS Deducted on 15/03/2026  
TDS deposited 60% on 15/07/2026 and 40% on 16/08/2026  
Return Filing Date = 31/07/2026

### **Solution**

- a) TDS deduction last date = 31/03/26  
TDS deposit last date = 31/10/26  
Since, TDS is deducted and deposited on time.  
Therefore, Amount of commission shall be debited to P/L = 5,00,000
- b) TDS deduction last date = 31/03/26  
TDS deposit last date = 31/07/26  
Since, TDS is deducted on time but not deposited up to return filing date.  
Therefore, 100% of such payment shall be disallowed as payment is made outside India for PY 2025-26.  
It shall be allowed in PY 2026-27 i.e. year in which TDS is actually deposited.
- c) TDS deduction last date = 31/03/26  
TDS deposit last date = 31/07/26  
Since, TDS is not deducted up to the last date of previous year.  
Therefore, 100% of such payment shall be disallowed as payment is made outside India for PY 2025-26.  
It shall be allowed in PY 2026-27 i.e. year in which TDS is actually deposited.
- d) During PY 2025-26, 60% of payment i.e. 3,00,000 shall be allowed as TDS on this portion is deducted and deposited on time.  
However, Balance 40% of such payment shall be disallowed in PY 2025-26 i.e. 2,00,000 due to late deposit of TDS.

### **Example 17**

Mr. X made following payments in India to Resident. Show TDS implications

1. Rent paid to Ram ₹4,00,000 on 01/03/2026  
TDS deducted on 01/03/2026  
TDS deposited on 16/08/2026  
Return Filing date = 31/07/2026
2. Commission paid ₹5,00,000 on 15/03/2026  
TDS deducted on 15/03/2026  
TDS deposited 50% on 16/07/2026, 30% on 01/12/2026 and 20% on 01/04/2027  
Return Filing date = 31/07/2026

**Solution**

- a) During PY 2025-26, as TDS is deposited after return filing date and payment is made in India to resident, 30% of such payment i.e. 1,20,000 shall be disallowed during PY 2025-26 and shall be allowed in PY 2026-27 i.e. year in which TDS is actually deposited.  
Hence, 70% of such payment i.e. 2,80,000 shall be allowed in PY 2025-26
- b) (i) Since, TDS is deducted and deposited in time on 50% of such commission i.e.  $50\% \times 5,00,000 = 2,50,000$ . Hence, it shall be 100% allowed during PY 2025-26  
(ii) Since, TDS is late deposited on 30% of such payment i.e.  $30\% \times 5,00,000 = 1,50,000$ . Hence, 70% of such payment i.e.  $1,50,000 \times 70\% = 1,05,000$  shall be allowed during PY 2025-26 and Balance 30% of such payment shall be disallowed i.e. 45,000 and shall be allowed during PY 2026-27.  
(iii) Since, TDS is late deposited on 20% of such payment i.e.  $20\% \times 5,00,000 = 1,00,000$ . Hence, 70% of such payment i.e.  $1,00,000 \times 70\% = 70,000$  shall be allowed during PY 2025-26 and Balance 30% of such payment shall be disallowed i.e. 30,000 and shall be allowed during PY 2027-28.

**Section 40(a)(iii)**

Any sum which is chargeable under the head 'Salaries' if it is payable outside India or to a non-resident and if the tax has not been paid thereon nor deducted.

**Section 40(a)(v)**

Tax paid on perquisites on behalf of employees is not deductible- In case of an employee, deriving income in the nature of perquisites (other than monetary payments), the amount of tax on such income paid by his employer is exempt from tax in the hands of that employee. Correspondingly, such payment is not allowed as deduction from the income of the employer.

**Illustration 23**

Mr. Ram has paid 20 lakhs as interest outside India in the P.Y. 2025-26. Determine whether deduction is allowed or not in the following cases:

TDS Deduction date	TDS Deposit date	Analysis
3/1/2026	10/03/2026	
1/4/2026	10/04/2026	
31/1/2026	10/12/2026	

**Solution**

- a) Since, TDS deducted and deposited on time  
Therefore, 20,00,000 shall be allowed as deduction during PY 2025-26
- b) Since, TDS is not deducted on time (i.e. Up to 31/03/26) but deposited up to return filing date (i.e. 31/07/26)  
Therefore, 100% of such payment shall be disallowed for PY 2025-26 as payment is made outside India and shall be allowed during PY 2026-27

- c) Since, TDS is deducted on time (i.e. Up to 31/03/26) but not deposited up to return filing date (i.e. 31/07/26)  
Therefore, 100% of such payment shall be disallowed for PY 2025-26 as payment is made outside India and shall be allowed during PY 2026-27

**Illustration 24**

Mr. Ram has paid 20 lakhs as interest to Mr. Shawn in India in the P.Y. 2025-26. Determine whether deduction is allowed or not in the following cases:

TDS Deduction date	TDS Deposit date	Analysis
3/1/2026	10/03/2026	
1/4/2026	10/04/2026	
31/1/2026	40% on 10/07/2026 50% on 10/10/2026 Balance on 10/04/2027	

**Solution**

- Since, TDS deducted and deposited on time  
Therefore, 20,00,000 shall be allowed as deduction during PY 2025-26
- Since, TDS is deducted late  
Therefore, 30% of 20,00,000 = 6,00,000 shall be disallowed in PY 2025-26 and shall be allowed in PY 2026-27 i.e. year in which it is deposited  
PY 2025-26 = 14,00,000 expenses shall be allowed  
PY 2026-27 = 6,00,000 expenses shall be allowed
- Out of 20,00,000, TDS of 40% payment is timely deducted and deposited.  
Therefore, 40% of 20,00,000 i.e. 8,00,000 shall be allowed during PY 2025-26  
Out of 20,00,000, TDS of 60% Payment is late deposited i.e. after return filing date  
Therefore, 30% of such payment shall be disallowed during PY 2025-26  
i.e.  $20,00,000 \times 60\% = 12,00,000$   
 $12,00,000 \times 70\% = 8,40,000$  shall be allowed during PY 2025-26  
 $12,00,000 \times 30\% = 3,60,000$  shall be disallowed

**SECTION 40(b) PAYMENT OF SALARY OR INTEREST TO THE PARTNERS**

- (a) Interest to the partner is allowed if mentioned in the partnership deed but maximum @ 12% p.a.
- (b) Payment of salary, bonus, commission or any other remuneration is allowed to the working partner subject to the following limits:

Book Profit(BP)	Max. Remuneration
Upto Rs. 6,00,000	90% of BP or Rs. 3 Lakh, whichever is higher
Beyond Rs. 6,00,000	60% of BP

**Meaning Of BP**

Particulars	Amount
Profit as per Income Tax	-
Add: Remuneration to Partner ( if debited to P/L)	-
Less: Brought forward Depreciation (Unabsorbed Dep)	(-)
<b>Book Profit</b>	<b>-</b>

**Note:** Brought forward losses shall not be adjusted for calculation of Book Profit.

**Example 18****Calculate income under head PGBP**

Profit as per Income Tax before dr. following items	₹15,00,000
Depreciation u/s 32 PY 2025-26	₹3,50,000
Int on capital to partners (15%)	₹1,80,000
B/F unabsorbed Depreciation	₹1,70,000
Brought Forward loss	₹75,000
Salary paid by firm to partners	₹9,00,000

**Solution****Calculation of Book Profit**

Particulars	Amount(₹)
Profit as per Income Tax Act before adjustment	15,00,000
Less: Depreciation of current year	3,50,000
Less: Interest on capital (1,80,000/15 x 12)	1,44,000
Less: Brought forward unabsorbed depreciation	1,70,000
<b>Book Profit</b>	<b>8,36,000</b>

**Maximum salary as per S.40(b)**

$$\begin{aligned}
 &= 6,00,000 \times 90\% + 2,36,000 \times 60\% \\
 &= 5,40,000 + 1,41,600 \\
 &= 6,81,600
 \end{aligned}$$

**Calculation of Income under head PGBP**

Particulars	Amount(₹)
Book Profit	8,36,000
Less: Salary to partner	6,81,600
<b>Income under head PGBP</b>	<b>1,54,400</b>

**Illustration 25**

Calculate maximum salary deduction allowed to XYZ partnership firm in following cases:

- (a) ₹6,00,000
- (b) ₹2,90,000
- (c) ₹1,10,000

**Solution**

As per S.40B, Payment of salary to working partner shall be allowed as deduction to firm subjected to the following limits:

- a. First 6,00,000 of book profits: 90% of book profit or 3,00,000 whichever is higher
- b. On balance amount of book profits: 60% of book profit

- 1) **6,00,000**

First 6,00,000 = 90% of 6L = 5,40,000 or 3,00,000 whichever is higher = 5,40,000

Thus, Maximum salary allowed as deduction = 5,40,000

- 2) **2,90,000**

90% of 2,90,000 = 2,61,000 or 3,00,000 whichever is higher = 3,00,000

Thus, Maximum salary allowed as deduction = 3,00,000

- 3) **1,10,000**

90% of 1,10,000 = 99,000 or 3,00,000 whichever is higher = 3,00,000

Thus, Maximum salary allowed as deduction = 3,00,000

### Section 40A(2) Payment Made To Relatives

If A.O is of the opinion that having regard to FMV, payment is excessive or unreasonable, then such excessive or unreasonable payment shall be disallowed.

**Meaning of Related Person**

1. **For An individual** → An individual who is relative of the assessee.  
Relative, in relation to an “individual”, means the spouse, brother or sister or any lineal ascendant or descendant of that individual [Section 2(41)].
2. **For A Company** → Director of the company or any relative of a director
3. **For A Firm** → Partner of the firm or relative of a partner
4. **For An AOP** → Member of the AOP or relative of a member
5. **For An HUF** → Member of the family or relative of such person

### Section 40A(3) Payment by Non Specified Mode

- A Payment or Aggregate of Payments made to A Person in A Day for An Expenditure exceeds Rs. 10,000 (Rs. 35,000 to Transporter for Goods Carriages],
- Entire payment shall be disallowed
- If it is made through any mode other than A/C payee cheque/Draft or an Electronic clearing system through bank A/C, Debit/Credit Card, IMPS, NEFT, RTGS, Net Banking, UPI etc.

**Rule 6DD (exception to S.40A(3)) no disallowance for following payments:**

1. Payments made to Cultivator, Grower or Producer of agricultural produce & related products etc.
2. Payment made to Government, Banks, RBI, LIC
3. Payment to person residing @ place which is not served by bank.



4. Where the payment is made by any person to his agent who is required to make payment in cash for goods or services on behalf of such person;
5. Payment to employee for retirement benefit not exceeding Rs.50,000.
6. Payment of salary to EE who is posted to any other place or ship (not a normal place of duty) for a period of 15 days or more.
7. Where the payment is made for the purchase of the products manufactured in a cottage industry without the aid of power., to the producer of such products.
8. Where the payment is made by transferring funds from one bank account to the other or payment is being made by any credit card/ a debit card/ letter of credit etc., payment is allowed.
9. Payment by book entry i.e. adjustment entry passed in books.

**Note:**

1. If Expenditure has been allowed as deduction in any earlier PY on accrual basis (if assessee is following accrual basis) & payment for such expenditure has been made in any subsequent PY exceeding Rs. 10,000/₹35,000 in cash to a person in a day, then such payment shall be deemed to be the income of PY in which payment is made [Section 40A(3A)]
2. Sec 40A(3) does not Apply for Repayment of Loans (Capital Expenditure). But it applies to interest payments since interest is a Revenue expenditure.

**Illustration 26:** Following cash payments are found debited in P & L A/c. Discuss tax implications

- 1) June 11, 2025 ₹5,000 paid to Mr. Ram
- 2) June 11, 2025 ₹9,000 paid to Mr. Shyam
- 3) June 11, 2025 ₹19,000 paid to Mr. Ram
- 4) June 12, 2025 ₹8,000 paid to Mr. Shyam

**Solution**

- i. Cash payment of 5,000 made to Mr. Ram on 11 June shall be allowed as expenditure as the aggregate amount does not exceeds prescribed limit of 10,000
- ii. Cash payment of 9,000 made to Mr. Shyam on 11 June shall be allowed as expenditure as the aggregate amount does not exceeds prescribed limit of 10,000
- iii. Cash payment of 19,000 made to Mr. Ram on 11 June shall not be allowed as expenditure as the aggregate amount exceeds prescribed limit of 10,000
- iv. Cash payment of 8,000 made to Mr. Shyam on 12 June shall be allowed as expenditure as the aggregate amount does not exceeds prescribed limit of 10,000

**Illustration 27:** Discuss Tax Implications

- 1) If PQR Ltd. has paid ₹65,000 in cash
- 2) Mr. Rocky has paid ₹11,000 by a bearer cheque
- 3) If PQR Ltd. has paid ₹10,050 by a crossed cheque
- 4) PQR Ltd. has paid ₹35,000 by an account payee cheque
- 5) Mr. Rocky pays a salary to his employee 15,000 by crossed cheque



- 6) PQR Ltd. has paid ₹32,000 in cash to a goods transport agency for transportation of goods
- 7) Mr. Rocky purchases goods worth ₹75,000 on 01.01.2026 and payment was made ₹60,000 on 03.01.2026 by account payee cheque and ₹8,000 in cash on 03.01.2026 and ₹7,000 in cash on 05.01.2026
- 8) Mr. Rocky purchases goods worth ₹8,000 and ₹5,000 against two bills from Mr. Shawn and makes the payment ₹13,000 in cash in a single day
- 9) Mr. Rocky purchases goods worth ₹15,000 from Mr. Shawn against one bill but makes payment of ₹7,500 and ₹7,500 at different times on the same date.

**Solution**

- a) Cash payment of 65,000 shall not be allowed as expenditure as the aggregate amount exceeds prescribed limit of 10,000
- b) payment of 11,000 made by bearer cheque shall not be allowed as expenditure as the aggregate amount exceeds prescribed limit of 10,000
- c) payment of 10,500 made by crossed cheque shall not be allowed as expenditure as the aggregate amount exceeds prescribed limit of 10,000
- d) payment of 35,000 made by A/c payee cheque shall be allowed as expenditure as payment is made by specified mode
- e) payment of salary 15,000 made by crossed cheque shall not be allowed as expenditure as the aggregate amount exceeds prescribed limit of 10,000
- f) payment of 32,000 in cash to Goods transportation agency shall be allowed as expenditure as the aggregate amount exceeds prescribed limit of 35,000
- g) whole payment of 75,000 shall be allowed as expenditure as 60,000 is paid through A/c payee cheque (Specified Mode) and cash payment of 8,000 and 7,000 is made on different dates being within the prescribed limit of 10,000
- h) Cash payment of 13,000 shall be allowed as expenditure as the payment is made towards two different bills (8,000 and 5,000 respectively)
- i) Cash payment of 15,000 shall not be allowed as expenditure as the aggregate amount exceeds prescribed limit of 10,000.

**Section 40A(7) Deductibility in respect of provision for Gratuity Fund**

If provision (contribution) is made towards approved gratuity fund, then such provision is allowed as per Section 36(1)(v) subject to section 43B. However If provision (contribution) is made towards unapproved gratuity fund, then such provision is disallowed under Section 40A(7).

**Section 43B Certain Payments Allowed On Payment Basis**

Following expenditures are allowed if paid on or before the due date mentioned u/s 139(1):

- a) Tax, Duty, Cess or Fee (by whatever name called) levied under any law.
- b) Employer's Contribution to any SPF, RPF, Approved Superannuation Fund, Approved Gratuity Fund, Notified Pension Scheme or any recognized fund

- c) Leave Salary, Bonus/Commission to employees.
- d) Interest on any Loan or borrowing from any Bank, Financial Institution including NBFC.
- e) Any Sum Payable to Indian Railways for the use of Railways Assets.

**Note:**

1. If the payment is made after due date of filing of return of income, expenditure is allowed in the year in which the assessee has made the payment.
2. If outstanding interest on any loan or borrowing or advance, is converted into a new loan or borrowing or advance, shall not be considered as paid and hence not eligible for deduction. However, deduction shall be allowed for installments actually paid in respect of new loan.
3. Similarly if outstanding interest is converted into debentures, such conversion is not to be considered as actual payment.

**Amendment By FA 2023**

Any sum payable by the assessee to micro and small enterprise beyond the time limit specified in section 15 of the MSME Development Act, 2006 would be allowed as deduction only in that previous year in which such sum is actually paid.

As per section 15 of the MSME Development Act, 2006, payment is to be made to the supplier as follows:

- (a) in case of written agreement- as per agreement subject to maximum 45 days from the date of acceptance of goods and service
- (b) in case of no written agreement- maximum 15 days.

**Meaning of Micro and Small Enterprise**

S. No.	Meaning
<b>Manufacturing Enterprises and Enterprises rendering Services</b>	
(1)	Micro Enterprise
	Investment in P&M or Equipment is upto 2.5 crores & Turnover is upto 10 crores
(2)	Small Enterprise
	Investment in P&M or Equipment is upto 25 crores & Turnover is upto 100 crores

**Example 19**

Following amounts are payable to MSME . Determine amount of deduction during PY 2025-26

Enterprise	Invoice date	Due date as per agreement	Date of Payment
Micro	15/01/26	15/03/26	25/01/26
Small	15/02/26	25/03/26	01/04/26
Micro	19/03/26	No agreement	10/04/26
Small	25/03/26	No agreement	01/04/26
Medium	20/03/26	No agreement	25/06/26

## Solution

Case	Particulars	Date
a)	Due date as per S.15 of MSME Act shall be earlier of:	
	1. Date as per agreement	15/03/2026
	2. 45 days from date of Invoice	01/03/2026
	Earlier	01/03/2026
	Date of Payment	25/01/2026
	As payment is made on or before due date as per S.15 of MSME Act. Therefore, Deduction shall be allowed in PY 2025-26 itself.	
b)	Due date as per S.15 of MSME Act shall be earlier of:	
	1. Date as per agreement	25/03/2026
	2. 45 days from date of Invoice	01/04/2026
	Earlier	25/03/2026
	Date of Payment	01/04/2026
	As payment is made after the due date as per S.15 of MSME Act. Therefore, Deduction shall be allowed in the year of payment i.e. PY 2026-27	
c)	Due date as per S.15 of MSME Act :	
	15 days from date of Invoice	03/04/2026
	Date of Payment	10/04/2026
	As payment is made after the due date as per S.15 of MSME Act. Therefore, Deduction shall be allowed in the year of payment i.e. PY 2026-27	
d)	Due date as per S.15 of MSME Act :	
	15 days from date of Invoice	09/04/2026
	Date of Payment	01/04/2026
	As payment is made before the due date as per S.15 of MSME Act. Therefore, Deduction shall be allowed in PY 2025-26 itself.	
e)	As Goods and services has been purchased from Medium enterprise, S.43B shall not be applicable on such payment to medium enterprise. Therefore, Expenditure shall be allowed on due basis i.e. PY 2025-26	

## Illustration 28

Debit side of the profit and loss account of X Ltd. shows the following expenses, which have been due but are outstanding as on March 31, 2026:

1. Leave encashment expenses ₹65,000. First payment on June 1, 2026 ₹15,000. Second payment on December 25, 2026 ₹50,000.
2. GST payable ₹14,000. First payment on June 10, 2025 3,000. Second payment on April 1, 2026 ₹11,000.
3. GST payable ₹48,000. First payment on September 5, 2026 ₹48,000.
4. Bonus payable to employees ₹87,000. First payment on May 2, 2026 ₹30,000. Second payment on September 30, 2026 ₹57,000.
5. Interest payable to LIC on loan ₹75,000. First payment on May 13, 2026 ₹50,000. Second payment on January 10, 2027 ₹25,000.
6. Municipal tax payable ₹5,000. Not yet paid.

7. Interest on loan taken from Z Ltd ₹5,00,000. Paid on 7-11-2026. Due date of filing return of income is 31/10/2026.

Find out the previous years in which the aforesaid payment are deduction. The company maintains book of account on the basis of mercantile system of accounting.

### Solution

1. Since, only 15,000 is paid up to return filing date. Therefore 15,000 shall be allowed during PY 2025-26 and rest shall be disallowed
2. Since whole amount of GST is paid before return filing date (i.e. 31/10/2026). Therefore whole amount shall be allowed as expense in PY 2025-26
3. Since whole amount of GST is paid before return filing date (i.e. 31/10/2026). Therefore whole amount shall be allowed as expense in PY 2025-26
4. Since whole amount of Bonus is paid to employees before return filing date (i.e. 31/10/2026). Therefore whole amount shall be allowed as expense in PY 2025-26
5. First payment made on 13<sup>th</sup> May 2026 shall be allowed as expense in PY 2025-26 Whereas Second payment made on 10<sup>th</sup> Jan 2027 shall be allowed in the year of payment (i.e. during PY 2026-27)
6. Municipal taxes are still outstanding as on 31/03/2025.  
As per S.43B if it is paid on or before return filing date (i.e. 31/10/2026), then it shall be allowed as expense during PY 2025-26. Otherwise, it shall be allowed as expenditure in the year of actual payment

Z Ltd. Is not a Financial Institution. Therefore, Section 43B shall not be applicable.

Therefore, Interest on loan from Z Ltd. Shall be allowed on due basis (i.e. in PY 2025-26)

### Section 44AA Compulsory Maintenance Of Books Of Accounts

#### 1. Assessee engaged in Specified Professions

Gross receipts exceeds INR 1.5 Lakh in each of the last three PY	Gross receipts doesn't exceeds INR 1.5 Lakh in each of the last three PY
Prescribed Books as per Rule 6f	Necessary books to enable AO to assess the income.

#### Specified Profession

- |                              |                               |
|------------------------------|-------------------------------|
| 1. Legal profession          | 7. Interior decoration        |
| 2. Medical profession        | 8. Authorised representatives |
| 3. Engineering profession    | 9. Film artists               |
| 4. Architectural profession  | 10. Company Secretary         |
| 5. Profession of accountancy | 11. Information Technology    |
| 6. Technical consultancy     |                               |

#### 2. Assessee engaged in other Profession or Business

Required to maintain such books of a/c which will enable AO to compute their taxable income if any of the following conditions are satisfied in ANY ONE of the last 3 PY:

	Individual / HUF	Other Assessee
1. Income exceeds	INR 2.5 Lakh	INR 1.20 Lakh
2. Turnover or Gross Receipts exceeds	INR 25 Lakh	INR 10 Lakh

3. If a person fails to maintain books of account as required by section 44AA → penalty of Rs. 25,000 would be attracted u/s 271A.
4. Prescribe books as per Rule 6F
  - (i) a cash book;
  - (ii) a journal
  - (iii) a ledger;
  - (iv) Carbon copies of bills and receipts in relation to sums exceeding Rs. 25;
  - (v) Original bills and receipts of expenditure.
5. Preservation of the books of accounts The books of accounts are to be kept and maintained for the period of at least 6 years from the end of the relevant assessment year.

### Example 20

Mr. X Provides details of his turnover & Income of last 3 PY. Decide whether requirement of S.44AA is applicable or not?

Previous Year	Turnover	Income
2024-25	24,00,000	2,50,000
2023-24	25,00,000	2,40,000
2022-23	19,00,000	2,10,000

### Solution

S.44AA shall not be applicable as neither turnover nor income exceeds the limit prescribed under Income Tax Act, 1961.

**Example 21** Suppose In above Q. if income of PY 2024-25 = 2,60,000

**Solution:** S.44AA shall be applicable in the PY 2025-26 as income exceeds Rs. 2,50,000 during PY 2024-25.

## Section 41 Deemed PGBP Income

1. Refund/Recovery of Deduction/Remission/Cessation of Trading Liability  
E.g. Discount received while making payment to creditors; stock in trade is destroyed and allowed as trading loss and subsequently insurance claim is received.
2. Recovery of Bad Debt Allowed as deduction
3. Sale of Scientific Research Asset
4. Balancing Charge (In case of assessee engaged in Power Generation)

## Section 44AB Compulsory Audit Of Books Of Accounts

Assessee Engaged In	Audit Requirement
Business	Turnover exceeds 1 Crore Proviso to Section 44AB(a) Inserted : NO AUDIT Upto 10 Crore Turnover if : a) If Turnover of assessee is more than 1 crore but upto 10 crore b) Aggregate of all Amounts received in cash is not more than 5% of total Receipts during the PY, and c) Aggregate of all Amounts paid in cash is not more than 5 % of total payments during the year.
Profession	Gross Receipts exceeds 50 Lakh
Persons covered under S. 44AD, 44ADA, 44AE	If such person claims that his income is LOWER than Income computed on Presumptive basis & his Income Exceeds Basic exemption limit.

Penalty for failure to get books of account audited u/s 271B:

- a) 0.5% of Total Sales, Turnover Or Gross Receipts
- b) Rs. 1,50,000

## Analysis

Turnover	Total Receipts	Cash Receipts	Total Payments	Cash Payments	Audit Requirement
₹85,00,000	₹90,00,000	₹45,00,000	₹70,00,000	₹55,00,000	
₹1,50,00,000	₹1,20,00,000	₹3,60,000	₹1,00,00,000	₹4,00,000	
₹5,00,00,000	₹4,50,00,000	₹31,50,000	₹4,00,00,000	₹20,00,000	
₹8,00,00,000	₹7,50,00,000	₹30,00,000	₹7,00,00,000	₹56,00,000	
₹10,00,00,000	₹9,00,00,000	₹45,00,000	₹8,00,00,000	₹32,00,000	
₹10,00,00,000	₹9,00,00,000	₹46,00,000	₹8,00,00,000	₹40,00,000	
₹11,00,00,000	₹10,00,00,000	₹50,00,000	₹9,00,00,000	₹45,00,000	

## Presumptive Taxation

## Section 44AD PROFITS AND GAINS OF BUSINESS ON PRESUMPTIVE BASIS

1. **Eligible Assessee:** Resident Individual/ HUF / Firm except LLP
2. Section 44AD is applicable only to business and not to specified profession and also it is not applicable for the persons having earning as commission or brokerage or Agency Business.
3. Turnover of eligible assessee doesn't Exceed 2 crore  
(3 crore, if aggregate cash receipts in relevant P.Y. is up to 5% of T.O. or G.R.)
4. **Presumptive Income** = 8% of Turnover or Gross Receipts. No further deduction is allowed under section 30 to 38.

Rate of 6% shall be applied instead of 8% if the Amount of total turnover or gross receipts which is received through specified mode up to RFD as per section 139(1).

5. Brought forward business loss is allowed to be adjusted from such income but brought forward depreciation is not allowed to be adjusted from such income.
6. If Assessee opts Section 44AD, then assessee shall be exempt from maintaining books of accounts as well as from audit requirement.
7. Such assessee shall be required to pay advance tax to the extent of 100% of tax liability on or before 15th March of the relevant previous year
8. If an assessee has opted for presumptive income under section 44AD and in the subsequent 5 years he has rejected presumptive income, in that case he will not be allowed to opt for presumptive income for next 5 year If assessee has rejected the presumptive income, he will be required to maintain any books of accounts and also audit is required.

### Example 22

Calculate Income under head PGBP if

(a) Section 44AD opted

(b) Section 44AD not opted

- Turnover = ₹1,90,00,000 (80% received through specified mode)
- Expenses = ₹1,72,00,000
- B/F unabsorbed depreciation = ₹1,50,000
- B/F loss = ₹72,000

### Solution

#### Calculation of Income under head PGBP

Particulars	₹
<b>a) 44AD opted</b>	
Presumptive Income	
$1,90,00,000 \times 80\% \times 6\% = 9,12,000 + 1,90,00,000 \times 20\% \times 8\% = 3,04,000$	12,16,000
Less: Brought forward Loss	72,000
<b>Income under head PGBP</b>	<b>11,44,000</b>
<b>b) 44AD not opted</b>	
Revenue	1,90,00,000
Less: Expenses	1,72,00,000
	18,00,000
Less: Brought Forward Loss	72,000
Less: Brought Forward Depreciation	1,50,000
<b>Income under head PGBP</b>	<b>15,78,000</b>

### Illustration 29

Mr. X is engaged in a business with turnover ₹170,00,000 (all payments received by account payee cheque, bank draft or through electronic clearing) and expenses incurred in connection with earning of income are ₹160,00,000. He has LTCG ₹5,00,000. He has donated



₹4,00,000 to Rajiv Gandhi Foundation by cheque. He has brought forward loss of business ₹1,00,000 of previous year 2020-21. Compute his Income and Tax Liability for previous year 2025-26, in two situations–

- (i) He has opted for section 44AD.
- (ii) He has not opted for section 44AD.

### Solution

#### a) If Section 44AD Opted

##### Computation of Total Income

Particulars	Amount
PGBP	
Turnover x 6% i.e. $1,70,00,000 \times 6\% = 10,20,000$	
(-) B/F loss (1,00,000)	9,20,000
Capital Gain (LTCG)	5,00,000
GTI/Total Income	14,20,000

#### b) If Section 44AD is not Opted

##### Computation of Total Income

Particulars	Amount
PGBP	
Revenue 1,70,00,000	
(Less) Expenses (1,60,00,000)	
(Less) B/F loss (1,00,000)	9,00,000
Capital Gain (LTCG)	5,00,000
GTI/Total Income	14,00,000

### Illustration 30

Mr. X engaged in Retails Trade, reports a turnover of ₹58,50,000 (all payments received in account payee cheque) for the financial year 2025-26. His income from the said business as per books of account is computed at 2,90,000. Retail trade is the only source of income for Mr. X.

- (i) Is Mr. X eligible to opt for presumptive determination of his income chargeable to tax for the Assessment Year 2026-27?
- (ii) Is so, determine his income from retail trade as per the applicable presumptive provision.
- (iii) In case, Mr. X has not opted for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?
- (iv) What is the 'due date' for filing his return of income, under both the options?

### Solution

- a) Yes, Mr. X is eligible to opt for presumptive determination of his income as per S.44AD as his total turnover (i.e. 58,50,000) from retail trade is within the prescribed limit of 200 lakhs
- b) Income of Mr. X from retail trade =  $58,50,000 \times 6\% = 3,51,000$



- c) Obligations of Mr. X if he has not opted for presumptive taxation of income:
  - 1. Compulsory maintenance of detailed books of accounts as per S.44AA
  - 2. Audit of books of accounts as per S.44AB
  - 3. Deposit of advance tax as per normal provisions of the act
- d) Since, Mr. X turnover does not exceed 1cr, He is not required to get its books of Accounts audited. Therefore, the due date for filing the return of his income under both options shall be 31/07/26

#### SECTION 44ADA PRESUMPTIVE SCHEME FOR SPECIFIED PROFESSION

1. **Eligible Assessee:** Resident Individual or Partnership excluding LLP having specified profession
2. Section 44ADA shall be available if G.R. of PY is up to Rs. 50 Lakhs (75 lakhs if aggregate cash receipts in relevant P.Y.  $\leq$  5% of total gross receipts)
3. **Presumptive Income** = 50% of Gross Receipts. No further deduction is allowed under section 30 to 38.
4. Brought forward business loss is allowed to be adjusted from such income but brought forward depreciation is not allowed to be adjusted from such income.
5. If Assessee opts Section 44ADA, then assessee shall be exempt from maintaining books of accounts as well as from audit requirement.
6. Such assessee shall be required to pay advance tax to the extent of 100% of tax liability on or before 15th March of the relevant previous year.
7. Assessee can change the option on a year-to-year basis.

#### Section 44AE BUSINESS OF PLYING, HIRING OR LEASING GOODS

1. If any person is engaged in the business of plying, hiring or leasing goods carriages, he will have the option to compute PGBP on presumptive basis:
  - a) Heavy goods Vehicle (Gross Weight > 12,000 Kgs or 12 Tons) → Rs. 1,000 per ton per month or part thereof.
  - b) Other vehicle: Rs. 7,500 per month or part thereof.

**Note:** income is calculated on the basis of ownership of vehicle. It is irrelevant whether assessee actually runs the vehicle or not.
2. Assessee should not own more than 10 vehicles at anytime during the year.
3. No further deduction is allowed under section 30 to 38 but in case of a firm interest and salary to partners is allowed as per section 40(b).
4. The assessee shall be exempt from maintaining books of accounts or audit.
5. The assessee has the option to reject presumptive income but in that case assessee should maintain any books of accounts and also audit is required.
6. An assessee, who is in possession of a goods carriage, whether taken on hire purchase or on instalments, shall be deemed to be the owner of such goods carriage.
7. Assessee can change the option on year-to-year basis.
8. Brought forward depreciation shall not be allowed to be adjusted but brought forward business loss shall be allowed to be adjusted.

**Example 23**

Mr. X own 7 Trucks during PY 2025-26. Details of which are as follows.

Trucks	Gross Weight	Owned for
2	14 MT	7 Month + 10 days
3	10 MT	9 Month + 5 days
2	9 MT	11 Month + 20 days

**Solution**

No. of Trucks	Gross Weight	Owned for	Presumptive income
2	14MT	7m + 10days	$2 \times (1000 \times 14) \times 8m = 2,24,000$
3	10MT	9m + 5days	$3 \times 7500 \times 10m = 2,25,000$
2	9MT	11m + 20days	$2 \times 7500 \times 12m = 1,80,000$
Total Presumptive Income u/s 44AE			6,29,000

**Illustration 31**

Mr. X retired from Govt. service in March 2025. He got ₹20,00,000 on account of retirement benefits. Out of the aforesaid sum, he purchased on 23rd April 2025 a few motor vehicles and got their delivery on that date. The particulars of the vehicles are given below–

Vehicle	Number	Cost of the vehicle
Heavy goods Vehicle (15 ton)	2	₹9,00,000
Medium goods Vehicle (8 ton)	4	₹4,50,000
Light commercial Vehicle (4 ton)	3	₹3,20,000

He started plying the vehicles from 04.06.2025. On an average every vehicle remains off the road for about a week for repairs and maintenance. He maintains a rough record of the receipts and outgoings which is given below–

Receipts	₹3,70,000
Less: Expenses (Excluding depreciation and salaries to Mr. Y)	(₹60,000)
Profit	₹3,10,000

You are required to compute the Total Income of Mr. X from the business of goods carriage for the previous year 2025-26.

**Solution****Computation of Total Income of Mr. X**

Particulars	Amount
Heave Goods Vehicle = $2 \times (1000 \times 15 \text{ Tons}) \times 12$	3,60,000
Medium Goods Vehicle = $4 \times 7500 \text{ p.m.} \times 12$	3,60,000
Light commercial Vehicle = $3 \times 7500 \text{ p.m.} \times 12$	2,70,000
	9,90,000

**Illustration 32**

An assessee owns a heavy commercial vehicle having gross vehicle weight of 15 ton each for 9 months 15 days, a medium goods vehicle having gross vehicle weight of 8 ton for 9 months and a light goods vehicle having gross vehicle weight of 5 ton for 12 months during the previous year. Compute his income applying the provisions of section 44AE.

**Solution****Computation of Total Income**

Particulars	Amount
Heavy Goods Vehicle = (1000 x 15 Tons) x 10 months	1,50,000
Medium Goods Vehicle = 7500 p.m. x 9 months	67,500
Light commercial Vehicle = 7500 p.m. x 12 months	90,000
	<b>3,07,500</b>

**Illustration 33: Mr. Chauhan is having a trading business and his Trading and Profit & Loss Account for the financial year 2025-26 is as under:**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,50,000	By Sales	2,70,00,000
To Purchase	2,49,00,000	By Closing stock	1,00,000
To Gross profit	20,50,000		
Total	2,71,00,000	Total	2,71,00,000
Salary to employees (Including Contribution to PF)	5,00,000	By Gross Profit b/d	20,50,000
Donation to Prime Minister Relief Fund	1,00,000		
Provision for bad debts	50,000		
Bonus to employees	50,000		
Interest on bank loan	50,000		
Family planning expenditure incurred on employees	20,000		
Depreciation	30,000		
Income-tax	1,00,000		
To Net profit	11,50,000		
Total	20,50,000	Total	20,50,000

**Other information:**

- He incurred expenditure on furniture & fixtures of ₹ 35,000, which is paid in cash on 25.7.2025 to M/s Décor World.
- Depreciation allowable ₹ 40,000 [excluding depreciation on furniture & fixtures refer in (i) above] as per Income-tax Rules, 1962.
- No deduction of tax at source on payment of interest on bank loan has been made.
- Out of salary, ₹ 25,000 pertains to his contributions to recognized provident fund which was deposited after the due date of filing return of income.

- e) Further, employee's contribution of ₹ 25,000 was also deposited after the due date of filing return of income.

Compute business income of Mr. Chauhan for the Assessment Year 2026-27.

### Solution

#### Computation of Business Income of Mr. Chauhan for the A.Y. 2026-27

Particulars	₹	₹
Net profit as per Profit and Loss Account		11,50,000
Add: Expenses not deductible		
1. Donation to Prime Minister Relief Fund (Refer Note 1)	1,00,000	
2. Provision for bad debts (Refer Note 2)	50,000	
3. Family planning expenditure incurred on employees (Refer Note 3)	20,000	
4. Depreciation as per Profit and Loss Account	30,000	
5. Income-tax (Refer Note 4)	1,00,000	
6. Employer's contribution to recognized provident fund (Refer Note 5)	25,000	3,25,000
		14,75,000
Less: Expense allowed		
Depreciation as per Income-tax Rules, 1962 (Refer Note 6)	40,000	
		14,35,000
Add: Employee's contribution included in income as per Section 2(24)(x) (Refer Note 7)		25,000
Business Income		14,60,000

### Notes:

1. Donation to Prime Minister Relief Fund is not allowed as deduction from the business income, since it is not incurred wholly and exclusively for business. It is allowed as deduction under section 80G from the gross total income.
2. Provisions for bad debts is allowable as deduction under section 36(1)(viia) (subject to the limits specified therein) only in case of banks, public financial institutions, State Financial Corporation and State Industrial Investment Corporation. Therefore, it is not allowable as deduction in the case of Mr. Chauhan.
3. Expenditure on family planning is allowed as deduction under section 36(1)(ix) only to a company assessee. Therefore, such expenditure is not allowable as deduction in the hands of Mr. Chauhan.
4. Income-tax paid is not allowable as deduction as per the provisions of section 40(a)(ii).
5. Since Mr. Chauhan's contribution (Employer's Contribution) to recognized provident fund is deposited after the due date of filing return of income, the same is disallowed as per provisions of section 43B.
6. As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds ₹ 10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on furniture & fixtures would not be allowed,

since payment exceeding ₹ 10,000 (₹ 35,000 in this case) is made in cash. Therefore, no adjustment is required to be made in the amount of depreciation computed as per Income-tax Rules, 1962, since such amount does not include depreciation on furniture & fixtures.

7. Employee's contribution is includible in the income of the employer by virtue of Section 2(24)(x). The deduction for the same is not provided for as it was deposited after the due date under the Provident Fund Act.
8. TDS provisions under section 194A are not attracted in respect of payment of interest on bank loan. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

### Illustration 34

You are required to compute the business income of Mr. Anoop, a resident individual aged 55 years, for the Assessment Year 2026-27 from the following information shown in his Profit and Loss Account for the year ended 31st March 2026:

- (i) The net profit was ₹ 8,40,000.
- (ii) Depreciation debited in the books of account was ₹ 1,05,000.
- (iii) The following incomes were credited in the Profit & Loss Account :
  - (a) Interest on notified government securities ₹ 32,000
  - (b) Dividend from a foreign company ₹ 28,000.
  - (c) Gold chain worth ₹ 78,000 received as gift from his mother.
- (iv) Interest on loan amounting to ₹ 82,000 was paid in respect of capital of ₹ 8,20,000 borrowed for the purchase of new plant & machinery which has been put to use on 12th April, 2026.
- (v) General expenses included:
  - (a) An expenditure of ₹ 18,500 which was paid by a bearer cheque.
  - (b) Compensation of ₹ 4,500 paid to an employee while terminating his services in business unit.
- (vi) Depreciation allowable as per Income-tax Act, 1961 was ₹ 1,16,000 [without considering depreciation on new plant & machinery referred to in (iv) above].

### Solution

#### Computation of total income of Mr. Anoop for the Assessment Year 2026-27

Particulars	₹	₹
Net profit as per profit and loss account		8,40,000
Less: Income credited to profit and loss account but not taxable under this head		
1. Interest on notified government securities	32,000	
2. Dividend from foreign company	28,000	
3. Gift of gold chain received from his mother	78,000	1,38,000
		7,02,000
Add: Depreciation debited in the books of account	1,05,000	
Add: Expenses debited to profit and loss account but not allowable as deduction		

1.	Interest on capital borrowed for purchase of plant & machinery	82,000	
2.	Expenditure in excess of ₹ 10,000 paid by bearer cheque to be disallowed as per section 40A(3)	18,500	
3.	Compensation paid to an employee on termination of his services in the business unit is allowable on the grounds of commercial expediency. Hence, no disallowance is attracted	Nil	1,00,500
			9,07,500
	Less: Depreciation allowable under the Income-tax Act, 1961 [Depreciation on new plant & machinery would not be allowed, since it was not put to use during the previous year 2025-26]	1,16,000	
			7,91,500
	<b>Income from Other Sources</b>		
1.	Interest on notified Government Securities, exempt under section 10(15)	Nil	
2.	Dividend from foreign company [not exempt under section 10(34)]	28,000	
3.	Gift of gold chain received from his mother is not taxable, since mother is a relative [clause (I) of proviso to section 56(2)(x)]	Nil	28,000
	<b>Gross Total Income</b>		8,19,500
	Less: Deductions under Chapter VI-A Under section 80C-80U	Nil	
	<b>Total Income</b>		8,19,500
	Tax on First 5,00,000 @slab rate	12,500	
	Tax on Balance 3,19,500@20%	63,900	
			76,400
	Add : Health and Education cess @4%	3056	
	<b>Tax Liability (Rounded off)</b>		79,460

## CHAPTER 3D: INCOME UNDER HEAD CAPITAL GAINS

### CHARGEABILITY OF CAPITAL GAINS [SECTION 45(1)]

- ✓ Any profits or gains arising
- ✓ from the transfer of a capital asset
- ✓ shall be chargeable to Tax
- ✓ In the PY in which the transfer took place.

**Example:** Land is transferred on **31/03/2026** i.e. during PY 2025-26 but consideration is received on **01/04/2026** i.e. during PY 2026-27, then in such case Capital Gain implication shall arise in **PY 2025-26**.

### Capital assets Section 2(14)

“Capital asset” includes all assets Except

- i) any stock-in-trade
- ii) Personal movable assets. However, following personal movable assets shall be capital asset—
  - a) jewellery;
  - b) archaeological collections;
  - c) drawings;
  - d) paintings;
  - e) sculptures; or
  - f) any work of art.
- iii) Rural Agriculture Land.  
Meaning of Urban Area
  - a) Any area (municipality, cantonment board etc.) which has a population of 10,000 or more.
  - b) Following area within the distance measured aerially

Population according to latest census	Shortest Distance
More than 10,000 but upto 1,00,000	Up to 2 Km
More than 1,00,000 but upto 10,00,000	Up to 6 Km
More than 10,00,000	Up to 8 Km

- iv) Gold Deposit Bonds, 1999 or deposit certificate issued under the gold monetization scheme, 2015.

## Types of Capital Assets (On or after 23/07/2024)

## 1. Short Term Capital Asset

Particulars	Upto 22/7/2024	W.E.F 23/7/2024
Listed Securities	12 Month	12 Month
Units Of Equity Oriented MF	12 Month	12 Month
Zero Coupon Bond	12 Month	12 Month
Unlisted Shares	24 Month	24 Month
Land & Building	24 Month	24 Month
Unlisted Debentures	36 Month	24 Month
Other Capital Assets	36 Month	24 Month

## 2. Long Term Capital Asset → Other than Short Term Capital Asset

## Example 01

Identify which of the following is capital Asset

1. Yacht owned by Akshay Kumar
2. Gold watch owned by Ranbir Kapoor
3. MF Hussain Painting in Mukesh Ambani Guest room
4. Chartered Aircraft owned by Reliance Ltd
5. Land owned by Reliance Ltd.
6. Land owned by Shahrukh Khan.
7. Jewellery held by Nita Ambani.
8. Unlisted debenture of J Ltd.

## Solution

- a) Not a capital asset
- b) Capital Asset
- c) Capital Asset
- d) Capital Asset
- e) Capital Asset
- f) Capital Asset
- g) Capital Asset

## Computation of Short term Capital Gains &amp; Long Term Capital Gains [Section 48]

## A. Up to 23/7/2024

Short Term Capital Gain	Amount	Long Term Capital Gain	Amount
Full Value Of Consideration	-	Full Value Of Consideration	-
Less: Transfer Expenses	-	Less: Transfer Expenses	-
Net Consideration	-	Net Consideration	-
Less: Cost Of Acquisition (COA)	-	Less: Indexed COA	-
Less: Cost of Improvement (COI)	-	Less: Indexed COI	-
Gain Before Exemption	-	Gain Before Exemption	-



Less Exemption Claimed	-	Less Exemption Claimed	-
STCG Taxable	-	LTCG Taxable	-

- Expenditure incurred on transfer of asset is allowed as deduction. For example Brokerage on transfer of asset etc. However STT paid at the time of purchase as well as at the time of transfer of share shall be ignored.
- Land & Building are separate assets under capital gain. If land is purchased before 2 years and building has been constructed within 2 years then while calculating capital gain, we have to calculate separate capital gain for both assets. Being land is held for more than 24 months there shall be LTCG, whereas building is held for upto 24 months there shall be STCG.

### B. On or After 23/7/2024

Short Term Capital Gain	Amount	Long Term Capital Gain	Amount
Full Value of Consideration (FVC)	-	FVC	-
Less: Transfer Expenses	-	Less: Transfer Expenses	-
Net Consideration	-	Net Consideration	-
Less: Cost Of Acquisition (COA)	-	Less: COA	-
Less: Cost of Improvement (COI)	-	Less: COI	-
Gain Before Exemption	-	Gain Before Exemption	-
Less Exemption Claimed	-	Less Exemption Claimed	-
STCG Taxable	-	LTCG Taxable	-

#### Notes:

- If Long term capital asset transferred on or after 23/07/2024, then Indexation facility shall not be available
- However, if Long term capital asset is Land or building or both, then option for the indexation facility is given only for the purpose of "Calculation of Tax" to resident individual or HUF to opt lower of the following:
  - Tax on LTCG of land or building without Indexation @12.5%
  - Tax on LTCG of land or building after Indexation @20%
- Above option is only for the purpose of tax calculation i.e. income under the head Capital Gain shall be calculated without indexation in respect of Land or Building transfer on or after 23/07/2024.

### Asset purchased before 01.04.2001

If any capital asset has been purchased or constructed before 01.04.2001, in that case cost of acquisition shall be:

- In case of capital asset other than Land & Building, COA shall be higher of:
  - Actual Cost of Acquisition.
  - FMV as on 1/4/2001.

**B.** In case of capital asset being Land & Building, COA shall be higher of:

- a) Actual Cost of Acquisition.
- b) Lower of:
  - (i) FMV as on 1/4/2001.
  - (ii) SDV as on 1/4/2001

**Notes:**

1. COI Shall be Considered only if incurred on/after 1/4/2001
2. COI by Previous Owner shall also be Considered If incurred after 1/4/2001

#### Indexation Factor

Year	C.I.I.	Year	C.I.I.	Year	C.I.I.
2001-02	100	2010-11	167	2019-20	289
2002-03	105	2011-12	184	2020-21	301
2003-04	109	2012-13	200	2021-22	317
2004-05	113	2013-14	220	2022-23	331
2005-06	117	2014-15	240	2023-24	348
2006-07	122	2015-16	254	2024-25	363
2007-08	129	2016-17	264	2025-26	
2008-09	137	2017-18	272		
2009-10	148	2018-19	280		

#### Example 02

Calculate Capital Gain for PY 2025-26

1. Land and building purchased on 15/10/2010 for Rs.50,00,000
2. Improvement cost incurred Rs. 10,00,000 on 15/11/2020
3. Land and Building transferred on 15/03/26 for Rs. 98,00,000
4. Brokerage paid on transfer @1% of sale value

**Solution**

#### Computation of Capital Gain for PY 2025-26

Particulars	₹
Period of holding: 15/10/2010 – 14/03/2026	
Full value of consideration	98,00,000
Less: Transfer expense @1%	9,800
Net consideration	97,02,000
Less: Cost of Acquisition	50,00,000
Less: Cost of Improvement	10,00,000
LTCG	37,02,000

**Example 03**

Calculate Capital Gain for PY 2025-26

1. Land and building purchased for ₹5,00,000 on 01/04/95
2. FMV and SDV as on 01/04/2001 are 7,50,000 and ₹7,00,000 respectively
3. Improvement cost incurred ₹3,00,000 on 01/04/2010
4. On 01/11/2025 it was sold for ₹1,25,00,000 and Transfer expenses @1%

**Solution****Computation of Capital Gain for PY 2025-26**

Particulars	₹
Period of holding: 01/04/1995 – 31/10/2025	
Full value of consideration	1,25,00,000
Less: Transfer expense @1%	1,25,000
Net consideration	1,23,75,000
Less: Cost of Acquisition (WN)	7,00,000
Less: Cost of Improvement	3,00,000
LTCG	1,13,75,000

**Working Note:****Computation of Cost of Acquisition**

Particulars	₹
FMV as on 01/04/2001	7,00,000
SDV as on 01/04/2001	7,50,000
Lower	7,00,000
Original cost of asset	5,00,000
Higher	7,00,000

**Example 04**

Calculate Capital Gain for PY 2025-26

1. Land and building was purchased on 01/07/1997 for ₹10,00,000
2. Ground floor constructed on 01/11/1999 for ₹5,00,000
3. FMV and SDV as on 01/04/2001 are ₹19,00,000 and ₹16,00,000 respectively
4. First floor constructed on 01/04/2016 for ₹15,00,000
5. On 01/07/2025, House was sold for ₹1,50,00,000 @ 1% transfer expenses.

**Solution****Computation of Capital Gain for PY 2025-26**

Particulars	₹
Period of holding: 01/04/1997 – 30/06/2025	
Full value of consideration	1,50,00,000
Less: Transfer expense @1%	1,50,000
Net consideration	1,48,50,000
Less: Cost of Acquisition	16,00,000

Less: Cost of Improvement	15,00,000
LTCG	1,17,50,000

**Working Note:****Computation of Cost of Acquisition**

Particulars	₹
FMV as on 01/04/2001	19,00,000
SDV as on 01/04/2001	16,00,000
Lower	16,00,000
Original cost of asset	10,00,000
Higher	16,00,000

**Note:** Improvement cost incurred before 01/04/2001 shall be ignored.

**Example 05**

Calculate Capital Gain for PY 2025-26

1. Jewellery purchased ₹15,00,000 on 01/04/2000
2. FMV as on 01/04/2001 was ₹14,00,000
3. Improvement cost incurred ₹5,00,000 on 01/04/2016
4. On 01/04/2025 It was sold for ₹70,00,000

**Solution****Computation of Capital Gain for PY 2025-26**

Particulars	₹
Full value of consideration	70,00,000
Less: Transfer expense @1%	-
Net consideration	70,00,000
Less: Cost of Acquisition	15,00,000
Less: Cost of Improvement	5,00,000
LTCG	50,00,000

**Section 2(47) Meaning of Transfer**

1. The sale, exchange or relinquishment of the asset.
2. The extinguishment of any rights therein. Extinguishment covers destruction of the assets.  
**E.g.** Termination of a lease; redemption of preference shares/debentures.
3. The compulsory acquisition of the asset by the govt.
4. Conversion of asset into stock-in-trade.
5. Possession of any immovable property in part performance of a contract.
6. Any transaction which has the effect of transferring, or enabling the enjoyment of, any immovable property *[it is by becoming a member in a co-operative society, company or other association of persons]*

7. Maturity or redemption of zero coupon bond.

**Section 47 (What is not transfer)**

- (i) Gift, will or inheritance of property
- (ii) Distribution of capital assets on the partition of a Hindu Undivided Family.
- (iii) Conversion of bonds/debentures into shares of that company
  - Notes:**
  - a) COA of shares shall be COA of that part of debentures which is so converted.
  - b) POH of shares shall include POH of debentures.
- (iv) Conversion of preference shares into equity shares of that company.
  - Notes:**
  - a) COA of equity shares shall be COA of that part of preference shares which is so converted.
  - b) POH of equity shares shall include POH of preference shares.
- (v) Transfer of capital asset in a transaction of reverse mortgage.
  - Note:** any amount received by senior citizen under this scheme is fully exempt.

**Reverse Mortgage**

- It is the facility where senior citizen mortgage House property to Bank and receive loan amount either in Lump sum or installments.
- Senior citizen is not under the obligation to repay this loan.
- Bank will recover principal amount and Interest on such loan by selling House property after the death of senior citizen.
- Bank will also give option to legal heir to repay loan amount and take over the mortgaged property.

**Section 49(1). Deemed cost of acquisition**

In case the asset is acquired through a mode given in section 47 (Gift to relative or will) then cost of acquisition is cost to the previous owner. Previous owner is the person who acquires the asset by paying the price. Period of holding shall be computed from the date the previous owner acquires the asset.

**Note 1:** Cost of improvement incurred by previous owner shall also be taken if such improvement is done on or after 01/04/2001.

**Note 2:** However, if amount of GIFT is taxable in the hands of recipient, then such amount of GIFT shall be included in the COA and POH shall be determined from the date of receiving the GIFT.

**Example 06**

Calculate Capital Gain for PY 2025-26

1. On 01/10/1995, Mr. R purchased house property for ₹15,00,000
2. On 01/10/2000, he incurred improvement cost of ₹5,00,000
3. On 01/10/2020, he incurred improvement cost of ₹15,00,000
4. On 01/04/2022, property was gifted to Mr. K (son)
5. On 01/10/2023, he incurred improvement cost of ₹20,00,000
6. On 01/12/2025, property is sold by Mr. K for ₹1,00,00,000 @ 2% transfer expense.
7. FMV and SDV on 01/04/2001 was ₹22,00,000 and ₹21,00,000 respectively.

**Solution**

Since Mr. K has acquired the asset through a mode given in section 47 (Gift to relative or will) then cost of acquisition is cost to the previous owner i.e. Mr. R.

Period of holding shall be computed from the date on which Mr. R acquires the asset i.e. 01/10/1995.

**Computation of Capital Gain for PY 2025-26**

Particulars	₹
Full value of consideration	1,00,00,000
Less: Transfer expense @2%	2,00,000
Net consideration	98,00,000
Less: Cost of Acquisition (WN-01)	21,00,000
Less: Cost of Improvement	15,00,000
Less: Cost of Improvement	20,00,000
LTCG	42,00,000

**Working Note: 1****Computation of Cost of Acquisition**

Particulars	₹
FMV as on 01/04/2001	22,00,000
SDV as on 01/04/2001	21,00,000
Lower	21,00,000
Original cost of asset	15,00,000
Higher	21,00,000

**Illustration 01**

Mr. X purchased house 01.04.2001 for ₹2,00,000 and incurred ₹3,00,000 on improvement on 01.07.2002 and it was received by his son Mr. Y on 01.07.2012 and Mr. Y incurred ₹4,00,000 on improvement 01.07.2014 and house was sold by him on 01.07.2025 for ₹1,00,00,000, in this case tax liability of Mr. Y shall be?

**Solution****Computation of Total Income in hands of Mr. Y for PY 2025-26**

Particulars	Amount
Full Value of Consideration	1,00,00,000
Less: Transfer Expenses	NIL
Net Consideration	1,00,00,000
Less: Cost of Acquisition	2,00,000
Less: Cost of Improvement	3,00,000
Less: Cost of Improvement	4,00,000
LTCG	91,00,000

**Illustration 02 (Do along with Other Sources)**

Mr. X purchased one house property on 01.07.2002 for ₹2,00,000 and it was gifted to Mr. Y on 01.11.2020 and value for the purpose of charging stamp duty was ₹5,00,000 and subsequently the house property was sold by Mr. Y on 01.01.2026 for ₹25,00,000, in this case tax liability of Mr. Y shall be?

**Solution**

During PY 2020-21, No tax implication in the hands of Mr. X as Gift is not a transfer. Amount of Gift shall be taxable in hands of Mr. Y under head other sources as SDV exceeds 50,000 (Taxable Gift = SDV of House Property = 5,00,000)

**Computation of Total Income in hands of Mr. Y for PY 2025-26**

Particulars	Amount
Full Value of Consideration	25,00,000
Less: Transfer Expenses	NIL
Net Consideration	25,00,000
Less: Cost of Acquisition	5,00,000
LTCG	20,00,000

**Conversion of Asset into Stock-in-trade [Section 45(2)]**

1. Conversion of capital asset into stock shall be deemed to be transfer and capital gain shall be arise in the year of such conversion.
2. For this purpose FMV on date of conversion shall be considered as full value of consideration.
3. Capital gain shall be taxable in the year in which such SIT is sold.

Capital Gain	Amount	PGBP	Amount
FMV on conversion Date	-	Sale Value	-
Less: COA / ICOA	-	FMV on conversion date	-
Less: COI/ICOI	-		
STCG/LTCG	-	PGBP	-

**Example 07**

Calculate Capital Gain for PY 2025-26

Jewellery was purchased for ₹10,00,000 on 01/07/2012

It was converted into Stock-in-Trade on 01/03/2024 (FMV = ₹19,00,000)

Such Stock-in-trade was sold on 16/07/2025 for ₹23,00,000

**Solution**

Capital Gain shall arise in the year of conversion (PY 2023-24), However it shall be taxable in the year in which such converted Stock-in-trade is sold.

**Computation of Capital Gain on conversion**  
(Period of holding = 01/07/2012 – 29/02/2024)

Particulars	₹
Full value of consideration (as on date of conversion)	19,00,000
Less: Transfer expense @1%	-
Net consideration	19,00,000
Less: Indexed Cost of Acquisition (10 lakhs x 348/200)	17,40,000
LTCG	1,60,000

**Computation of Total Income for PY 2025-26**

Particulars	₹
PGBP	
Sale Value of Stock-in-trade	23,00,000
Less: FMV as on conversion date	19,00,000
	4,00,000
Capital Gain	
LTCG	1,60,000
Gross Total Income	5,60,000

**Example 08**

Calculate Capital Gain for PY 2025-26

Land was purchased on 01/10/2010 for ₹75,00,000

It was converted into Stock-in-Trade on 01/11/2023 (FMV = ₹1,80,00,000)

On 01/11/2025, 20 flats constructed @ cost of ₹15,00,000 each

On 01/03/2026, 15 flats sold @ ₹40,00,000 each

On 01/05/2026, 5 flats are sold for ₹42,00,000 each

**Solution**

**Computation of Total Income for PY 2025-26**

Particulars	₹
Under head PGBP	
Sale of 15 Flats (15,00,000x40)	6,00,00,000
Less: Cost of Land (FMV on conversion) 1,80,00,000 x 15/20	1,35,00,000
Less: Construction Cost (15 flats x 15,00,000)	2,25,00,000



	2,40,00,000
Under head Capital Gain	
LTCG 23,71,000 x 15/20	17.7825L
Gross Total Income	257.7825L

### Computation of Total Income for PY 2026-27

Particulars	₹
Under head PGBP	
Sale of Flats (5 Flat x 42,00,000)	2,10,00,000
Less: Cost of Land (FMV on conversion) 1,80,00,000 x 5/20	45,00,000
Less: Construction Cost (5 flats x 15,00,000)	75,00,000
	90,00,000
Under head Capital Gain	
LTCG 23,71,000 x 5/20	5.9275
Gross Total Income	95.9275

### Working Note:

#### Computation of Capital Gain on conversion of Land into SIT (Period of holding = 01/10/2010 – 31/10/2023)

Particulars	₹
Full value of consideration	1,80,00,000
Less: Transfer expense	-
Net consideration	1,80,00,000
Less: Indexed Cost of Acquisition (75,00,000 x 348/167)	1,56,28,743
LTCG	23,71,257

### Example 09

Calculate Capital Gain for PY 2025-26

Mr. X is a dealer of residential flats has 100 flats held as stock in trade

On 01/10/2021, it was converted into capital asset

(i.e. put to use for personal purpose of Mr. X)

Cost of such flat was 50,00,000 and FMV on date of conversion is ₹60,00,000

On 01/03/2026, Mr. X sold this flat for ₹95,00,000

### Solution

#### Computation of Total Income for PY 2021-22 (Conversion of SIT into Capital Asset)

Particulars	₹
Under head PGBP	
FMV on date of conversion	60,00,000
Less: Cost of Flat	50,00,000
	10,00,000

**Computation of Capital Gain for PY 2025-26**  
(Period of holding = 01/10/2021 – 28/02/2026)

Particulars	₹
Full value of consideration	95,00,000
Less: Transfer expense	-
Net consideration	95,00,000
Less: Cost of Acquisition (FMV as on date of conversion)	60,00,000
LTCG	35,00,000

**Illustration 03**

Mr. X purchased Gold on 01.10.1991 for ₹2,00,000 and its fair market value on 01.04.2001 is 3,00,000 and he converted it into stock-in-trade on 01.10.2009 and market value of the gold on the date of conversion was ₹11,00,000 and subsequently half of the stock-in-trade was sold on 01.10.2021 for 6,50,000 and balance half was sold on 01.10.2025 for ₹7,50,000. Compute his total income for various year

**Solution**

Capital Gain shall arise in the year of conversion (PY 2009-10). However, it shall be taxable in the year in which such Converted Stock-in-trade is actually sold.

**Computation of Capital Gain on conversion**  
(Period of holding = 01/10/1991 – 30/09/2009)

Particulars	Amount
Full Value of Consideration (FMV as on date of transfer)	11,00,000
Less: Transfer Expenses	NIL
Net Consideration	11,00,000
Less: Indexed Cost of Acquisition (3,00,000 x 148/100)	4,44,000
LTCG	6,56,000

**Computation of Total Income in the hands of Mr. X for PY 2021-22**

Particulars		Amount
Under head PGBP		
Sale of Stock in trade	6,50,000	
Less: Cost of Stock in trade	5,50,000	1,00,000
Under head Capital Gain		
LTCG (6,56,000 x 50%)		3,28,000
Total Income		4,28,000

**Computation of Total Income in the hands of Mr. X for PY 2025-26**

Particulars		Amount
Under head PGBP		
Sale of Stock in trade	7,50,000	
Less: Cost of Stock in trade	5,50,000	2,00,000
Under head Capital Gain		

LTCG (6,56,000 x 50%)		3,28,000
Total Income		5,28,000

**Illustration 04**

A is the owner of a car. On 1-4-2023, he starts a business of purchase and sale of motor car. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2025 and gets a profit of ₹1 lakh. Discuss the tax implication in his hands under the head “Capital gains”.

**Solution**

Car is not a capital asset and hence not Taxable

**Treatment of Insurance claim received**

If any capital asset is destroyed due to fire, flood, earthquake, riot, civil disturbance etc. and insurance claim is received, then capital gain is applicable and shall be calculated as follows

Particulars	Destruction of CA [Section 45(1A)]
Sale Consideration	Insurance Compensation
Deemed Transfer	In The PY of Destruction
Taxability	PY of Receipt of Money

**Note:** If claim is received in Kind, then FMV of such kind claim shall become Full Value of consideration.

**Example 10**

Calculate Capital Gain for PY 2025-26

On 16/07/2012 Jewellery purchased for ₹10,00,000

Jewellery of FMV 25,00,000 was destroyed due to fire broke out on 15/03/2025

Insurance claim was filed on 16/03/2025

On 15/04/2025, Insurance claim of ₹24,50,000 was received

**Solution**
**Computation of Capital Gain for PY 2025-26**  
**(Period of holding = 16/07/2012 – 14/03/2025)**

Particulars	₹
Full value of consideration (Claim received)	24,50,000
Less: Transfer expense	-
Net consideration	24,50,000
Less: Cost of Acquisition	10,00,000
LTCG	14,50,000

**Example 11**

Calculate Capital Gain for PY 2025-26

Car was purchased ₹15,00,000 on 01/07/2020

On 15/03/2025, Car destroyed.

FMV = ₹5,00,000 and WDV of car = ₹3,90,000

Claim filed on 16/03/2025.

Insurance claim of ₹5,90,000 received on 01/04/2025.

**Solution****Computation of Capital Gain for PY 2025-26**

Particulars	₹
Full value of consideration (Claim received)	5,90,000
Less: Transfer expense	-
Net consideration	5,90,000
Less: Cost of Acquisition (WDV of car)	3,90,000
STCG	2,00,000

**Treatment Of Advance Money Forfeited**

Forfeited Before 1.4.2014	Reduced from Original COA before Indexation
Forfeited on/after 1.4.2014	Taxable u/h IFOS u/s 56(2)(ix)

**Transfer of capital asset to Firm**

If any partner transfers capital asset to the firm as a capital contribution or otherwise, then capital gain shall be arisen in the hands of such partner and shall be dealt as follows:

Particulars	Capital Contribution By Partner [Section 45(3)]
Sale Consideration	Value of CA recorded in Firm books.
Deemed Transfer	Year of contribution
Taxability	PY in which CA is given to firm

**Illustration 05**

Mr. X and Mr. Y are two partners of a firm X & Co. On 01.01.2026, Mr. Z joins the firm and brings shares in a company as his capital contribution. Fair market value of these shares on 01.01.2026 is ₹5,00,000 whereas Amount credited in Mr. Z's account in the firm is ₹4,00,000. Assuming that cost of acquisition in 2007-08 of these shares was ₹48,000, find out the Amount of chargeable capital gain for the assessment year 2026-27 in the hands of Mr. Z

## Solution

## Computation of Capital Gain in hands of Mr. Z

Particulars	Amount
Full Value of Consideration (Value at which shares are recorded in books of firm)	4,00,000
Less: Transfer Expenses	NIL
Net Consideration	4,00,000
Less: Cost of Acquisition	48,000
LTCG	3,52,000

## Compulsory Acquisition of Capital Asset [Section 45(5)]

FVC	Compensation Fixed by Govt.
Taxability	Year in which initial compensation is received.
Transfer	Year In which asset is compulsorily acquired.
Indexation	Shall be done up to the year of transfer
Balance compensation	No Tax Implication shall arise
Enhanced compensation	Taxable in the year of receipt after deducting litigation expenses.
Nature of Enhanced Compensation	Nature of CG of Enhanced compensation shall be same as original capital gain
Interest on delayed compensation	Taxable on receipt basis under head other sources [Flat 50% deduction is allowed]

## Example 12

Calculate Capital Gain for various PYs

- On 01/10/2016, Land was purchased for ₹40,00,000
- On 01/05/2022, it was compulsorily acquired by Govt. and compensation was fixed at ₹1,90,00,000
- On 01/05/2024, Initial compensation received ₹1,00,00,000.
- On 01/11/2024, suit was filed against UP-Govt.
- On 01/05/2025, Balance compensation received ₹90,00,000
- On 01/05/2026, Enhanced compensation ₹25,00,000 received with litigation expense of ₹5,00,000

## Solution

Computation of Capital Gain for PY 2024-25  
(Period of Holding: 01/10/2016 – 30/04/2022)

Particulars	₹
Full value of consideration (Compensation Fixed)	1,90,00,000
Less: Transfer expense	-
Net consideration	1,90,00,000
Less: Indexed Cost of Acquisition (40,00,000 x 331/264)	50,15,152

	LTCG	1,39,84,848
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During PY 2025-26, There will be no tax implication for Balance compensation of 96,00,000 as entire compensation is considered for computation of capital gain in PY 2024-25.

During PY 2026-27, Enhanced compensation of 25,00,000 shall be taxable after deducting litigation expenses.

Enhanced compensation received	25,00,000
Less: Litigation expense	5,00,000
LTCG	20,00,000

### Illustration 06

Mr. X (Date of birth 01.10.1946) has purchased one house on 01.04.1995 for ₹4,00,000 and incurred 2,00,000 on its improvement on 01.10.1998. Its market value on 01.04.2001 was ₹3,00,000. This house was acquired by the Government on 01.10.2014 and the compensation fixed was ₹50,00,000 and the Government has paid half of the compensation on 01.10.2025 and balance half on 01.10.2026. The assessee has filed an appeal for increasing the compensation and the court has given decision on 31.03.2027 directing the Government to pay additional compensation of ₹5,00,000. The Government has paid half of the Amount on 01.04.2027 and balance half on 01.04.2029. He has invested 72,000 in NSC in previous year 2025-26. Compute assessee's total income for the assessment year 2026-27 and also capital gains for various year.

### Solution

Capital Gain shall arise in the year of compulsory acquisition (PY 2014-15), However it shall be Taxable in the year in which initial compensation is received (PY 2025-26)

#### Computation of Capital Gain in the hands of Mr. X

Particulars	Amount
Full Value of Consideration (compensation fixed)	50,00,000
Less: Transfer Expenses	NIL
Net Consideration	50,00,000
Less: Indexed Cost of Acquisition $(4,00,000 \times 240/100)$	9,60,000
LTCG / GTI	40,40,000
Less: Deduction u/s 80C-80U	
NSC 72,000 (not allowed to adjust with special income)	NIL
Total Income	40,40,000

**PY 2027-28:** Enhanced Compensation Received 2,50,000 shall be taxable as LTCG under head Capital Gain

**PY 2029-30:** Enhanced Compensation Received 2,50,000 shall be taxable as LTCG under head Capital Gain

### Illustration 07

Mr. X purchased one house on 01.07.1997 for ₹2,00,000 and incurred ₹1,00,000 on its improvement in 1998-99 and its market value as on 01.04.2001 is ₹2,50,000 and SDV as on the same date is ₹3,00,000. She incurred ₹2,00,000 on its improvement in 2012-13 and the house was acquired by the Government on 01.07.2015 and compensation fixed is 60,00,000 and half of the Amount was paid by the Government on 01.01.2026 and balance half on 01.01.2027. She has also received interest of ₹2,00,000 in previous year 2025- 26 from the Government for delay in payment of compensation. Income under the head Business/ Profession was ₹20,03,990. Compute total income of Mr. X for the Assessment Year 2026-27.

### Solution

Capital Gain shall arise in the year of compulsory acquisition (PY 2015-16) , However it shall be Taxable in the year in which initial compensation is received (PY 2025-26)

#### Computation of Capital Gain in the hands of Mr. X

Particulars	Amount
Full Value of Consideration (compensation fixed)	60,00,000
Less: Transfer Expenses	NIL
Net Consideration	60,00,000
Less: Indexed Cost of Acquisition (2,50,000 x 254/100)	6,35,000
Less: Indexed Cost of Improvement (2,00,000 x 254/200)	2,54,000
LTCG	51,11,000

#### Computation of Total Income in the hands of Mr. X for PY 2025-26

Particulars	Amount
Income Under head PGBP	20,03,990
Income Under head Capital Gain	51,11,000
Income Under head Other sources	
Interest on late compensation	2,00,000
Less: Deduction @50%	1,00,000
Total Income	72,14,990

#### FVC In Case Of Transfer Of Land or building or Both [Section 50C / 43CA]

In case of land or building or both, If SDV exceeds 110% of sales consideration then SDV shall be considered as FVC.

If SDV exceeds 110% Of Sales Consideration	
Yes	NO
FVC = SDV	FVC = Actual Sales Consideration

### Example 13

Calculate Full Value of consideration (FVC) as per Section 50C

1. Sale value = ₹95,00,000 and SDV = ₹1,05,00,000

2. Sale value = ₹74,00,000 and SDV = ₹80,00,000
3. Sale value = ₹82,00,000 and SDV = ₹90,20,000

**Solution**

1. 110% of Sale value =  $95,00,000 \times 110\% = 1,04,50,000$   
Since, 110% of sale value does not exceed SDV.  
Therefore, FVC as per Section 50C shall be Sale Value i.e. 95,00,000.
2. 110% of Sale value =  $74,00,000 \times 110\% = 81,40,000$   
Since, 110% of sale value does exceeds SDV.  
Therefore, FVC as per Section 50C shall be SDV i.e. 80,00,000.
3. 110% of Sale value =  $82,00,000 \times 110\% = 90,20,000$   
Since, 110% of sale value does not exceed SDV.  
Therefore, FVC as per Section 50C shall be Sale Value i.e. 82,00,000.

If the Date of agreement and date of registration is different and advance has been received by specified mode at the time of agreement

Yes	NO
SDV as on the 'agreement date' shall be considered	SDV as on the 'registration date' shall be Considered

Where assessee claims that SDV is more than the FMV of immovable property and such SDV is not disputed in any appeal then A.O may refer the case to valuation officer and FVC shall be determined as follows:

Value adopted by Valuation officer	FVC
Exceeds SDV	SDV i.e. Valuation Officer value is ignored.
Doesn't exceed SDV But Exceed Actual Sale Value	Value adopted by Valuation officer
Is less than Actual Sale Value	Actual Sales Consideration

**Example 14**

Calculate Capital Gain for PY 2025-26

1. Mr. X purchased land on 01/04/1996 for ₹6,00,000
2. FMV and SDV as on 01/04/2001 are ₹5,00,000 and ₹7,00,000 respectively
3. On 01/04/2024, Building was constructed for ₹50,00,000
4. On 01/07/2025, agreement to sale this land and building for ₹2,00,00,000 and received advance of ₹10,00,000 through crossed cheque (SDV = ₹2,05,00,000)
5. On 01/10/2025, title transfer to buyer and received balance consideration of ₹1,90,00,000 through NEFT (SDV = ₹2,40,00,000)
6. Brokerage @1% of sale value



**Solution**

**Computation of Capital Gain on conversion**  
**(Period of holding = 01/04/1996 – 30/09/2025)**

Particulars	₹
Full value of consideration (WN-1)	2,40,00,000
Less: Transfer expense @1% of 2,00,00,000	2,00,000
Net consideration	2,38,00,000
Less: Cost of Acquisition	6,00,000
Less: Cost of Acquisition (Building)	50,00,000
LTCG	1,82,00,000

**Working Note: 01**

**Computation of Full Value of Consideration**

Particulars	₹
FVC as per Section 50C shall be:	
Stamp duty value	2,00,00,000
110% of Stamp duty value	2,20,00,000
SDV as on the date of transfer	2,40,00,000
As SDV exceeds 110% of Sale value	
Therefore, FVC shall be taken as SDV	2,40,00,000

**Illustration 08**

1. Mr. X who transferred his land and building on 10.02.2026, furnishes the following information:
2. Net consideration received ₹35,00,000.
3. Value adopted by stamp valuation authority, which was contested by Mr. X ₹50,00,000.
4. Value ascertained by Valuation Officer on reference by the Assessing Officer ₹52,00,000.
5. This land was distributed to Mr. X on the partial partition of his HUF on 01.04.2001. Fair market value of the land as on 01.04.2001 was ₹1,60,000.
6. A residential building was constructed on the above land by Mr. X at a cost of ₹3,50,000 (construction completed on 01.12.2012) during the financial year 2013-14

**Solution**

Since SDV exceeds 110% of sales value (i.e.  $35,00,000 \times 110\% = 38,50,000$ )

Therefore, SDV shall be Full Value of Consideration in accordance with Section 50C

Value adopted by Valuation Officer = 52,00,000

Since, Value adopted by valuation officer exceeds SDV. Therefore, Full Value of Consideration shall remain SDV (i.e. 50,00,000)

**Computation of Capital Gain in hands of Mr. X for PY 2025-26**

Particulars	Amount
Full Value of Consideration (SDV as per S.50C)	50,00,000
Less: Transfer Expenses	NIL
Net Consideration	50,00,000
Less: Cost of Acquisition	1,60,000
Less: Cost of Improvement	3,50,000
LTCG	44,90,000

**Illustration 09**

What will be your answer to the above question if value adopted by valuation officer is ₹45,00,000

**Solution**

Since SDV exceeds 110% of sales value (i.e.  $35,00,000 \times 110\% = 38,50,000$ )

Therefore, SDV shall be Full Value of Consideration in accordance with Section 50C

Value adopted by Valuation Officer = 45,00,000

Since, Value adopted by valuation officer is less than SDV and more than value declared by assessee.

Therefore, Full Value of Consideration shall be 45,00,000

**Computation of Capital Gain in hands of Mr. X for PY 2025-26**

Particulars	Amount
Full Value of Consideration (SDV as per S.50C)	45,00,000
Less: Transfer Expenses	NIL
Net Consideration	45,00,000
Less: Cost of Acquisition	1,60,000
Less: Cost of Improvement	3,50,000
LTCG	39,90,000

**COA Of Self-Generated Assets**

	COA	COI
Brand name & Trademark associated with the business or profession	Nil	NA
Tenancy rights	Nil	NA
Goodwill of a business or profession	Nil	Nil
Right to manufacture, produce or process any article or thing, for a consideration (Patent)	Nil	Nil
Right to carry on any business or profession	Nil	Nil

**Note:**

- i. If the asset is purchased then purchase price is the COA.
- ii. In case of goodwill of a business or profession on which depreciation is claimed upto PY 2019-20, the COA of such goodwill would be purchase price as reduced by the total amount of depreciation (up to P.Y.19-20)
- iii. FMV as on 1-4-2001 is ignored.

**Capital Gain In Case Of Slump Sale [Section 50B]**

When whole unit is sold at lumpsum without valuing each asset individually is termed as slump Sale.

<b>FVC</b>	Higher of: Sales Consideration Received OR FMV of capital Asset transferred
<b>COA</b>	Net worth of unit. However, if any asset has been revalued, then such revaluation shall be ignored

**Notes:**

1. Net Worth = Total Assets – outside Liabilities
2. If any upward revaluation of asset has been done, then such revaluation shall be ignored.
3. If Net worth is negative then consider it as zero.
4. If stock is transferred in slump sale, then PGBP income shall be arise.
5. If unit is sold after holding for more than 24 months, then capital gain shall be long term capital gain otherwise short-term capital gain. However, no indexation benefit shall be available even in the case of long-term capital gain.
6. Assets for which 100% deduction is allowed under PGBP → Book value Shall be NIL.

**Illustration 10**

Mr. A is a proprietor of ABC Enterprises having 2 units started on 01.04.2014. He transferred on 01.04.2025 his unit 1 by way of slump sale for a total consideration of ₹90 Lacs whereas FMV of capital assets on the date of transfer is ₹92,00,000. The expenses incurred for this transfer were 1,30,000/-. His Balance Sheet as on 31.03.2025 is as under:

Liabilities	Amount ₹	Assets	Unit 1 ₹	Unit 2 ₹	Total ₹
Share Capital	42,00,000	Building	30,00,000	8,00,000	38,00,000
Revaluation reserve Of building (unit 1)	12,00,000	Machinery	10,00,000	4,00,000	14,00,000
Bank Loan (70% for unit 1)	8,00,000	Debtors	6,00,000	1,40,000	7,40,000
Trade Creditors (25% for unit 1)	6,20,000	Other Assets	7,00,000	1,80,000	8,80,000

Compute the capital gain for the assessment year 2026-27.

## Solution

## Computation of Capital Gain in Hands of Mr. A for AY 2026-27

Particulars	Amount
Full Value of Consideration (Higher of sales consideration or Fair Market value of Assets)	92,00,000
Less: Transfer Expenses	1,30,000
Net Consideration	90,70,000
Less: Cost of Acquisition (Net worth – WN)	33,85,000
LTCG	56,85,000

## Working Note:

## Calculation of Net worth

Particulars	Amount
Building (30,00,000 – 12,00,000)	18,00,000
Machinery	10,00,000
Debtors	6,00,000
Other assets	7,00,000
Total Assets	41,00,000
Less: Bank Loan (8,00,000 x 70%)	5,60,000
Less: Creditors (6,20,000 x 25%)	1,55,000
Net Worth	33,85,000

**Note:** Indexation benefit is not allowed in case of Slump sale.

## Capital Gain In Case Of Depreciable Asset

- All the assets of the block are transferred:  
In case all the assets in any block are transferred during the previous year then the block shall cease to exist and no depreciation will be allowed. It can happen in the following two cases:
  - STCG u/s 50 When Sale price > Block Value
  - STCL u/s 50 When Sale price < Block Value
- Part of block is sold and the sale consideration of assets exceed block Value  
STCG u/s 50 When Sale price > Block Value

## Capital Gain In Case Of Sale Of Share

- In case of **original shares**, cost of acquisition shall be the actual cost but if it was purchased before 1/4/2001, cost of acquisition shall be the actual cost or FMV as on 01.04.2001, whichever is higher.
- In case of **bonus shares**, cost of acquisition shall be nil but if bonus shares are issued before 01.04.2001, COA = FMV on 1/4/2001
- In case of **right shares**, cost of acquisition shall be the amount for which such shares have been purchased.

- D. If right to purchase right shares has been **renounced**, amount received shall be considered to be short term capital gains.
- E. **Cost of acquisition for the right renouncee** shall be the amount paid to the person renouncing the right and amount paid to the company.

### Transfer of Equity Shares or Equity oriented units or units of business trust

#### LTCG u/s 112A

- LTCG on transfer of equity shares or equity oriented units or units of business trust, in excess of ₹ 1,25,000 shall be taxable at the rates specified below if following conditions are satisfied:
  - STT is paid at the time of acquisition and transfer of equity shares
  - STT is paid at the time of transfer of equity oriented units or units of business trust.

Transfer date	Rate
Upto 22/7/2024	10%
W.e.f 23/7/2024	12.5%

#### 2. Cost of Acquisition in case of Capital Gains u/s 112A

As per section 55(2) (ac), In case of equity shares or units of equity oriented mutual funds or units of business trust which have been sold w.e.f. 01.04.2018 onwards, cost of acquisition shall be higher of:

- Cost of acquisition
  - Lower of
    - Fair market value of such asset on 31.01.2018 (Highest Quoted Price)
    - Actual sale value.
- Deduction u/s 80C to 80U and Rebate u/s 87A shall not be allowed in respect of CG u/s 112A.

#### STCG u/s 111A

- STCG on transfer of equity shares or equity oriented units or units of business trust shall be taxable at the rates specified below if STT is paid at the time of transfer of such assets:

Transfer date	Rate
Up to 22/7/2024	15%
W.e.f. 23/7/2024	20%

- Deduction u/s 80C to 80U and Rebate u/s 87A shall not be allowed in respect of CG u/s 112A.

#### Example 15

Calculate Capital Gain

- Mr. X is existing shareholder of A Ltd.
- A Ltd. Offer to buy 1000 right shares @ ₹50 each (FMV of share= ₹80 each)
- X Renounce right to Y for ₹10 per share (All share rights was transferred)

**Solution**

STCG on right renouncement in the hands of Mr. X = 1,000 shares x 10 = 10,000

Cost of Acquisition of shares in the hands of Mr. Y shall be 60/- per share i.e. amount paid to A Ltd. and Mr. X

**Example 16**

Calculate Capital Gain for PY 2025-26

1. On 01/04/1999, 100 shares were purchased @₹50 per share
2. 100 bonus shares were received on 01/04/2000
3. 200 bonus shares were received on 01/04/2005
4. On 01/04/2010, received 400 right shares options @₹500 per share out of which 100 shares were renounced @75 per share and rest were Purchased
5. On 01/11/2024, 500 fresh shares were acquired at ₹700 per share
6. On 01/07/2025, all shares are sold @₹900 each

**Solution**

Part A: assuming Shares are unlisted.

**Calculation of Capital Gain for PY 2025-26**

Particulars	Amount
<b>Original 100 shares</b>	
Full Value of Consideration (100 x 900)	90,000
Less: Transfer Expense	Nil
Net Consideration	90,000
Less: cost of Acquisition	7,000
LTCG	83,000
<b>100 bonus shares</b>	
Full Value of Consideration (100 x 900)	90,000
Less: Transfer Expense	Nil
Net Consideration	90,000
Less: cost of acquisition	7,000
LTCG	83,000
<b>200 bonus shares</b>	
Full Value of Consideration (200 x 900)	1,80,000
Less: Transfer Expense	Nil
Net Consideration	1,80,000
Less: Cost of Acquisition	NIL
LTCG	1,80,000
<b>300 right shares</b>	
Full Value of Consideration (300 x 900)	2,70,000
Less: Transfer Expense	Nil
Net Consideration	2,70,000
Less: Cost of Acquisition	1,50,000

LTCG	1,20,000
500 shares purchased on 01/11/2024	
Full Value of Consideration (500 x 900)	4,50,000
Less: Transfer Expense	Nil
Net Consideration	4,50,000
Less: Cost of Acquisition (500 x 700)	3,50,000
STCG	1,00,000

**Note:** STCG on right shares renouncement during PY 2010-11 shall be 100 shares x 75 = 7,500.  
Total LTCG u/s 112 = (83,000 + 83,000 + 1,80,000 + 1,20,000) = 4,64,000

**Part B: assuming shares are listed on Recognized stock exchange and STT is paid.**

#### Computation of Capital Gain for PY 2025-26

Particulars	Original 100 shares	100 bonus shares	200 bonus shares	300 right shares
FVC (900/share)	90,000	90,000	1,80,000	2,70,000
Less: Transfer Expense	-	-	-	-
Net Consideration	90,000	90,000	1,80,000	2,70,000
Less: COA (WN)	25,000	25,000	50,000	1,50,000
LTCG u/s 112A	65,000	65,000	1,30,000	1,20,000

#### Working Note: Calculation of Cost of Acquisition

Particulars	Original 100 shares	100 bonus shares	200 bonus shares	300 right shares
COA (Higher of)				
(a) Actual cost	70	70	NIL	500
(b) Lower of				
FMV as on 31/01/2018	250	250	250	250
FVC	900	900	900	900
Cost of Acquisition	250	250	250	500

**Note:** STCG on right shares renouncement during PY 2010-11 shall be 100 shares x 75 = 7,500.

#### Calculation of Short Term Capital Gain for PY 2025-26

Particulars	Amount
Full Value of Consideration (500 x 900)	4,50,000
Less: Transfer Expense	-
Net Consideration	4,50,000
Less: Cost of Acquisition (500 x 700)	3,50,000
STCG	1,00,000

#### Example 17

Calculate Capital Gain for PY 2025-26

- 1000 shares of A Ltd. Was purchased on 01/07/2016 @₹500 per share
- 500 bonus shares were allotted on 01/04/2019

3. FMV as on 31/01/2018 was ₹750 per share
4. All shares are sold on 01/07/2025 @1250 per share
  - a) Shares sold through Recognized stock exchange and STT was paid both at the time of acquisition and transfer
  - b) Shares sold privately (i.e. not on recognized stock exchange)

**Solution****a) Transfer on Recognised Stock Exchange and STT is paid****Computation of Capital Gain**

Particulars	₹
<b>Original 1000 shares</b>	
Full value of consideration (1000 shares x 1250/share)	12,50,000
Less: Transfer expense	Nil
Net consideration	12,50,000
Less: Cost of Acquisition (WN) (1,000 x 750)	7,50,000
LTCG u/s 112A	5,00,000
<b>500 Bonus Shares</b>	
Full value of consideration (500 shares x 1250/share)	6,25,000
Less: Transfer expense	Nil
Net consideration	6,25,000
Less: Cost of Acquisition	Nil
LTCG u/s 112A	6,25,000

**Working Note: 1****Computation of Cost of Acquisition**

Particulars	₹
FMV as on 31/01/2018	750
Sale Value	1250
Lower	750
Original cost	500
Higher	750

**b) Shares sold privately****Computation of Capital Gain**

Particulars	₹
<b>Original 1000 shares</b>	
Full value of consideration (1000 shares x 1250/share)	12,50,000
Less: Transfer expense	Nil
Net consideration	12,50,000
Less: Cost of Acquisition	5,00,000
LTCG u/s 112A	7,50,000
<b>500 Bonus Shares</b>	
Full value of consideration (500 x 1250)	6,25,000



Less: Transfer expense	Nil
Net consideration	6,25,000
Less: Cost of Acquisition	Nil
LTCG u/s 112A	6,25,000

**Illustration 11**

Mr. X purchased 100 equity shares in ABC Ltd. on 01.10.1995 @₹10 per share. The company has issued 100 bonus shares on 01.10.1998 and market value of the shares on 01.04.2001 was 7 per share. The company has again issued 100 bonus shares on 01.10.2013. The company has offered 100 right shares on 01.04.2020 @₹140 per share though the market value is 250 per share. Mr. X purchased half of the shares and remaining half were renounced by him in favour of his friend Mr. Y. He has charged 20 per share from Mr. Y for renouncing the right. All the shares were sold by Mr. X and Mr. Y @ 300 per share on 01.01.2026. Mr. X has income under the head house property ₹2,20,000 and has causal income ₹50,000 and has invested ₹1,00,000 in NSC. Mr. Y has income under the head house property ₹3,50,000 and has invested ₹30,000 in NSC. Compute total income of Mr. X and Mr. Y

**Solution****Calculation of Capital Gain in hands of Mr. X for PY 2025-26**

Particulars	Amount
<b>100 shares purchased on 01/10/1995</b>	
Full Value of Consideration (100 x 300)	30,000
Less : Cost of Acquisition ( 100 x 10 )	1000
LTCG	29,000
<b>100 Bonus shares on 01/10/1998</b>	
Full Value of Consideration (100 x 300)	30,000
Less: Cost of Acquisition (100 x 7)	700
LTCG	29,300
<b>100 Bonus Shares on 01/10/2013</b>	
Full Value of Consideration (100 x 300)	30,000
Less: Cost of Acquisition	NIL
LTCG	30,000
<b>50 Right shares on 01/04/2020</b>	
Full Value of Consideration (50 x 300)	15,000
Less: Cost of Acquisition (50x140)	700
LTCG	14,300

**Note:** 50 right shares renounced by Mr. X shall be taxable in the hands of Mr. X as a STCG in the PY 2020-21

STCG = 50 shares x 20 = 1,000

**Computation of Total Income in the hands of Mr. X for PY 2025-26**

Particulars	Old Regime	New Regime
Income under head House Property	2,20,000	2,20,000
Income under head Capital Gain (LTCG)	1,02,600	1,02,600
Income under head Other sources	50,000	50,000
GTI	3,72,600	3,72,600
Less: Deduction u/s 80C	1,00,000	NIL
Total Income	2,72,600	3,72,600

**Calculation of Capital Gain in hands of Mr. Y for PY 2025-26**

Particulars	Amount
Full Value of Consideration (50 x 300)	15,000
Less: Cost of Acquisition (50 x 160)	800
LTCG	14,200

The cost of shares to Mr. Y shall be the sum of amount paid to company for shares and to Mr. X for Right. Therefore, COA shall be  $140 + 20 = 160$

**Computation of Total Income in the hands of Mr. Y for PY 2025-26**

Particulars	Old Regime	New Regime
Income under head House Property	3,50,000	3,50,000
Income under head Capital Gain (LTCG)	14,200	14,200
GTI	3,35,800	3,35,800
Less : Deduction u/s 80C	30,000	NIL

**Illustration 12**

Mr. X purchases 1,000 equity shares in X Ltd. at a cost of 15 per share (brokerage 1%) in January 1998. She gets 100 bonus shares in August of ₹2000. She again gets 1100 bonus shares by virtue of her holding on February 2006. Fair market value of the shares of X Ltd. On April 1, 2001 is ₹25. In January 2026, she transfers all her shares @ ₹120 per share (brokerage 2%). (market value on 31-01-2018 is ₹70 per share) Compute the capital gains taxable in the hands of Mr. X

- X Ltd. is an unlisted company and securities transaction tax was not applicable at the time of sale.
- X Ltd. is a listed company and the shares are sold in a recognized stock exchange and securities transaction tax was paid at the time of sale.

**Solution**

Part A: X Ltd. is unlisted company and STT was not applicable

**Calculation of Capital Gain in hands of Mr. X for PY 2025-26**

Particulars	Amount
Original 1,000 shares	
Full Value of Consideration (1000 x 120)	1,20,000
Less: Brokerage @2%	2400

	Net Consideration	1,17,600
Less: Cost of Acquisition (1000x25)		25,000
	LTCG	92,600
100 bonus share on 01/08/2000		
Full Value of Consideration (100 x 120)		12,000
Less: Brokerage @2%		240
	Net Consideration	11,760
Less: Cost of Acquisition ( 100 x 25 )		2500
	LTCG	9,260
1100 bonus share on 01/02/2006		
Full Value of Consideration (1100 x 120)		1,32,000
Less: Brokerage @2%		2640
	Net Consideration	1,29,360
Less: Cost of Acquisition		NIL
	LTCG	1,29,360

Part B: X Ltd. is listed company and Shares are sold in recognized Stock exchange and STT was paid at the time of sale

**Computation of Capital Gain in the hands of Mr. X for PY 2025-26**

Particulars	1000 shares (Jan 1998)	100 Bonus Shares (Aug 2000)	1100 Bonus shares (Feb 2006)
Full Value of Consideration (120/share)	1,20,000	12,000	1,32,000
Less: Brokerage @2%	2,400	240	2,640
Net Consideration	1,17,600	11,760	1,29,360
Less: Cost of Acquisition (WN)	70,000	7,000	77,000
LTCG u/s 112A	47,600	4,760	52,360

**Working Note:** Calculation of Cost of Acquisition

Particulars	1000 shares (Jan 1998)	100 Bonus Shares (Aug 2000)	1100 Bonus shares (Feb 2006)
Cost of Acquisition (Higher of)			
(a) Actual cost	15,150	NIL	NIL
(b) Lower of			
(i) FMV as on 31/01/2018	70,000	7,000	77,000
(ii) Full value of Consideration	1,20,000	12,000	1,32,000
Cost of Acquisition	70,000	7,000	77,000

**Illustration 13 (Do along with other sources)**

A Ltd. has issued 1,00,000 shares of 10 each and the company goes into liquidation on 01.10.2025 and distributable asset of the company are valued at ₹8 lakh. The company's accumulated profits on the date of liquidation are ₹3,50,000 lakhs which are included in 8

lakhs. Mr. X has purchased 100 shares in this company on 01.10.1998 for ₹10 each and market value of the shares on 01.04.2001 is ₹12 per share. Compute dividends in the hands of Mr. X and also capital gains

### Solution

Note: No capital gain shall arise in the hands of company being liquidated

#### Computation of deemed dividend

Particulars	Amount
Distribution made to Mr. X $(8,00,000 \times 100/100000)$	800
Share in Accumulated profits $(3,50,000 \times 100/100000)$	350
Deemed Dividend to extent of Accumulated profits	350

#### Computation of Capital Gain in hands of Mr. X for PY 2025-26

Particulars	Amount
Full Value of Consideration (Distribution – deemed dividend) $(800-350)$	450
Less : Cost of Acquisition $(100 \times 12)$	1200
LTCL	(750)

#### Conversion of Debentures

If debenture is converted into equity shares then such conversion shall not be considered as transfer and hence no capital gain shall be arise. However, when such equity share received at the time of conversion is transferred then capital gain shall arise. For this purpose, COA of equity share shall be taken as cost of debenture and also period of holding of debenture shall be considered in period of holding of Equity shares.

### Example 18

Calculate Capital Gain for PY 2025-26

- On 01/10/2020, 1000 10% debentures were purchased @ ₹500 per debenture
- On 01/10/2024, they were converted into equity shares and received 4 shares for every debenture
- On 31/12/2025, shares is sold @ ₹750 per share

### Solution

Capital Gain implications shall be arise in the year when converted equity shares are transferred i.e. in the PY 2025-26.

No. of shares received on conversion =  $1,000 \times 4 = 4,000$

#### Calculation of Capital Gain for PY 2025-26

Particulars	Amount
Full Value of Consideration $(4,000 \times 750)$	30,00,000
Less: Cost of Acquisition $(500 \times 1,000)$	5,00,000
LTCG	25,00,000

**Illustration 14**

Mr. X has purchased 100 debentures in ABC Ltd. on 01.10.2002 @ ₹300 per debentures and subsequently these debentures were converted into shares on 01.10.2017 and 3 shares were issued for each debenture. The assessee has sold all the shares on 01.04.2025 @ ₹750 per share and market value as on 31-01-2018 ₹500 per share. Compute capital gains for the assessment year 2026-27 in the following situations:

- a) STT not paid
- b) STT Paid

**Solution**

- a) STT is not paid

Conversion of debenture into equity share is not considered as transfer and hence, No capital gain shall arise in PY 2017-18

**Computation of Capital Gain in hands of Mr. X for PY 2025-26**

Particulars	Amount
Full Value of Consideration (100 debenture x 3 equity share) x 750	2,25,000
Less : Transfer Expenses	NIL
Net Consideration	2,25,000
Less : Cost of Acquisition (100x300)	30,000
LTCG	1,95,000

- b) STT is paid

**Computation of Capital Gain in the hands of Mr. X for PY 2025-26**

Particulars	Amount
Full Value of Consideration	2,25,000
Less: Cost of Acquisition (WN)	1,50,000
LTCG u/s 112A	75,000

**Working Note: Calculation of Cost of Acquisition**

Particulars	Amount
Cost of Acquisition (Higher of)	
(a) Actual cost (100 deb x 300/deb)	30,000
(b) Lower of	
(i) FMV as on 31/01/2018	1,50,000
(ii) Full value of Consideration	2,25,000
Cost of Acquisition	1,50,000

**Capital Gain on Redemption of Zero Coupon Bonds**

- Redemption of zero-coupon bond shall be treated as transfer.
- Amount received at the time of redemption shall be considered as FVC.
- No indexation benefit is available even if ZCB transferred are Long term.

**Example 19**

Calculate Capital Gain for PY 2025-26

Purchased 1,000 Zero coupon bond at 25/- per bond on 01/07/2014

They were redeemed on 01/07/2025 (Redemption value is 100 per bond)

**Solution****Calculation of Capital Gain for PY 2025-26**

Particulars	Amount
Full Value of Consideration (100 x 1,000)	1,00,000
Less: Cost of Acquisition (25 x 1,000)	25,000
LTCG	75,000

**Note:** Indexation facility is not available in case of Redemption of Zero-coupon bonds even if they are held for long term.

**No Indexation In Following Cases**

1. Zero Coupon Bonds
2. Debentures/ Bonds
3. Slump Sale [Section 50B]
4. Depreciable Assets
5. Long term capital assets specified u/s 112A. [AY 2019-20].

**Exemptions**

	Section 54	Section 54B	Section 54D
Asset Transferred	Long Term Residential HouseProperty	Agriculture land (Urban)	L/B – Industrial Undertaking Compulsory Acquired
Assessee	Individual / HUF	Individual / HUF	Any Assessee
Investment	New Residential House Property (Note)	New Agriculture Land(Urban/Rural)	New Land /Buildingfor Industrial Undertaking
Time Limit for Investment	<b>Purchase</b> – within 1 yr before or within 2 yearsfrom transfer date <b>Construct</b> – within 3 years from Transfer Date	Within 2 years from Transfer Date	Within 3 years from Date of Receipt of compensation

Quantum Of Exemption	Lower of: <ul style="list-style-type: none"> <li>Amount Invested</li> <li>Capital Gain</li> <li>Rs. 10 Crore</li> </ul>	Lower of: <ul style="list-style-type: none"> <li>Amount Invested</li> <li>Capital Gain</li> </ul>	Lower of: <ul style="list-style-type: none"> <li>Amount Invested</li> <li>Capital Gain</li> </ul>
Lock in period of new asset	3 Years. Otherwise, LTCG exempted earlier shall be reduced from COA of New Asset	Same as Section 54	Same as Section 54
CGAS	Available	Available	Available

**Note:** Exemption u/s 54B shall be allowed only if Urban Agricultural land is used for agricultural purpose for at least 2 years before the date of transfer.

### Other Exemptions

	Section 54 EC	Section 54F
Asset Transferred	Long Term Land/Building	Any Long Term Capital Asset Except Residential House Property
Assessee	Any Assessee	Individual / HUF
Investment	Specified Bonds	New RHP
Time Limit for Investment	Within 6 months from the transfer date	Same as Section 54
Quantum Of Exemption	Lower of: <ul style="list-style-type: none"> <li>Amount Invested</li> <li>Capital Gain</li> <li>Subject to Max = 50 Lacs</li> </ul>	Lower of: <ul style="list-style-type: none"> <li><math>\frac{LTCG \times \text{Amount Invested (Max 10 Crore)}}{\text{Net Consideration}}</math></li> <li>LTCG</li> </ul>
Additional Condition	Not Applicable	<ol style="list-style-type: none"> <li>Assessee should not own more than one RHP on the date of Transfer Of LTCA</li> <li>Should not purchase any other house within 2 years or construct within 3 years after date of transfer of original Asset.</li> </ol>
Lock in period of new asset	5 Years. Otherwise, LTCG exempted earlier shall be Taxable in the year in which the asset is sold or converted into money	3 Years. Otherwise, LTCG exempted earlier shall be Taxable in the year in which the asset is sold
CGAS	Not Available	Available

**Note:**

- If LTCG is up to 2 crores, then assessee can claim exemption u/s 54 for 2 house property. In other cases, he can only purchase one house for claiming exemption under this section.

2. No Capital Gain shall arise on transfer of Urban agricultural land if following conditions are satisfied:-
- Assessee is individual or HUF
  - Urban agricultural land is compulsorily acquired by Government.

#### CAPITAL GAINS A/C SCHEME (CGAS)

- If Investment is not made before Due Date of filing of ROI, then to claim exemption assessee can deposit the amount in CGAS if not invested for the specified purpose.
- Such deposit in CGAS should be made before filing ROI or before Due Date of filing ROI, whichever is earlier.
- If amount deposited is not utilized for specified purpose within stipulated period, then unutilized amount shall be taxed as capital gain of PY in which specified period expires.
- If Individual dies before stipulated period, unutilized amount is not taxable in the hands of legal heirs of deceased individual

#### Illustration 15

Mr. X purchased one residential house on 01-07-2001 for ₹2,00,000 and it was sold by him on 01-07-2025 for ₹100 lakhs and he purchased one house in 01-07-2026 for ₹20,00,000. He sold this house on 01-07-2027 for ₹22,00,000. Compute capital gains for various year.

#### Solution

##### Computation of Capital Gain in hands of Mr. X for PY 2025-26

Particulars	Amount
Full Value of Consideration	1,00,00,000
Less: Transfer Expenses	NIL
Net Consideration	1,00,00,000
Less: Cost of Acquisition	2,00,000
LTCG	98,00,000
Less: Exemption u/s 54	20,00,000
Taxable LTCG	78,00,000

##### Computation of Capital Gain in hands of Mr. X for PY 2027-28

Particulars	Amount
Full Value of Consideration	22,00,000
Less: Transfer Expenses	NIL
Net Consideration	22,00,000
Less: Cost of Acquisition (20,00,000 – 20,00,000)	NIL
STCG	22,00,000



**Illustration 16**

Mr. X purchased one house on 01.04.2001 for ₹2,00,000 and sold the house on 01.07.2025 for ₹70,00,000 and purchased one house on 01.09.2025 for ₹12,00,000 and it was sold by him on 01.01.2026 for ₹15,00,000. He is aged 82 year Compute his income and tax liability for assessment year 2026-27.

**Solution****Computation of Capital Gain in hands of Mr. X for PY 2025-26**

Particulars	Amount
Full Value of Consideration	70,00,000
Less: Transfer Expenses	NIL
Net Consideration	70,00,000
Less: Cost of Acquisition	2,00,000
LTCG	68,00,000
Less: Exemption u/s 54	12,00,000
Taxable LTCG	56,00,000

Since, New Residential House Property is sold in same year. Therefore, Short Term Capital Gain shall be computed

Particulars	Amount
Full Value of Consideration	15,00,000
Less: Cost of Acquisition (12,00,000 – 12,00,000)	NIL
STCG	15,00,000

**Computation of Tax Liability as per Old Regime**

Particulars	Amount
Tax on Normal Income of 15,00,000 @ slab rate	2,50,000
Tax on LTCG u/s 112 (56,00,000 x 12.5%)	7,00,000
Total	9,50,000
(+) Surcharge @ 10%	95,000
(+) Health and Education cess @ 4%	41,800
Tax Liability (R/off)	10,86,800

**Illustration 17**

Mr. X Purchased one residential house on 01.04.2001 for ₹2,00,000 and it was sold by him on 01.07.2025 for ₹50,00,000 and he purchased a new house on 01.09.2025 for 55,00,000 and this house was sold by him on 01.07.2026 for ₹56,00,000. Compute Capital Gains.

**Solution****Computation of Capital Gain in hands of Mr. X for PY 2025-26**

Particulars	Amount
Full Value of Consideration	50,00,000
Less: Transfer Expenses	NIL
Net Consideration	50,00,000
Less: Cost of Acquisition	2,00,000

	LTCG	48,00,000
Less: Exemption u/s 54		
(Lower of LTCG = 48,00,000 or Amount Invested = 55,00,000 or Maximum Limit = 10cr)		48,00,000
	Taxable LTCG	NIL

#### Computation of Capital Gain in hands of Mr. X for PY 2026-27

Particulars	Amount
Full Value of Consideration	56,00,000
Less: Cost of Acquisition (55,00,000 – 48,00,000)	7,00,000
	STCG
	63,00,000

#### Illustration 18

Mr. X purchased agricultural land on 01.10.2002 for ₹3,00,000 and it was being used for agricultural purposes by him. It was sold on 01.01.2026 for ₹50,00,000. The assessee has purchased one agricultural land in the rural area on 10.01.2026 for ₹10,00,000 and this land was sold by him on 11.09.2026 for ₹11,00,000 and has invested ₹30,000 in National Saving Certificate. He is aged about 86 year.

Compute his Capital Gains for assessment year 2026-27.

Presume the land was purchased in the urban area instead of rural area.

#### Solution

#### Computation of Capital Gain in hands of Mr. X for PY 2025-26

Particulars	Amount
Full Value of Consideration	50,00,000
Less: Transfer Expenses	NIL
	Net Consideration
	50,00,000
Less: Cost of Acquisition	3,00,000
	LTCG
	47,00,000
Less: Exemption u/s 54B	10,00,000
	Taxable LTCG
	37,00,000

#### Computation of Capital Gain in hands of Mr. X for PY 2026-27:

No Capital Gain shall arise on sale of Rural Agricultural Land purchased on 10/01/2026

There will be no change in capital gain for PY 2026-27

If Urban Agricultural land was purchased instead of Rural Agricultural land sold on 11/09/2026

Particulars	Amount
Full Value of Consideration	11,00,000
Less: Cost of Acquisition (10,00,000 – 10,00,000)	NIL
(Exemption allowed earlier shall be reduced as Land was sold within 3 years)	
	STCG
	11,00,000

**Illustration 19**

Mr. X has an agricultural land (costing ₹6 lakh) in Lucknow and has been using it for agricultural purposes since 01.04.2004 till 01.08.2014 when the Government took over compulsory acquisition of this land. A compensation of ₹10 lakh was settled. The compensation was received by Mr. X on 01.07.2025. Compute the Amount of capital gains taxable in the hands of Mr. X.

**Solution**

As urban agricultural land is compulsorily acquired, therefore in this case it is fully exempt u/s 10(37)

**Illustration 20**

Will your answer be different if the land belonged to ABC Ltd. and not Mr. X and compensation on compulsory acquisition was received by the company? Explain.

**Solution**

Exemption u/s 10(37) is not allowed to companies and hence, capital gain implication shall arise in year in which compensation is received (PY 2025-26)

Particulars	Amount
Full Value of Consideration	10,00,000
Less: Indexed Cost of Acquisition (6,00,000 x 240/113)	12,74,336
LTCL	(2,74,336)

**Illustration 21**

Mr. X has one industrial undertaking in Panki industrial area and the building which is being used for industrial purposes was purchased on 01.10.2007. Since then it was being used for industrial purpose and was purchased for ₹23,00,000 and its WDV as on 01.04.2015 is ₹10,38,000. This building was acquired by the Government on 01.01.2020 and compensation fixed was ₹25,00,000. Entire payment was released by the Government on 01.07.2025. The assessee has purchased one building for the purpose of industrial undertaking in Dada Nagar Industrial Area on 01.01.2026 for ₹6,00,000. Compute his tax liability for assessment year 2026-27.

**Solution****Computation of Capital Gain in hands of Mr. X for PY 2025-26**

Particulars	Amount
Full Value of Consideration (Compensation Fixed)	25,00,000
Less: WDV of Building (WN)	6,81,032
STCG	18,18,968
Less: Exemption u/s 54D	6,00,000
Taxable STCG	12,18,968

Working Note: Computation of WDV of Building for PY 2019-20

Particulars	Amount
Opening WDV of 2015-16	10,38,000
Less: Depreciation for year 2015-16 @10%	1,03,800
Less: Depreciation for year 2016-17 @10%	93,420
Less: Depreciation for year 2017-18 @10%	84,078
Less: Depreciation for year 2018-19 @10%	75,670
Opening WDV as on 01/04/2019	6,81,032

### Computation of Tax Liability as per Old Regime

Particulars	Amount
Tax on First 10,00,000	1,12,500
Tax on balance 2,18,960 x 30%	65,688
Total	1,78,188
(+) Health and Education cess @ 4%	7,128
Tax Liability (R/off)	1,85,320

### Illustration 22

Mr. X purchased agricultural land in the urban area on 01.04.2001 for 3,00,000. It was being used for agricultural purposes since then and was sold by the assessee on 01.07.2025 for ₹1,23,00,000. He made following investments:

Bonds of National Bank for Agriculture and Rural Development on 01.10.2025 for ₹1,50,000 which are redeemable after 5 year

He purchased agricultural land on 01.11.2025 for ₹2,00,000.

He has invested 75,000 on 01.12.2025 in the bonds of National Highway Authority of India redeemable after five year

He sold the bonds of National Highway Authority of India on 15.04.2026 for ₹3,00,000.

Compute his capital gains for various years and also tax liability for assessment year 2027-28

### Solution Computation of Capital Gain in hands of Mr. X for PY 2025-26

Particulars	Amount
Full Value of Consideration	1,23,00,000
Less: Transfer Expenses	NIL
Net Consideration	1,23,00,000
Less: Cost of Acquisition	3,00,000
LTCG	1,20,00,000
Less: Exemption u/s 54EC [NHAI Bonds] 75,000	
Less: Exemption u/s 54B	
Lower of:	
1. Amount invested in new agricultural land i.e. 2,00,000	
2. Amount of capital Gain i.e. Rs. 1,20,00,000 2,00,000	2,75,000
Taxable LTCG	1,17,25,000

Since the bonds has been sold by assess within a period of 5 years, exemption earlier allowed shall be considered as LTCG of the year in which such bonds is sold (i.e. PY 2026-27)

### Illustration 23

Mr. X purchased gold on 01.04.1991 for ₹3,00,000 and its market value on 01.04.2001 is ₹2,00,000. This gold was sold by him on 01.01.2026 for ₹35,00,000 and selling expenses are ₹37,000. He has purchased one house on 01.05.2026 for ₹4,00,000 because he did not have any house in his name and he deposited ₹3,00,000 in capital gain account scheme on 30.09.2026. Mr. X is also engaged in a business and he has turnover of his business ₹1,05,00,000 and cost of goods sold 100,00,000 and other expenses ₹5,10,000. He has withdrawn ₹2,00,000 from capital gain account scheme on 01.01.2027 and constructed 1st floor of the house which was purchased by him on 01.05.2026. Remaining Amount in the capital gain account scheme was unutilized. Compute Total income for PY 2025-26 and tax implication of various years involved. (RFD – 31/10/2026).

### Solution

#### Computation of Capital Gain in hands of Mr. X for PY 2025-26

Particulars	Amount
Full Value of Consideration	35,00,000
Less: Transfer Expenses	37,000
Net Consideration	34,63,000
Less: Cost of Acquisition	3,00,000
LTCG	31,63,000
Less: Exemption u/s 54F (31,63,000 x 7,00,000/34,63,000)	6,39,359
Taxable LTCG	25,23,641

In PY 2028-29, Unutilized Balance in Capital Gain Account Scheme Taxable

$$= (6,39,359 \times 1,00,000 / 7,00,000) = 91,337$$

### Illustration 24

Mr. X sold gold for ₹5,50,000 on 01.10.2025 which had been acquired by him in October, 2004 for ₹55,000. He wants to utilize the said Amount of sale consideration for purchase or construction of a new residential house. He already owns one residential house at the time of sale of the gold on 01.10.2025. He has deposited ₹4,00,000 under the capital gains deposit scheme with a specified bank on 30.04.2026. Ascertain the capital gains taxable in Mr. X's hands for assessment year 2026-27 and advise him as to what further action he has to take to avail the exemption

### Solution

#### Computation of Capital Gain in hands of Mr. X for PY 2025-26

Particulars	Amount
Full Value of Consideration	5,50,000
Less: Transfer Expenses	NIL
Net Consideration	5,50,000

Less: Cost of Acquisition	55,000
LTCT	4,95,000
Less: Exemption u/s 54F $(4,95,000 \times 4,00,000/5,50,000)$	3,60,000
Taxable LTCT	1,35,000

Amount deposited in capital gain account scheme should be utilized for purchase of HP within 2 years from transfer date or for construction of HP within 3 years from the transfer date. Amount remaining unutilized in CGAS at the end of 3 years shall be considered as LTCT of that year in which period of 3 years lapsed.

## CHAPTER 3E: INCOME UNDER HEAD OTHER SOURCES

### Section 56 Basis OF Charge

1. Any income which is not charged under any other head is charged under this head.
2. Following incomes are always charged under this head.
  - a) Gifts;
  - b) Dividend;
  - c) Lottery, Betting, Gambling or any other casual income;
  - d) Rent of Plant;
  - e) Income from owning and maintaining racehorses.
  - f) Family pension less (1/3rd or ₹ 15,000/₹25,000 - whichever is lower).
  - g) Maturity proceeds of keyman insurance policy Received by Legal Hier.
  - h) Interest On Securities / Bank Deposits

Security Held As SIT	Income Under The head PGBP
Security Held As Investment	Income Under The head Other Sources

Interest on Post Office Savings Bank A/c up to Rs. 3,500 in case of Individual A/c; & Up to Rs. 7,000 in case of Joint A/c is exempt as per section 10(15).

- i) Director's Fee
- j) MP's/MLA's salary
- k) Rent from vacant land
- l) Income from sub letting
- m) Royalty
- n) Examinership remuneration
- o) Insurance commission
- p) Agricultural income from agricultural land situated outside India
- q) Interest on delayed refund of income tax

### Casual Incomes

- Taxable @ 30% + SC (if any) + 4% HEC on tax u/s 115BB
- No deduction for any Expenditure incurred shall be allowed.
- No Deduction under chapter VI-A Shall be allowed and also no loss is allowed to be adjusted with this income.
- Rebate u/s 87A is allowed from Tax on casual Income
- Adjustment of unexhausted Basic Exemption Limit is also NOT ALLOWED
- GROSSING UP of Winning from Lottery/Interest on securities:  
If Net Amount is given, it shall be grossed up. Tax will be levied on Gross Income.  
Gross Amount = Net Amount ÷ [1 – Tax Rate]

#### Illustration 01

Mr. X purchased one lottery ticket of ₹10,000 and there was a winning of ₹ 12,00,000. He has no other income. Calculate his tax liability

**Solution**

Winnings from Lottery shall be taxable under head other sources. No further deduction shall be allowed for expenditure on tickets

**Computation of Tax Liability of Mr. X**

Particulars	Amount
Total Income	12,00,000
Tax on Casual Income @30% (12,00,000 x 30%)	3,60,000
Add : Health & Education Cess @4%	14,400
Tax Liability	3,74,400

**Interest On Enhanced Compensation**

- Taxable in PY of Receipt;
- 50% of Receipt is Deductible u/s 57.
- Hence only 50% amount shall be chargeable to tax.

**Illustration 02**

Interest on enhanced compensation received by Mr. X during the previous year 2025- 26 is ₹5,00,000. Out of this interest, ₹1,50,000 relates to the previous year 2018-19, ₹1,65,000 relates to previous year 2019-20 and ₹1,85,000 relates to previous year 2020-21. Discuss the tax implication, if any, of such interest income for A.Y.2026-27

**Solution**

Interest on enhanced compensation is taxable on receipt basis and shall be taxable under head other sources

**Tax Implication for AY 2026-27**

Particulars	Amount
Interest on enhanced compensation received      5,00,000	
Less : Deduction @50%                                      (2,50,000)	2,50,000

**Taxability Of Gift**

- Any gift or benefit arising from business or profession shall be taxable u/h PGBP
- Any gift received by EE from ER shall be taxable under head Salaries.
- Other Gifts are taxable as follows:

**A. Money Gift**

Aggregate Money Gift Received Exceeds Rs. 50,000	
Yes	No
Entire Gift Is Taxable	Not Taxable



**B. Gift Of Movable Property****i. Without Consideration**

Aggregate FMV Exceeds Rs. 50,000	
Yes	No
Entire Gift Is Taxable	Not Taxable

**ii. Inadequate Consideration**

Aggregate of (FMV – Consideration Paid) Exceeds Rs. 50,000	
Yes	No
Aggregate (FMV – Consideration Paid) is taxable	Not Taxable

**Movable Property Includes**

- |                                |                          |
|--------------------------------|--------------------------|
| a) Shares & Securities         | e) Painting              |
| b) Jewellery including Bullion | f) Drawing               |
| c) Archaeological collection   | g) Any Work Of Art       |
| d) Sculptures                  | h) Virtual Digital Asset |

**Note:** If asset gifted is not a capital asset, then it shall not be taxable in the hands of recipient

**Example:** Gift of Rural agricultural land shall not be taxable as it is not a capital asset.

**C. Gift Of Immovable Property****i. Without Consideration**

SDV Exceeds Rs. 50,000	
Yes	No
Entire Gift Is Taxable	Not Taxable

**ii. Inadequate Consideration**

SDV Exceeds 110% Of Consideration Paid & (SDV – Consideration Paid) Exceeds Rs. 50,000	
Yes	No
(SDV – Consideration Paid) is taxable	Not Taxable

**Note:** amount of gift taxable is included in COA of asset received in Gift.

**Exceptions**

- Received under a will or inheritance.
- Received on the marriage of individual.
- Received from any relative
- Received in contemplation of death of the payer.
- Received from registered charitable institute reg u/s 12ab, hospital, medical institutions, university or educational institution reg u/s 10(23c).
- Received from any local authority u/s 10(20).

**Meaning Of Relatives****A. For Individual**

- i. Spouse of the Individual
- ii. Brother/sister of the Individual
- iii. Brother/sister of Spouse of Individual
- iv. Brother/sister of either of Parents of the Individual
- v. Lineal Ascendant/Descendant of the Individual.
- vi. Lineal Ascendant/Descendant of Spouse of the Individual
- vii. Spouse of any of the persons referred earlier

**B. For HUF – Members of HUF are Relatives.****Example 01**

Compute the Gift Taxable

Property	FMV	Consideration Paid
Jewellery	₹1,50,000	₹1,28,000
Drawings	₹75,000	₹70,000
Sculpture	₹95,000	₹1,00,000
Car	₹5,70,000	₹5,10,000
Shares	₹95,000	₹70,000

**Solution**

Property	FMV	Consideration Paid	Amount of Gift
Jewellery	1,50,000	1,28,000	22,000
Drawings	75,000	70,000	5,000
Sculpture	95,000	1,00,000	-
Car	5,70,000	5,10,000	-
Shares	95,000	70,000	25,000

Since, aggregate gift is 52,000. Hence, Gift shall be taxable.

**Example 02**

Vaibhav received following Gifts from his Mitra & Mahila Mitra on his birthday:

- Diamond Ring from Mahila Mitra ₹ 95,600 (FMV)
- Cash from his friend Jaggu ₹ 15,000
- Land and Building from his friend Mangu ₹ 51,000 (SDV)
- Vaibhav also purchase painting for ₹ 61,000 (FMV = 90,000) to provide as return Gift to Mahila Mitra.

Show tax implication in hands of Vaibhav.

**Solution****Computation of Total Income**

Particulars	₹
Movable property Gift:	

Gift of Daimond Ring without consideration (Taxable as FMV exceeds 50,000)	95,600
Painting purchase for Inadequate consideration (Not taxable as FMV – Consideration paid i.e. 29,000 does not exceed 50,000)	-
Money Gift i.e. 15,000 (Not taxable as it does not exceed 50,000)	-
Immovable property Gift (Taxable as SDV exceeds 50,000)	51,000
	1,46,600

**Example 03**

Roman purchase land from Jagat on 15/07/2025 for ₹7,00,000 having SDV of ₹10,00,000

Jagat purchased this land on 01/01/2025 for ₹6,00,000.

Show Tax implication in hands of Jagat & Roman.

**Solution****Computation of Capital Gain in hands of Jagjot**

Particulars	₹
FVC (as per section 50C, if SDV exceeds 110% of sale consideration, then SDV shall be considered as FVC)	10,00,000
Less: Cost of Acquisition	6,00,000
STCG	4,00,000

**Computation of Total Income of Roman**

Particulars	₹
Income under head other sources	
Gift Taxable (SDV – Sale consideration) (10,00,000 – 7,00,000)	3,00,000

**Illustration 03**

Mr. X, a dealer in shares, received the following without consideration during PY 2025-26 from his friend Mr. Y

1. Cash gift of ₹75,000 on his anniversary, 15th April, 2025.
2. Bullion, the fair market value of which was ₹60,000, on his birthday, 19th June, 2025.
3. A plot of land at Faridabad on 1st July, 2025, the stamp value of which is ₹5 lakh on that date. Mr. Y had purchased the land in April, 2017.
4. Mr. X purchased from his friend Z, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹400 each on 19th June, 2025, the fair market value of which was ₹600 each on that date. Mr. X sold these shares in the course of his business on 23rd June, 2025.
5. On 1st November, 2025, Mr. X took possession of property (building) booked by him two years back at ₹20 lakh. The stamp duty value of the property as on 1st November, 2025 was ₹32 lakh and on the date of booking was ₹23 lakh. He had paid ₹1 lakh by A/c Payee cheque as down payment on the date of booking.

Compute the income of Mr. X chargeable under the head “Income from other sources” for A.Y.2026-27.

**Solution**

**Computation of Income of Mr. X chargeable under the head  
Other sources for AY 2026-27**

Particulars	Amount
Money Gift – Cash Gift on Anniversary (Exceeds 50,000)	75,000
Movable Property without consideration – Bullion (FMV exceeds 50,000)	60,000
Immovable Property without consideration – Plot in Faridabad (SDV exceeds 50,000)	5,00,000
Immovable property with Inadequate Consideration – WN	3,00,000
Income under head other sources	9,35,000

**Working Note:**

As Advance is paid through specified mode, SDV as on the date of agreement shall be considered as 23,00,000

**Condition 1:**

SDV > 110% of consideration (23,00,000 > 110% of 20,00,000) – Satisfied

**Condition 2:**

(SDV – Consideration Paid) > 50,000 i.e. (23,00,000-20,00,000) > 50,000 – Satisfied.

Since Both conditions are satisfied.

Therefore, Taxable amount = SDV – Consideration i.e. 23,00,000 – 20,00,000 = 3,00,000

**Illustration 04**

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961

1. X HUF received 75,000 in cash from niece of Mr. X (i.e., daughter of Mr. X's sister). Mr. X is the Karta of the HUF.
2. Miss. X, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹9,00,000.
3. Mr. X received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was 100 per share. He also received jewellery worth ₹45,000 (FMV) from his nephew on the same day.
4. X HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹5,25,000.

**Solution**

**Computation of Income chargeable u/s 56(2)(x)**

Particulars	Amount
Money Gift – Cash from Niece of Mr. X (Exceeds 50,000)	75,000
Transfer of House Property by Miss X (Gift from related person is exempt)	NIL
Movable Property Gift without consideration (Exceeds 50,000) –	55,000
1. Receipt of 100 shares from friend (Taxable as received from unrelated person) (100 shares × 100 = 10,000)	
2. Jewellery received from nephew (Unrelated person) 45,000	

X HUF gifted car to son of Karta (not taxable as car is not a property)	NIL
Income chargeable u/s 56(2)(x)	1,30,000

**Illustration 05**

Compute the Amount charged under the head “Income from Other Sources”

- Mr. X gifts immovable property to Mr. Y. Its stamp duty value is 15,00,000. Market price ₹20,00,000.
- Mr. X sells his immovable property to Mr. Y for ₹25,00,000. Its stamp duty value is ₹30,00,000.
- Mr. Y has received gift of agricultural land having stamp duty value of ₹45,000 from Mr. A and also a residential house from Mr. B having a stamp duty value of ₹2,00,000.
- Mr. Y has received gift of industrial land having stamp duty value of ₹6,00,000 from his grandson.
- Mr. X gifts immovable property to D Ltd. Its stamp duty value is ₹35,00,000. Market price 60,00,000.
- X purchases building for ₹5,00,000 having stamp duty value of ₹5,50,000.
- X purchases building for ₹12,00,000 having stamp duty value of ₹12,60,000.
- Stamp duty value on the
  - date of agreement ₹8,00,000
  - date of registration ₹8,70,000.
 Consideration for acquisition of property ₹7,62,000. Advance paid by A/c Payee cheque.
- Stamp duty value on the
  - date of agreement ₹ 8,00,000
  - date of registration ₹ 8,70,000.
 Consideration for acquisition of property ₹7,62,000. Advance not paid.

**Solution****Computation of Income chargeable under the head Other sources**

Particulars	Amount
1. Gift of immovable property to Mr. Y (SDV exceeds 50,000)	15,00,000
2. Sale of immovable property to Mr. Y Condition 1: SDV > 110% of consideration (30,00,000 > 110% of 25,00,000) – Satisfied Condition 2: (SDV – Consideration Paid) > 50,000 i.e. (30,00,000- 25,00,000) > 50,000 – Satisfied Since Both conditions are satisfied. Therefore, Taxable amount = SDV – Consideration i.e. 30,00,000 – 25,00,000 = 5,00,000	5,00,000
3. Gift of agricultural land (Not taxable as SDV < 50,000) Gift of Residential House Property (Taxable as SDV exceeds 50,000)	2,00,000
4. Gift of industrial land from Grandson (gift from relative is exempt)	NIL
5. Gift of immovable property to D Ltd. (SDV exceeds 50,000)	35,00,000

6. Purchase of Building Condition 1: SDV > 110% of consideration (5,50,000 > 110% of 5,00,000) – Not Satisfied. hence, Not Taxable	NIL
7. Purchase of Building Condition 1: SDV > 110% of consideration (12,60,000 > 110% of 12,00,000) – Not Satisfied. hence, Not Taxable	NIL
8. It is assumed that Advance is paid through specified mode, SDV as on the date of agreement shall be considered as 8,00,000 Condition 1: SDV > 110% of consideration (8,00,000 > 110% of 7,62,000) –Not Satisfied. Hence, not taxable	NIL
9. Since, Advance is not paid. Therefore, SDV shall be considered as 8,70,000 Condition 1: SDV > 110% of consideration (8,70,000 > 110% of 7,62,000) – Satisfied Condition 2: (SDV – Consideration Paid) > 50,000 i.e. (8,70,000-7,62,000) > 50,000 – Satisfied Since Both conditions are satisfied. Therefore, Taxable amount = SDV – Consideration i.e. 8,70,000 – 7,62,000 = 1,08,000	1,08,000

**Illustration 06**

Compute the Amount charged under the head “Income from Other Sources”

- Mr. X gifts shares to Mr. Y. Prescribed FMV is ₹4,00,000.
- Mr. X sells his Jewellery to Mr. Y for ₹8,00,000. Prescribed FMV is ₹9,00,000.
- Mr. X sells his M. F. Hussain paintings to Mr. Y for ₹7,00,000. Prescribed FMV is ₹7,30,000.
- Mr. Y has received gift of Jewellery having prescribed FMV of ₹30,000 from Mr. A and also shares whose prescribed FMV ₹40,000 from Mr. B.
- Mr. Y has received gift of M. F. Husain paintings having prescribed FMV of ₹80,000 from his father.
- Mr. X received 50,000 by A/c Payee cheque from Mr. A. Immovable property of ₹30,000 from Mr. B. Jewellery of ₹35,000 from Mr. C.
- Mr. X gifted Jewellery worth ₹2,00,000 to his friend's daughter on the occasion of her marriage. After 2 years, he gifted diamond of ₹50,000 on the birth of their first child.
- Mr. X gifts Rolls Royce car to Mr. Y. Prescribed FMV is ₹3.5 Cr.
- Mr. Y has received gift of Jewellery having prescribed FMV of ₹ 50,000. Mr. Y has purchased shares of ₹2,00,000 whose prescribed Fair Market Value is ₹ 2,50,000.

**Solution****Computation of Income chargeable under the head Other sources**

Particulars	Amount
1. Gift of shares to Mr. Y (Unrelated person) (FMV exceeds 50,000)	4,00,000
2. Sale of Jewellery to Mr. Y for inadequate consideration (9,00,000 - 8,00,000)	1,00,000

3. Sale of M.F. Hussain Painting to Mr. Y (Not Taxable)	NIL
4. Jewellery Gift 30,000 and Gift of shares 40,000 (Aggregate exceeds 50,000 Hence, Taxable)	70,000
5. Gift of M.F. Hussain Painting from Father (Gift from relative is exempt)	NIL
6. Monetary Gift (does not exceeds 50,000) Immovable property (SDV does not exceed 50,000) Jewellery Gift (FMV does not exceed 50,000)	NIL
7. Gift of Jewellery on occasion of marriage (Not Taxable) Gift of Daimond 50,000 (Exempt up to 50,000)	NIL
8. Gift of Rolls Royce to Mr. Y (Not taxable as Car is not a property)	NIL
9. Gift of Jewellery 50,000 (Not Taxable as value does not exceeds 50,000)	50,000
10. Purchase of share for inadequate consideration (2,50,000-2,00,000)	50,000

### Family Pension

After the death of employee, employer may pay some pension to family member of the employee which is called 'Family Pension'.

It is taxable under the head other sources but as per section 57 deduction is allowed equal to  $\frac{1}{3}^{\text{rd}}$  of such pension but maximum ₹15,000 [25,000 in default regime]

### Exemption in Respect of Family Pension

1. Family Pension received by widow or children or nominated heirs, of a member of armed forces (including para-military forces) of the union, where death of such member has occurred in the course of operational duties is exempt
2. Family pension received by any member of family or individual who have been in the service of central or state govt. and have been awarded any notified gallantry awards is exempt.

### Illustration 07

Mrs. X is getting a family pension of ₹7,000 p.m. She also has a dividend income from domestic company of ₹7,00,000. She has LTCG of ₹3,89,000. Compute her tax liability.

### Solution

#### Computation of Total income of Mrs. X

Particulars	Amount
Under head Capital gain – LTCG	3,89,000
Under head Other sources –	7,69,000
a) Dividend Income = 7,00,000	
b) Family pension (7000 x 12) = 84,000	
Less: Exemption (Lower of 15,000 or $\frac{1}{3}^{\text{rd}}$ of Pension) 15,000	
GTI/Total Income	11,58,000



## Computation of Tax liability under New Regime

Particulars	Amount
Tax on Normal Income of 7,69,000 @ slab rate	18,450
Tax on LTCG 3,89,000 @ 12.5%	48,625
	67,075
Add: Health and Education cess @4%	2683
Tax Liability (R/Off)	69,760

## Dividend

1. Received from domestic company – Fully Taxable
2. Received from Foreign Company – Fully Taxable.
3. Dividend Includes Deemed dividend u/s 2(22) (a) to (e)  
Note: Expenses Incurred for earning dividend shall not be allowed except Interest on loan subject to maximum 20% of dividend Income.

## Section 2(22)(a)

Distribution by Company to Shareholder which Releases Company's Asset shall be deemed dividend to the extent of accumulated profits including capitalized Profits.

## Example 04

A Ltd. Distributed silver coins Gift of ₹15,00,000 on occasion of Diwali  
Compute deemed dividend if Accumulated profits (a) ₹25,00,000 (b) ₹12,00,000

## Solution

## Computation of Deemed Dividend

Particulars	Case A	Case B
Amount of distribution	15,00,000	15,00,000
Accumulated profit	25,00,000	12,00,000
Lower shall be Deemed Dividend	15,00,000	12,00,000

## Example 05

ABC Ltd. has share capital of ₹35 lakhs. The company has general reserve of ₹25 lakhs and has distributed Silver coins to shareholders on the occasion of Diwali. Determine Amount of dividend u/s 2(22)(a) if FMV of silver coins are:

- a) ₹20 Lakh
- b) ₹25 Lakh
- c) ₹30 Lakh

## Solution

## Computation of Deemed Dividend

Particulars	Case A	Case B	Case C
Amount of distribution (FMV of silver coins)	20,00,000	25,00,000	30,00,000



Accumulated profit	25,00,000	25,00,000	25,00,000
Lower shall be Deemed Dividend	20,00,000	25,00,000	25,00,000

**Section 2(22)(b)**

If any company has distributed Debentures / Deposit certificates to shareholders or bonus shares to preference shareholders it will be considered to be dividend but only to the extent of accumulated profits including capitalized profits

**Section 2(22)(c)**

If any company has distributed any amount to its shareholders in connection with its liquidation, it will be considered to be dividend but only to the extent of accumulated profits and any excess over it shall be considered to be full value of consideration as per section 46 and capital gains shall be computed accordingly.

**Example 06**

A Ltd went into liquidation on 15/07/2025 on which Accumulated Profits was ₹ 15,00,000 and Capitalized profits was ₹ 5,00,000.

Mr. J Hold 5000 shares in A Ltd which is equivalent to 10% ownership in A Ltd.

Mr. J purchased 5000 share on 15/09/2024 for ₹ 50/share.

On 12/12/2025 After paying off all the liabilities, A Ltd. distributed ₹ 5,00,000 to Mr. J Show tax implication.

**Solution**

Total accumulated profit including capitalised profit = 15,00,000 + 5,00,000 = 20,00,000

Shareholding of Mr. A = 5,000 shares i.e. 10% shares

**Computation of Deemed Dividend**

Particulars	₹
Amount of distribution	5,00,000
Accumulated profit (20,00,000 x 10%)	2,00,000
Lower shall be taxable in hands of Mr. J	2,00,000

Since, right of shares has been relinquished during liquidation. Therefore, capital gain shall arise in the hands of Mr. J.

**Computation of Capital Gain**

Particulars	₹
FVC (Distribution – Deemed dividend)	3,00,000
Less: Cost of Acquisition (50,000 x 50/share)	2,50,000
STCG	50,000

**Example 07**

ABC Ltd. has ₹1,00,000 equity shares of ₹10 each and the company goes into liquidation on 31.07.2025 and company has net distributable Amount of ₹60 lakhs after discharging all the liabilities including income tax and additional income tax and it includes accumulated

profits of ₹20 lakhs and the entire Amount was distributed among the shareholders and Mr. X is holding 10,000 equity shares which were purchased by him on 01.03.2025 for ₹1,10,000. Show tax implication.

### Solution

Amount received to X on liquidation = 60,00,000 x 10% = 6,00,000

#### Computation of Deemed Dividend

Particulars	₹
Amount of distribution	6,00,000
Accumulated profit (20,00,000 x 10%)	2,00,000
Lower shall be taxable in hands of Mr. J	2,00,000

#### Computation of Total income during PY 2025-26

Particulars	₹
FVC (Distribution – Deemed dividend)	4,00,000
Less: Cost of Acquisition	1,10,000
STCG	2,90,000
Deemed Dividend under head other sources	2,00,000
Total Income	4,00,000

### Section 2(22)(d)

Any distribution to its shareholders by a company on the reduction of its capital, to the extent to which the company possesses accumulated profits

### Section 2(22)(e)

Distribution of Accumulated Profits by Closely Held company by way of ADVANCE/LOAN to

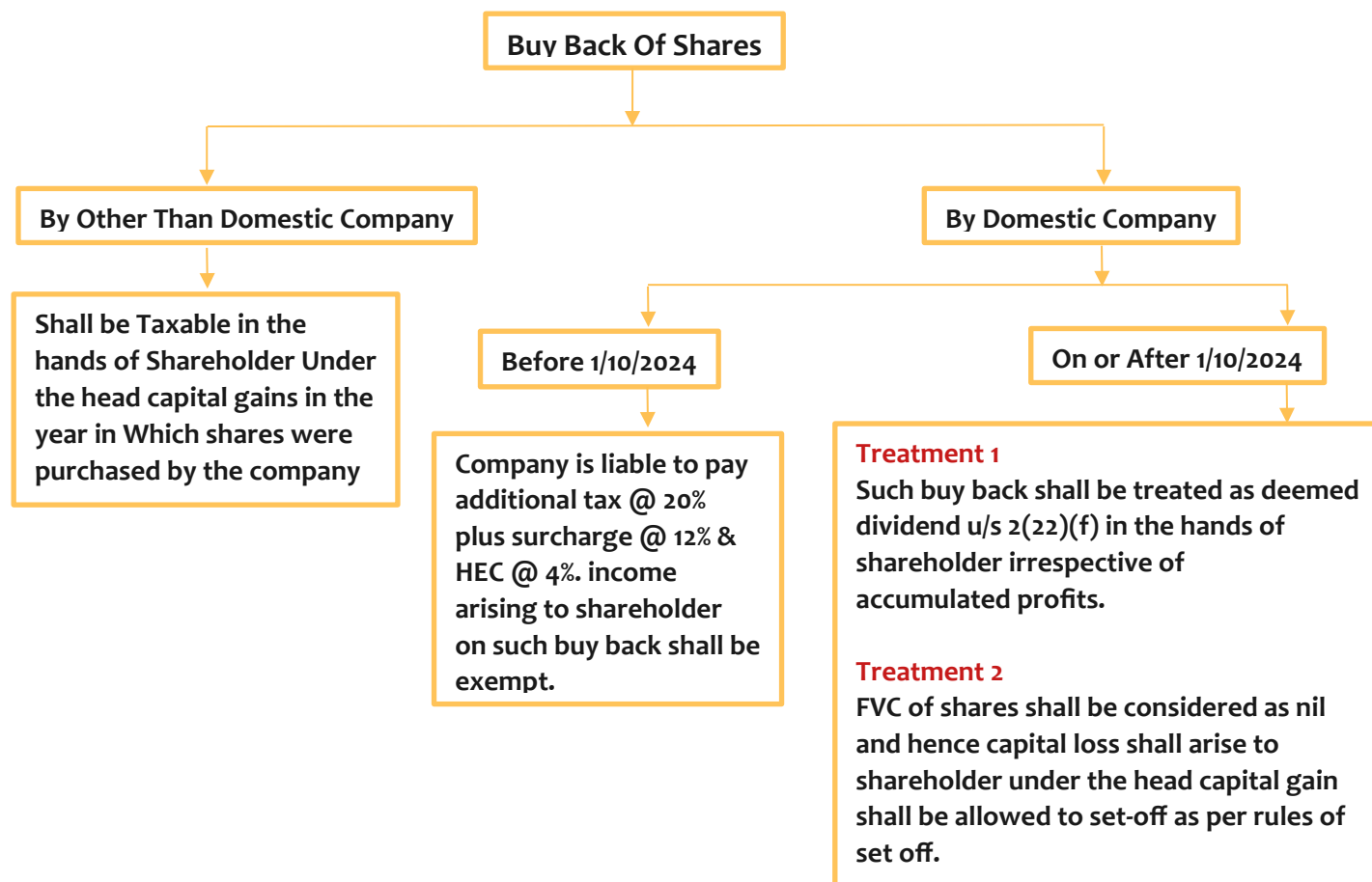
- (i) Shareholders beneficially holding at least 10% equity shares in the company;
- (ii) Any person on behalf of such shareholders/for benefit of such shareholder;
- (iii) Any CONCERN in which such shareholder has substantial interest;
- (iv) Any CONCERN in which such shareholder is member/partner.

### Exception:

Money lending is substantial business of company & loan is given in ordinary course

### Section 2(22)(f)

Any amount received by shareholder on buyback will be treated as Deemed Dividend regardless of quantum of accumulated profits of the company [w.e.f. 01/10/2024]



Particulars	
No of shares of A Ltd bought in 2021 By Mr B @ ₹ 40 per share	100
Total cost of acquisition (100 x ₹ 40)	₹ 4,000
No of shares bought back in November 2025 by A Ltd @ ₹ 60 per share	20 shares
Income taxable as deemed dividend u/s 2(22)(f) [₹ 60 per share x 20 shares]	₹ 1,200
LTCL on such buyback as per Section 46A (Value of consideration - COA) [Nil – (₹ 40 x 20 shares)]. Such LTCL can be set-off against other LTCL or it can be CF to the next year for set-off against other LTCL.	₹ 800
No of shares sold in December 2026 by Mr. B @ ₹ 70 per share	50
Chargeable LTCL in PY 2026-27 after set-off of LTCL (₹ 1,500 – ₹ 800)	₹ 700

### Example o8

Mr. X holding 28% of equity shares in a company took a loan of ₹5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹4,00,000. The company is engaged in some manufacturing activity.

- a) Is the Amount of loan taxable as deemed dividend in the hands of Mr. X, if the company is a company in which the public are substantially interested?

- b) What would be your answer, if the lending company is a private limited company i.e. a company in which the public are not substantially interested?

#### Solution

- a) Section 2(22)(c) shall be applicable when closely held company grants loan to beneficial shareholder. Here, loan is granted by widely held company. Therefore, provisions of Section 2(22)(c) shall not be applicable.
- b) Section 2(22)(c) shall be applicable as loan is granted by closely held company. Deemed dividend shall be till the extent of accumulated profits i.e. 4,00,000.

#### Life Insurance Policies Maturity Proceeds (Sec. 10(10D))

a) **Maturity Amount Received at the time of Death**

Fully exempt in the hands of recipient as per Section 10(10D)

b) **Otherwise**

i. **For Policies issued before 01/04/2023**

Maturity amount received by assessee shall be exempt u/s 10(10D) if premium paid is up to 10% of the capital sum assured.

ii. **For Policies issued on or after 01/04/2023**

Maturity amount received by assessee shall be exempt if both of following conditions are satisfied:

a) Premium paid is up to 10% of the capital sum assured and

b) aggregate premium for all the policies taken after 1/4/2023 for the year is upto ₹5,00,000.

However, if aggregate premium exceeds ₹5,00,000, then assessee can claim the exemption for those policies whose aggregate premium is upto ₹5,00,000.

#### Transfer of Unlisted Shares for Inadequate Consideration [Section 50 CA]

If unlisted shares transfer at a price lower than FMV, then FVC shall be considered as FMV of shares in hands of transferor in accordance with section 50CA. Also, provisions of gift are applicable in the hands of transferee.

#### Example 9

- Mr. X sold share of A Ltd. (1,000 shares @ ₹50/share) on 01/10/2025
- Mr. X purchased share @ ₹26/share on 01/01/2024
- Mr. X sold shares to Mr. Y
- FMV of share on 01/10/2025 was ₹120/share.

Show tax implication in the hands of Mr. X and Mr. Y

## Solution

**Computation of Capital Gain in hands of Mr. X**  
**Period of Holding (01/01/2024 - 30/09/2025)**

Particulars	₹
FVC (120 x 1000)	1,20,000
Less: Cost of Acquisition (26 x 1000)	26,000
STCG	94,000

Since, Mr. Y Purchased share for inadequate consideration. Therefore, Gift Provisions shall be applicable in hands of Mr. Y.

$$\text{Gift Taxable} = ₹1,20,000 - ₹50,000 = ₹70,000$$

If consideration paid is 75,000, then Gift will not be taxable.

When Gift is taxable in hands of Mr. Y,

$$\begin{aligned} \text{COA of shares to Y} &= \text{Consideration paid} + \text{amount of Gift Taxable} \\ &= ₹50,000 + ₹70,000 \\ &= ₹1,20,000 \end{aligned}$$

When Gift is not taxable in hands of Mr. Y,

$$\begin{aligned} \text{COA of shares to Y} &= \text{Consideration paid} + \text{amount of Gift Taxable} \\ &= ₹75,000 + 0 \\ &= ₹75,000 \end{aligned}$$

### Admissible Deductions Section 57

- In the case of dividend (other than deemed dividend arise on account of buy-back of shares by a domestic company) or income in respect of units of a mutual fund or units of a specified company defined in the Explanation to section 10(35):  
Interest expenditure to earn such income is allowed as deduction upto maximum of 20% of such income.  
No deduction in respect of any expenditure is allowed in case of deemed dividend arise on account of buy-back of shares by a domestic company.
- In the case of interest on securities: Any reasonable sum paid by way of commission or remuneration to a banker or any other person for the purpose of realising such interest on behalf of the assessee.
- Where the income to be charged under this head is from letting on hire of machinery, plant and furniture, with or without building:
- The following items of deductions are allowable:
  - a) the amount paid on account of any current repairs to the machinery, plant or furniture.
  - b) the amount of any premium paid in respect of insurance against risk of damage or destruction of the machinery or plant or furniture.

- c) Normal depreciation allowance in respect of the machinery, plant or furniture, due thereon.

#### **Inadmissible Deductions Section 58**

- a) Personal Expenses
- b) Excessive Payment to Relative
- c) Cash Payment > Rs. 10,000 other than through specified mode.
- d) Payment on which TDS provisions applicable but TDS not deducted on time or deducted but not deposited on time.
- e) No deduction in respect of any expenditure incurred in connection with casual income  
However, an assessee, being the owner of race horses, from the activity of owning and maintaining such horses, expenses incurred by him shall be allowed even in the absence of any stake money earned.

## CHAPTER 4: CLUBBING OF INCOME

- Under the Income-tax Act, 1961, an assessee is generally taxed in respect of his own income. However, there are certain cases where an assessee has to pay tax in respect of income of another person.
- The provisions for the same are contained in sections 60 to 64 of the Act.
- These provisions have been enacted to counteract the tendency on the part of the taxpayers to dispose of their property or transfer their income in such a way that their tax liability can be avoided or reduced

### Section 60 – Transfer of income without transfer of Asset

If Only income is transferred without transfer of asset, then such income is to be clubbed in the hands of transferor.

**E.g.** Mr. A has two house and each house is let out for ₹ 10 lakh p.a. He has transferred income of one of the houses to his wife Mrs. A. In this case, clubbing provision shall be applicable and income shall be taxable in the hands of Mr. A.

### Section 61 - Revocable transfer of Asset

If only asset is transferred on a revocable basis, then income from such assets shall be clubbed in the hands of transferor

### Section 62 – Exception of Section 61

Section 61 will not apply to any income arising to any person if there is –

1. A transfer by way of trust which is not revocable during the lifetime of beneficiary; and
2. Any other transfer, which is not revocable during the lifetime of transferee  
Provided the transferor does not derive any direct or indirect benefit.  
If the transferor receives direct or indirect benefit from such income, such income is to be included in his total income even though the transfer may not be revocable during the lifetime of the beneficiary or transferee.

**Example:** Mr. Ram has transferred one asset to Mr. Shyam with the condition that the asset shall be retained by Mr. Shyam as long as he is alive and after that the asset shall be taken back by Mr. Ram. In this case, clubbing provision shall not apply.

### Section 63 – Meaning of Revocable Transfer

Transfer is deemed to be revocable if –

- a) It contains any provision for the re-transfer, directly or indirectly, of the whole or any part of the income or assets to the transferor, or
- b) It gives, in any way to the transferor, a right to reassume power, directly or indirectly, over the whole or any part of the income or the assets

**Note:** Once the transfer is revocable transfer, the entire income from transferred asset is included in the total income of Transferor

#### Example 01

Mr. J transferred House Property for lifetime of Mr. F, who let out property at 50,000 per month Rent to Mr. S

#### Solution

No clubbing shall apply in the hands of Mr. J

However, if transferor derives any benefit from such income then, clubbing provisions shall be applicable.

#### Example 02

Mr. J transferred House Property for the lifetime of Mr. F on condition that Mr. F will pay 50,000 per month to Mr. J. Mr. F earns a rental income of ₹1,20,000 from HP.

#### Solution

In this case, as transferor derives benefit from income. Therefore, clubbing provisions shall be attracted even if transfer is not revocable during the lifetime of transferee.

#### Illustration 01

Mr. A transferred 2,000 debentures of ₹100 each of W Ltd. to Mrs. A on 13.05.2025 without consideration. The company paid interest of ₹130,000 in September, 2025 which was given as a loan by Mrs. A to K in October, 2025. K paid interest of ₹13,000 upto March, 2026. How would both the interest income be charged to tax in assessment year 2026-27?

#### Solution

Interest on debentures = 13,000 shall be clubbed in the hands of Mr. A

Interest on Loan = 13,000 is accretion of Income and hence, it shall not be clubbed in hands of Mr. A and shall be taxable in hands of Mrs. A

### Section 64 – Provisions related to Spouse, Son's wife, HUF and Minor Child

#### Provisions related to Spouse:

- Remuneration to Spouse
- Assets transferred to Spouse on a non-revocable basis
- Capital invested in Spouse's business

#### Remuneration to Spouse

If the spouse of any individual receives any salary, commission, fees or other remuneration from a concern where such individual has substantial interest, then such remuneration shall be clubbed in hands of such individual

No Clubbing shall be done in the above case, if:

- Such remuneration is paid because of technical or professional qualifications of the spouse, or



- Skills and experience possessed by the spouse

### Meaning of Substantial Interest

If individual along with their relatives hold at least 20% of ownership or has at least 20% shares in profits of the concern at any time during the PY

Relative means –

- Spouse of the individual
- Brother / Sister of the individual
- Lineal ascendent or descendent of the individual

### Notes:

1. In case if both husband and wife has substantial interest and both receives remuneration, then clubbing provisions will apply and income will be added in the hands of such spouse, whose income is higher before adding the clubbed income
2. In case if other income does not exist, then clubbing will apply to such individual whose income is higher
3. Once Such clubbing is applied in the hands of any of the spouse, then it will be continue to be clubbed in such hands in subsequent years also, irrespective of the level of income unless Assessing Officer is satisfied to club such income in the hands of other spouse

### Example 03

Mr. C is 12th Pass and holding 21% equity in X Ltd. And gets salary of ₹6,00,000 per annum without having any prior knowledge and skills. Mrs. C (Wife) is 5th Fail and holding 22% equity in X Ltd. And gets salary of ₹7,00,000 per annum without having any prior knowledge and skills. Show Tax treatment

### Solution

As both Mr. C and Mrs. C have substantial interest in the concern and both are receiving salary from the concern without any professional skill or knowledge or experience. Therefore, clubbing provisions shall apply in hands of that spouse whose income is higher.

As Mrs. C earn more than Mr. C, therefore salary of Mr. C is clubbed in the hands of Mrs. C.

### Computation of Total Income of Mrs. C (Default regime)

Particulars	Amount(₹)	Amount(₹)
Income under head salary		
Salary of Mr. C	6,00,000	
Less: Standard deduction	75,000	5,25,000
Salary of Mrs. C	7,00,000	
Less: Standard deduction	75,000	6,25,000
<b>Total Income</b>		<b>11,50,000</b>

**Illustration 02**

Mr. Ram, entered into the following transactions during the previous year 2025–26:

- Mr. Ram had a fixed deposit of ₹4,00,000 with Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 01.04.2025 to 31.03.2026 to the savings bank account of Ms. Y, his niece, to help her in her higher education.
- Mr. Ram holds 51% share in a partnership firm. MR. Ram (wife of Mr. Ram) received a remuneration of ₹90,000 from the firm for writing its books of accounts. MR. Ram, being a fashion designer, does not possess any qualification or training in the accountancy field.
- Mr. Ram gifted a flat to Mrs. Ram on April 1, 2023. During the previous year 2025–26, she received rent of ₹18,500 p.m. from letting out of the flat.
- Mr. Ram gifted ₹4,00,000 to his minor son who invested the same in a business and he derived income of ₹80,000 from the investment.
- Mr. Ram's minor daughter derived an income of ₹25,000 from participation in music shows. During the year, Mr. Ram got a monthly pension of ₹18,000. He had no other income. Mrs. Ram received salary of ₹25,000 per month from a part time job as a fashion designer.

Discuss the tax implications of each transaction and compute the total income of Mr. R and MR. Ram.

**Solution Computation of Total Income of Mr. Ram and Mrs. Ram (Old Regime)**

Particulars	Mr. Ram	Mrs. Ram
Under head salary		
Basic Salary	2,16,000	3,00,000
Less: Standard Deduction	(50,000)	(50,000)
Income under head salary	1,66,000	2,50,000
Under head house property		
Gross Annual Value(18,500x12)	2,22,000	
Less: Municipal Taxes	(NIL)	
Net annual value	2,22,000	
(-) Standard deduction @ 30%	(66,600)	
Under head PGBP		
Clubbing of remuneration of Mrs. Ram	90,000	
Business income of Minor	80,000	
(-) Exemption	(1500)	
Under head other sources		
Interest on Fixed Deposit	36,000	
GTI	5,25,900	2,50,000

**Note:** No clubbing of income earned from music show by minor daughter as it is earned through skill of daughter

**Illustration 03**

Mr. Ram is an employee of X Ltd. and he has 25% shares of that company. His salary is ₹50,000 p.m. Mrs. Ram is working as a computer software programmer in X Ltd. at a salary of ₹30,000 p.m. She is, however, not qualified for the job. Compute the gross total income of Mr. Ram and Mrs. Ram, assuming that they do not have any other income

**Solution****Computation of Total Income of Mr. Ram (Old Regime)**

Particulars	Amount
Under head salary	
Basic Salary of Mr. Ram (50,000x12)	6,00,000
Less: Standard Deduction (50,000)	5,50,000
Basic Salary of Mrs. Ram (30,000x12)	3,60,000
Less: Standard Deduction (50,000)	3,10,000
GTI/Total Income	8,60,000

**Illustration 04**

Will your answer be different if Mrs. Ram was qualified for the job?

**Solution**

If Mrs. Ram was qualified for the job, then the provisions of clubbing shall not be attracted. Therefore, the Taxable Salary Income of Mrs. Ram will be 3,10,000

**Illustration 05**

Mr. Ram is an employee of Y Ltd. and has a substantial interest in the company. His salary is ₹20,000 p.m. Mrs. Ram is also working in Y Ltd. at a salary of ₹12,000 p.m. without any qualifications. Mr. Ram also receives ₹30,000 as interest on securities. Mrs. Ram owns a house property which she has let out. Rent received from tenants is 6000 p.m. Compute the gross total income of Mr. Ram and Mrs. Ram.

**Solution****Computation of Total Income of Mr. Ram (Old Regime)**

Particulars	Amount
Under head salary	
Basic Salary of Mr. Ram	2,40,000
Less: Standard Deduction (50,000)	1,90,000
Basic Salary of Mrs. Ram	1,44,000
Less: Standard Deduction (50,000)	94,000
Under head other sources	
Interest on securities	30,000
GTI/Total Income	3,14,000

**Computation of Total Income of Mrs. Ram**

Particulars	Amount
Under head house property	
Gross Annual Value (6,000x12)	72,000
Less: Municipal Taxes	-
Net annual value	72,000
(-) Standard deduction @ 30%	21,600
Income under head House property/GTI/Total Income	50,400

### Income from assets transferred to spouse on non-revocable basis

If the individual transfers any asset (Other than House Property) to the spouse, without consideration or inadequate consideration, then the income arising on such transferred asset shall be clubbed in the hands of transferor

- If there is inadequate consideration, clubbing provisions shall be applicable only with regard to the income relating to that part of consideration which is considered to be inadequate
- Provisions of clubbing shall be apply if the relationship of spouse exists both at the time of transfer of assets as well as at the time of accrual of income
- Income from Clubbed income shall not be clubbed
- If the asset is transferred under an agreement to live apart, clubbing provisions shall not apply
- If an individual transfers a house property to the spouse, then transferor shall be deemed to be the owner of the house property

### Capital contribution in Spouse's business

Amount to be clubbed =  $\frac{\text{Profit of the year} \times \text{Amount invested by the individual as on 1st day of PY}}{\text{Capital employed in the business as on 1st day of PY}}$

If any person has transferred the asset to the spouse and spouse has invested it in some partnership firm as capital contribution, in this case –

- Interest received from the partnership firm shall be clubbed
- If any salary has been received from firm, it will not be clubbed
- If any salary has been received from the profits of the firm, it will be exempt

**Note:** If any person has given loan to spouse, income earned by spouse, by investing such loan amount then clubbing provision shall not applied.

#### Example 04

Capital as on 01/04/25 was ₹5,00,000

Mr. A gifted ₹7,00,000 to Mrs. A on 01/04/25 which she Invested In business immediately

a) Profit of PY 2025-26 = ₹5,00,000

b) Profit of PY 2026-27 = ₹7,00,000

Mrs. A transferred 50% of the profit to Mr. A as Gift

Show Tax Implication

#### Solution

#### Computation of Amount of Clubbing during PY 2025-26

Particulars	Amount(₹)
Opening Capital (5,00,000 + 7,00,000)	12,00,000
Profit	5,00,000
Amount of clubbing (5,00,000 x 7,00,000/12,00,000)	2,91,667
Closing capital as on 31/03/2026 (12,00,000 + 5,00,000 – 2,50,000)	14,50,000

## Computation of Amount of Clubbing during PY 2026-27

Particulars	Amount(₹)
Opening Capital as on 01/04/2026	14,50,000
Profit	7,00,000
Amount of clubbing $(7,00,000 \times 7,00,000/14,50,000)$	3,37,931

## Illustration 06

A proprietary business was started by Smt. X in the year 2021. As on 01.04.2024, her capital in business was 4,00,000. Her husband gifted ₹3,00,000 on 01.04.2024, which Smt. X invested in her business on the same date. Smt. X earned profits from her proprietary business for the Financial year 2024-25 ₹2,00,000, Financial year 2025-26 ₹2,40,000 & Financial year 2026-27 ₹2,80,000. Amount of profit was further invested in the business. Compute Amount to be clubbed in the income of Husband of Smt. X in each of the year.

## Solution

PY 2024-25, opening capital = 4,00,000 + 3,00,000 = 7,00,000

Clubbing =  $2,00,000 \times 3,00,000/7,00,000 = 85,714$

PY 2025-26, opening capital = 7,00,000 + 2,00,000 = 9,00,000

Clubbing =  $2,40,000 \times 3,00,000/9,00,000 = 80,000$

PY 2026-27, opening capital = 9,00,000 + 2,40,000 = 11,40,000

Clubbing =  $2,80,000 \times 3,00,000/11,40,000 = 73,684$

## Transfer of asset for benefit of spouse

If any asset is transferred by any individual to any other person, but for the benefit of the spouse, then income from such assets shall also be clubbed in the hands of transferor

## Provisions related to Son's wife

Same Provisions as those of spouse

**Note:** The relation of Son's Wife must exist both at the time of transfer as well as accrual of income

## Illustration 07

Mr. Ram gifts ₹1 lakh to his wife MR. Ram on April 1, 2025 which she invests in a firm on interest rate of 14% per annum. On January 1, 2026, MR. Ram withdraws the money and gift it to her son's wife. She claims that interest which has accrued to the daughter-in-law, from January 1, 2026 to March 31, 2026 on investment made by her is not assessable in her hands but in the hands of Mr. Ram. Is this correct?

What would be the position, if MR. Ram has gifted the money to minor grandson, instead of the daughter-in law?

## Solution

- Interest Received by Mrs. Ram =  $1,00,000 \times 14\% \times 9/12 = 10,500$  shall be clubbed in the hands of Mr. Ram

- Income earned by Son's wife shall be clubbed in hands of Mr. Ram and Mrs. Ram in ratio of 1,00,000: 10,500. As it will be considered here that out of 1,10,500, 1 lakh is given by Mr. Ram indirectly to son's wife and accordingly income earned by son's wife on such an amount is clubbed in the hands of Mr. Ram the income earned through 10,500 shall be clubbed in the hands of Mrs. Ram

If Mrs. Ram Gifted 1,10,500 to Grandson instead of daughter in law then Provisions of clubbing shall not be attracted in hands of Mr. and Mrs. Ram. However, Any income earned by minor grandson shall be clubbed in hands parents of minor.

### Provisions related to minor

Income of minor child, including minor married daughter shall be clubbed in the hands of either of the parent whose before such clubbing is higher

#### Note:

- Once such clubbing is done in any PY then it will continue to be clubbed in the hands of same parent in subsequent years also, irrespective of the level of income unless the Assessing Officer is satisfied to change
- If child is maintained by a single parent, then clubbing shall apply in hands of that parent who maintains the child
- If parents of minor child is not alive then the income of minor child cannot be clubbed, and guardian of minor child shall file the return of such income on behalf of the minor child
- Under optional tax regime** – Whenever minor child's income is clubbed, exemption up to ₹1500 per child can be claimed

Minor child's income shall not be clubbed if :-

- Income is earned by minor child through manual or physical work
- Income earned by minor child through application of knowledge or skills
- If minor child is suffering from any disability

#### Illustration 08

Mr. Ram has three minor children – two twin daughters and one son. Income of the twin daughters is ₹2,000 p.a. each and that of the son is ₹1,200 p.a. Compute the income, in respect of minor children, to be clubbed in the hands of Mr. Ram.

#### Solution

#### Computation of Income to be clubbed

Particulars	Amount
<b>Twin Daughters:</b>	
Income earned (2,000x2)	4,000
(-) Exemption u/s 10(32) (1500x2)	(3,000)
<b>Son:</b>	
Income earned	1200
(-) Exemption u/s 10(32)	(1200)
<b>Clubbing of Income</b>	<b>1,000</b>

**Illustration 09**

Mr. Ram, a mentally retarded minor, has a total income of ₹1,20,000. The total income of his father Mr. Shyam and of his mother MR. Shyam for the relevant assessment year is ₹2,40,000 and ₹1,80,000 respectively. Discuss the treatment to be accorded to the total income of Mr. Ram for the relevant assessment year

**Solution**

Since Mr. Ram is a mentally retarded minor therefore provisions of clubbing shall not be attracted in hands of his mother and father.

**Section 64(2) – Provisions related to HUF**

If any member of HUF transfers his property to their HUF without consideration, then income arising from such asset shall be clubbed in the hands of such member

**During Partition of HUF** – Clubbing provisions shall not be applicable However, income from that part of asset which has been received by the spouse and minor child of such person shall be clubbed in the income of such member

**Section 65 – Liability of transferee in clubbing**

A.O. has the power to collect the tax from transferee also, in case the tax cannot be recovered from transferor

**Cross Transfer**

If two transactions are inter-connected and are parts of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted.

**Example:**

A making gift of ₹ 50,000 to the wife of his brother B for the purchase of house by her and a simultaneous gift by B to A's minor son of shares in a foreign company worth ₹ 50,000 owned by him, the income from the assets transferred would be assessed in the hands of deemed transferor if the transfers are so intimately connected as to form part of a single transaction, and each transfer constitutes consideration for the other by being mutual or otherwise. Thus, in the instant case, the transfers have been made by A and B to persons who are not their spouse or minor child so as to circumvent the provisions of this section, showing that such transfers are cross transfers to reduce their burden of Taxation

Accordingly, the income arising to Mrs. B from the house property should be included to the total income of B and the dividend from the shares transferred to A's minor son would be taxable in the hands of A.



## CHAPTER 5: SET OFF & CARRY FORWARD OF LOSSES

### SET-OFF OF LOSSES

#### Intra Head Adjustment (Section 70)

Set off of loss from one source of income against another source under the same head of income is known as Intra Head Adjustment. It is also known as Inter Source Adjustment.

#### Inter Head Adjustment (Section 71)

Set off of loss from one head of income against another head of income is known as Inter Head Adjustment.

Heads of Income	Intra Head Adjustment	Inter Head Adjustment
Loss under head House Property	Set off with any other income of house property.	Loss is allowed to be set off with any head Income except from Casual Income Note: 1. Loss of Maximum Rs. 2,00,000 is allowed to be adjusted and remaining loss shall be CF 2. No Inter Head Adjustment is available under new regime with respect to loss under head House Property.
<b>Loss under head PGBP</b>		
• Specified Business Loss (S.35AD)	Can only be adjusted against specified business income	Not Applicable.
• Speculative Business Loss	Can only be adjusted against speculative business income	Not Applicable.
• Non-Speculative Business Loss	Can be adjusted against any other business income without any monetary restrictions	Can be adjusted against any other head except Income under head salary and Casual Income.
<b>Loss under head Capital Gain</b>		
• Short term capital loss	Can be adjusted against any LTCG u/s 112 & LTCG u/s 112A or STCG u/s 111A or other STCG	Not Applicable



• Long term capital loss	Can be adjusted only against LTCG u/s 112 & LTCG u/s 112A	Not Applicable
<b>Loss under head other sources</b>		
• Loss of Owning & Maintaining Racehorses	Can be adjusted only against Income from OMRH	Not Applicable
• Any other loss under head other sources	Can be adjusted against any other income from other sources except from Casual Income	Can be adjusted against any other head except from Casual Income

**Notes:**

1. If there is income available then loss has to be adjusted against such income, i.e. Set-off is mandatory, not optional
2. Only Intra-Head Adjustment is allowed once loss is carried forward to next assessment year.
3. No loss is allowed to be set off against Casual Income, unexplained income, unexplained investment, cash credit etc.

<b>Order of Set-Off under head PGBP</b>	
Current year Business income before Depreciation	-
Less: Depreciation of Current Year	(-)
Less: B/F Business loss	(-)
Less: Unabsorbed Depreciation / Scientific Research Expenditure / Family Planning Promotion Expenditure	(-)
<b>Income/Loss under head PGBP</b>	<b>-</b>

**Carry Forward of Losses**

<b>Losses</b>	<b>Carry Forward</b>
1. Loss under head house property	C/F for Maximum 8 AY
2. Specified Business Loss (S.35AD)	C/F Without any limit
3. Speculative Business Loss	C/F for Maximum 4 AY
4. Non-Speculative Business Loss	C/F for Maximum 8 AY
5. Long Term Capital Loss or Short Term Capital Loss	C/F for Maximum 8 AY
6. Loss from Owning & Maintaining Race Horses	C/F for Maximum 4 AY
7. Unabsorbed Depreciation / Scientific Research Expenditure / Family Planning Promotion Expenditure,	C/F Without any limit

**PRACTICAL ILLUSTRATIONS****Illustration 01**

**Mr. Rajeev submits the following information:**

<b>Particulars</b>	<b>Amount</b>
Income under the head salary	₹6,50,000

Income from House-I	₹55,000
Loss from house-II (self-occupied property)	₹1,25,000
Loss from house-III	₹1,90,000
Loss from leather business	₹68,000
Profit from cloth business	₹1,70,000
Business loss of chemical business acquired by Inheritance	₹45,000
Brought forward loss of discontinued business of textile relating to financial year 2018-19	₹50,000
Long term capital gain on transfer of listed equity shares on which STT was paid	₹75,000
Short term capital loss in equity-oriented funds on which STT was paid	₹35,000
Income from crossword puzzles	₹12,000
Dividend from foreign company	₹8,500
Loss on owning and maintenance of racehorses	₹7,500
Income from owning and maintenance of race bulls	₹9,000

Compute the gross total income and losses to be carried forward of Mr. Rajeev

### Solution

#### Computation of Gross Total Income of Mr. Rajeev (Old Regime)

Particulars	Amount	Amount
Income under head Salary	6,50,000	
(Less) Loss under house property	(2,00,000)	4,50,000
Income under house property		
House – 1	55,000	
Loss from house – 2 (self-occupied)	(1,25,000)	
Loss from house – 3	(1,90,000)	(260,000)
(Add) adjusted from salary	2,00,000	NIL
	Bal. 60,000 C/F	
Under head PGBP		
Income from Owning and maintaining Race bulls	9,000	
Loss from leather business	(68,000)	
Income from cloth business	1,70,000	
Loss of chemical business	(45,000)	57,000
(Less) B/F loss of discontinued textile business	(50,000)	16,000
Under head capital Gain		
LTCG u/s 112A	75,000	
Short term capital loss	(35,000)	40,000
Under head other sources		
Income from crossword puzzles	12,000	
Dividend from foreign company	8,500	
Loss from Owning and maintaining Racehorses	7,500 C/F	29,500
GTI		5,26,500

Losses to be carried forward:

1. Loss from house property 60,000
2. Loss from Owning and maintaining Racehorses 7,500

## Computation of Gross Total Income of Mr. Rajeev (New Regime)

Particulars	Amount	Amount
Income under head Salary	6,50,000	6,50,000
Income under house property		
House – 1	55,000	
Loss from house – 2 (self-occupied)	NA	
Loss from house – 3	(1,90,000)	(1,35,000) C/F
Under head PGBP		
Income from Owning and maintaining Race bulls	9,000	
Loss from leather business	(68,000)	
Income from cloth business	1,70,000	
Loss of chemical business	(45,000)	57,000
(-) B/F loss of discontinued textile business	(50,000)	16,000
Under head capital Gain		
LTCG u/s 112A	75,000	
Short term capital loss	(35,000)	40,000
Under head other sources		
Income from crossword puzzles	12000	
Dividend from foreign company	8500	
Loss from Owning and maintaining Racehorses	7500 C/F	29,500
GTI		7,26,500

Losses to be carried forward:

1. Loss from house property 1,35,000
2. Loss from Owning and maintaining Racehorses 7500

## Illustration 02

Mr. Shyam, a resident of Chandigarh, provides the following information for the financial year 2025-26:

Particulars	Amount
Income from textile business	₹4,60,000
Income from speculation business	₹25,000
Loss from gambling	₹12,000
Loss on maintenance of racehorse	₹15,000
Eligible current year depreciation of textile business not adjusted in the income given above.	₹5,000
Unabsorbed depreciation of Assessment year 2023-24 brought forward	₹10,000
Speculation business loss of Assessment year 2023-24	₹30,000

Compute the Gross total Income of Mr. Shyam and any other item of expense or loss eligible for carry forward.

## Solution

## Computation of Total Income of Mr. Shyam

Particulars	Amount	Amount
Under head PGBP		
Textile Business Profit	4,60,000	

(-) Current year Depreciation	(5000)	4,55,000	
Speculative Business Income	25,000		
(-) B/F loss of speculative business (5,000 C/F)	(25,000)	NIL	
(-) Unabsorbed depreciation		(10,000)	4,45,000
Under head other sources			
Loss from Owning and maintaining Racehorses		15,000 C/F	NIL
GTI/Total Income			4,45,000

Losses to be carried forward:

1. Speculative Business loss 5,000
2. Loss from Owning and maintaining Racehorses 15,000

### Illustration 03

Mr. X provides the following details for the previous year ending 31.03.2026.

1. Income under the head salary from XYZ Ltd. ₹6,00,000
  2. Interest on FD with SBI for the Financial Year ₹72,000 (Net of TDS @10%)
  3. Determined long term capital loss ₹96,000
  4. Long term Capital gain ₹75,000
  5. Loss of minor son ₹90,000 computed in accordance with the provisions of Income Tax Act. Mr. X transferred his own house to his minor son without adequate consideration few years back and minor son let it out and suffered loss.
  6. Loss of his wife's business (₹2,00,000). She carried business with funds which Mr. X gifted to her.
- You are required to compute taxable income.

### Solution

#### Computation of Total Income of Mr. X

Particulars	Amount	Amount
<b>Under head Salary</b>	6,00,000	
(-) Loss under house property	(90,000)	5,10,000
<b>Under head House property</b>		
Loss from let out property (Mr. X shall be treated as deemed owner)	(90,000)	
(+) Adjusted from salary	90,000	NIL
<b>Under head PGBP</b>		
Loss from wife's business	(2,00,000)	
(+) adjusted from Other Source	80,000	NIL
	Bal. 1,20,000 C/F	
<b>Under head Capital Gain</b>		
Long Term Capital Gain	75,000	
Long Term Capital Loss	(75,000)	NIL
	Bal. 21,000 C/F	NIL
<b>Under head other sources</b>		
Interest on Fixed Deposit (72,000/90%) (See Note)	80,000	
(-) loss under PGBP	(80,000)	NIL
GTI/Total Income		5,10,000

**Note:** TDS @ 10% is deducted on FD – we need to gross up the interest in calculation of Income

#### Illustration 04

Mr. X, a resident individual, furnishes the following particulars of his income and other details for the previous year 2025–26.

Particulars	Amount
Income under the head salary	₹15,000
Income from Business	₹66,000
Long term capital gain on sale of Land	₹10,800
Loss on maintenance of Race Horses	₹15,000
Loss from Gambling	₹9100

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2025–26 are as follows:

1. Unabsorbed depreciation ₹11,000
2. Loss from Speculative business ₹22,000
3. Short term capital loss ₹9,800

Compute the Gross total income of Mr. X for the Assessment Year 2026–27 and the Amount of loss, if any, that can be carried forward, or not.

#### Solution

##### Computation of Total Income of Mr. X

Particulars	Amount	Amount
Under head Salary	15,000	15,000
Under head PGBP	66,000	
(-) unabsorbed depreciation	(11,000)	55,000
Under head Capital Gain		
Long Term Capital Gain	10,800	
(-) B/F Short Term Capital Loss	(9800)	1000
Under head other sources		
Loss from Owning and maintaining Racehorses	15,000 C/F	NIL
GTI/Total Income		71,000

Losses to be carried forward:

1. Speculative Business loss 22,000
2. Loss from Owning and maintaining Racehorses 15,000

#### Illustration 05

Mr. X an assessee aged 61 years gives the following information for the previous year 31.03.2026:

Particulars	Amount
Loss from profession	₹1,05,000
Capital loss on the sale of property-short term	₹55,000
Capital gains on sale of shares-long term	₹2,05,000
Loss in respect of self occupied property	₹15,000
Loss in respect of let out property	₹30,000
Share of loss from firm	₹1,60,000

Income from card games	₹55,000
Winnings from lotteries	₹1,00,000
Loss from horse races in Mumbai	₹40,000
Medical insurance premium paid by cheque	₹18,000

Compute the total income of Mr. X.

### Solution

#### Computation of Total Income of Mr. X (Old Regime)

Particulars	Amount	Amount
Under head House property		
Self-Occupied Property (15,000)		
Let Out Property (30,000)	(45,000)	
(+) adjusted from LTCCG	45,000	NIL
Under head PGBP (Profession)	(1,05,000)	
(+) adjusted from LTCCG	1,05,000	NIL
Under head Capital Gain		
Long Term Capital Gain 2,05,000		
Short Term Capital Loss (55,000)	1,50,000	
(-) HP Loss	(45,000)	
(-) Loss under PBGP	(1,05,000)	NIL
Under head other sources		
Casual Income (55,000+1,00,000)	1,55,000	1,55,000
GTI/Total Income		1,55,000

#### Computation of Total Income of Mr. X (New Regime)

Particulars	Amount	Amount
Under head House property		
Self-Occupied Property (NIL)		
Let Out Property (30,000)	(30,000) C/F	NIL
Under head PGBP (Profession)	(1,05,000)	
(+) adjusted from LTCCG	1,05,000	NIL
Under head Capital Gain		
Long Term Capital Gain 2,05,000		
Short Term Capital Loss (55,000)	1,50,000	
(-) Loss under PBGP	(1,05,000)	45,000
Under head other sources		
Casual Income (55,000+1,00,000)	1,55,000	1,55,000
GTI/Total Income		2,00,000

### Illustration 06

Mr. X furnishes the following details for year ended 31.03.2026.

Particulars	Amount
Short term capital gain	₹1,40,000
Loss from speculative business	(₹60,000)
Long term capital gain on sale of land	₹30,000

Long term capital loss on sale of shares (STT not paid)	₹1,00,000
Income from business of textile (after allowing C.Y. depreciation)	₹50,000
Income from activity of owning and maintaining race horses	₹15,000
Income under the head salary	₹1,00,000
Loss from house property	(₹40,000)

Following are the carry forward losses:

1. Losses from activity of owning and maintaining racehorses-pertaining to A.Y. 2021-22 ₹25,000
2. Carry forward loss from business of textile 60,000-Loss pertains to A.Y. 2019-20.

### Solution

#### Computation of Total Income of Mr. X

Particulars	Amount	Amount
Under head salary	1,00,000	
(-) Loss under house property	(40,000)	60,000
Under head House property	(40,000)	
(+) adjusted from salary	40,000	NIL
Under head PGBP		
Speculative business loss	(60,000) C/F	
Non Speculative business (Textile)	50,000	50,000
Under head Capital Gain		
Short term capital Gain	1,40,000	1,40,000
LTCG 30,000		
LTCL (1,00,000)	(70,000) C/F	
Under head other sources		
Income from Owning and maintaining Racehorses	15,000	15,000
GTI/Total Income		2,65,000

Losses to be carried forward:

1. Speculative Business loss 60,000
2. Long term Capital Loss 70,000

## CHAPTER 6: DEDUCTIONS FROM GROSS TOTAL INCOME

- Deduction is allowed from Gross Total Income. If GTI is less than deduction then, deduction is restricted to the amount of GTI.
- No Deduction is allowed from STCG u/s 111A, LTCG u/s 112, LTCG u/s 112A and casual income.

### SECTION 80C DEDUCTION IN RESPECT OF CERTAIN PAYMENTS/INVESTMENTS

1. **Assessee** - Individual / HUF
2. **Deduction** - Amount Invested or ₹ 1.5 lacs – Whichever is lower.
3. **Payment Is Made Towards**
  - (i) Life Insurance Policy for self, spouse, child and member of HUF. Subject to a maximum of 10% of the actual capital sum assured. (15% for person who is a person with disability as referred to in section 80U or suffering from disease as specified in section 80DDB). In respect of policy issued before 01.04.2012, 10% shall be taken as 20%.
  - (ii) Contribution towards ULIP.
  - (iii) Investment in fixed deposit for a period of 5 years or more.
  - (iv) Invested in five-year post-office time deposit account.
  - (v) Contribution by individual to SPF / RPF.
  - (vi) Contribution made by individual or HUF to Public Provident Fund (self, spouse and any child or any member of HUF).
  - (vii) Deduction shall be allowed if amount has been invested in National Saving Certificate (NSC).
  - (viii) Interest accrued on NSC shall be income under the head other sources also deduction is allowed for such interest u/s 80C. However, no deduction shall be allowed for Interest accrued in last year.
  - (ix) Repayment of Principle amount of Housing Loan taken from Banks / Financial Institutions.
  - (x) Stamp duty, registration fee or other charges paid for acquisition of house property.
  - (xi) Payment of tuition fees (maximum two children and it should be whole time education).
  - (xii) Senior Citizens Savings Scheme.
  - (xiii) Investment in Sukanya Samridhi Account.
  - (xiv) Notified Units of UTI/MF (ELSS)
  - (xv) Contribution to any notified pension scheme of Mutual fund or UTI.
  - (xvi) Deposit in NABARD Bonds
  - (xvii) Contribution to NPS Tier-2 account by CG EE for a fixed period of 3 years or more.
  - (xviii) Contribution to national housing bank (tax saving) term deposit scheme, 2008.



**Example 01**

Basic Salary is ₹75,000 per month

DA is 50% of Basic Salary which forms part of retirement benefit

Both Employer & Employee contributes 15% of Basic Salary & DA to NPS

Employee also contributed following Amounts

- NSC = ₹50,000
- PPF = ₹50,000
- Tuition fees = ₹70,000 (for 2 child)
- Pension scheme of LIC = ₹30,000

Calculate Taxable Income under old regime.

**Solution****Calculation of Total income of Employee (Under old regime)**

Particulars	₹
Basic Salary (75,000 x 12m)	9,00,000
DA (50% of Basic Salary)	4,50,000
Employer contribution to NPS (15% of 9,00,000+4,50,000)	2,02,500
<b>Gross Salary</b>	<b>15,52,500</b>
Less: Standard deduction	50,000
<b>Income under head Salary</b>	<b>15,02,500</b>
Less: Deduction u/s 80C max up to 1,50,000	
Less: Deduction u/s 80CCC 30,000	
Less: Deduction u/s 80CCD(1)	
Lower of Amount invested = 1,52,500 or 10% of RBS = 1,35,000 but max up to 1,50,000 as per Section 80CCE	1,50,000
Less: Deduction u/s 80CCD(1B)	50,000
Less: Deduction u/s 80CCD(2)	
Lower of Employer contribution 2,02,500 or Maximum 10% of RBS	1,35,000
<b>Total Income</b>	<b>11,67,500</b>

**Example 02**

Calculate Total income of Mr. X, non-resident having age 65 years

- Salary income (Computed) ₹5,00,000
- Interest on Saving A/c ₹50,000
- Interest on FD A/c ₹70,000
- Investment in PPF ₹75,000
- Investment in Pension Scheme ₹50,000

**Solution****Calculation of Total income of Mr. X (Under old regime)**

Particulars	₹
Income under head Salary	5,00,000
Income under head Other sources	

Interest on Savings A/c	50,000
Interest on FD	70,000
Gross Total Income	6,20,000
Less: Deduction u/s 80C	75,000
Less: Deduction u/s 80CCC	50,000
Less: Deduction u/s 80TTB (Not allowed to Non-Resident)	-
Total Income	4,95,000

**Illustration 01**

Compute deduction u/s 80C available to X from the following information:

1. Own contribution towards the statutory provident fund.
2. Life insurance premium paid on self-life — to American life insurance company in USA.
3. Fixed deposit in Canara Bank for 5 years (Specified)
4. LIP paid by employer on behalf of employee.
5. Subscription to units of Mutual Fund to be invested in development of infrastructure.
6. Un-recognized Provident Fund.
7. Tuition Fees for three children (₹10,000 per child).
8. Interest of ₹7,000 has accrued to him on old National Savings Certificate purchased in past year
9. Purchased equity linked saving scheme of UTI.
10. Repayment of loan to LIC for purchase of new residential house property.
11. Subscription to equity shares of power company.
12. Contribution to National relief bond.
13. Purchased Kisan Vikas Patra.
14. Deposits in Post Office (CTD) Scheme.
15. Mr. Z has paid a sum of ₹65,000 as tuition fees to a university in Australia.

**Solution****Computation of Deduction u/s 80C**

Particulars	Amount
1. Own contribution towards the statutory provident fund	Allowed
2. Life insurance premium paid on self-life — to American life insurance company in USA	Not Allowed
3. Fixed deposit in Canara Bank for 5 years (Specified)	Allowed
4. LIP paid by employer on behalf of employee <b>Note:</b> It shall be first added to salary of Mr. X as perquisite then, deduction shall be allowed u/s 80C for the same	Allowed
5. Subscription to units of Mutual Fund to be invested in development of infrastructure	Not Allowed
6. Un-recognized Provident Fund.	Not Allowed
7. Tuition Fees for three children (10,000/- per child)	Allowed
8. Interest of 7,000 has accrued to him on old National Savings Certificate purchased in past year	Allowed

<b>Note:</b> It shall be first added to income of Mr. X as Other sources then, deduction shall be allowed u/s 80C for the same	
9. Purchased equity linked saving scheme of UTI	Allowed
10. Repayment of loan to LIC for purchase of new residential house property	Allowed
11. <del>Subscription to equity shares of power company</del>	Not Relevant
12. Contribution to National relief bond	Not Allowed
13. <del>Purchased Kisan Vikas Patra</del>	Not Allowed
14. Deposits in Post Office (CTD) Scheme	Allowed
15. Mr. Z has paid a sum of 65,000 as tuition fees to a university in Australia	Not Allowed

**Illustration 02**

Date of Issue of Policy	Person Insured	Actual Capital Sum Assured	Insurance Premium Paid during Year
01.06.2011	Mr. X	₹4,00,000	₹75,000
01.05.2017	MR. X	₹1,00,000	₹25,000
01.07.2018	Ms. Y, his handicapped daughter (section 80U disability)	₹5,00,000	₹60,000
01.07.2018	Mr. Z, his son	₹1,00,000	₹25,000

**Solution**

Calculation of deduction u/s 80C-

- In respect of Policy issue date (01.06.2011) = 75,000
- In respect of policy issue date (01.05.2017)  
Maximum deduction shall be 10% of capital sum assured = 10,000
- In respect of policy issue date (01.07.2018)  
Maximum deduction shall be 15% of capital sum assured = 60,000
- In respect of policy issue date (01.07.2018)  
Maximum deduction shall be 10% of capital sum assured = 10,000  
Total deduction u/s 80C = 75000+10000+60000+10000 = 1,55,000  
But Restricted to maximum 1,50,000

**SECTION 80CCC DEDUCTION IN RESPECT OF CONTRIBUTION TO CERTAIN PENSION FUNDS**

- **Assessee** – Individual.
- **Deduction** - Amount Invested or ₹ 1.5 lacs – Whichever is lower.
- **Payment Is Made Towards**
  - Pension plan of Life Insurance Corporation (LIC) also known as annuity scheme; or
  - Pension Plan of any other Private Insurer as approved by Controller of Insurance.

**Illustration 03**

Mr. X has income under the head Business/Profession ₹19,90,000. His investments are as

given below:

1. Investment in NSC ₹50,000
2. Investment in PPF in name of MR. X ₹5,000
3. Payment of premium for LIC policy taken in the name of dependent father on 16.06.2023 and its premium paid is ₹11,000
4. Payment of premium for LIC policy taken in the name of independent son on 15.04.2024 and its premium paid is 6,000 (sum assured ₹1,00,000)
5. Payment of premium for LIC policy taken in the name of independent married daughter on 11.01.2025 and its premium paid is ₹21,000 (sum assured ₹1,00,000)

Compute Income Tax liability.

**Solution**

**Computation of Total Income of Mr. X**

Particulars	Amount
Under head PGBP	19,90,000
GTI	19,90,000
(-) Deduction u/s 80C-80U	
u/s 80c – Investment in NSC	50,000
Investment in PPF	5,000
LIC premium paid for independent son	6,000
LIC premium paid for independent married Daughter (up to 10% of sum assured)	10,000
Total Income	19,19,000

**Computation of Tax Liability as per Old Regime**

Particulars	Amount
Tax on First 10,00,000	1,12,500
Tax on balance 9,19,000x30%	2,75,700
Total	3,88,200
(+) Health and Education cess @ 4%	15528
Tax liability	4,03,730

**Illustration 04**

Mr. X has income under the head business/profession 3,35,000. He has made the following investments: -

1. NSC ₹10,000
2. Investment in post office 5 year time deposit account ₹15,000
3. Payment of premium for life policy in the name of major married independent son on 10.10.2022 ₹30,000 (sum assured ₹90,000)
4. Paid premium of ₹11,000 for Jeeven Suraksha policy (Pension Scheme U/s 80CCC) taken in name of Mr. X on 11.11.2023.

Compute income tax liability.

## Solution

## Computation of Total Income of Mr. X

Particulars	Amount
Under head PGBP	3,35,000
GTI	3,35,000
(-) Deduction u/s 80C-80U	
u/s 80c – Investment in NSC	10,000
Investment in 5 year Post office FD	15,000
LIC premium paid for independent married Son (up to 10% of sum assured)	9,000
u/s 80ccc – premium for Jeevan Suraksha policy	11,000
Total Income	(45,000)
	2,90,000

## Computation of Tax Liability as per Old Regime

Particulars	Amount
Tax on First 2,50,000	NIL
Tax on balance 40,000x5%	2000
Total	2,000
(+) Health and Education cess @ 4%	80
Tax liability	2,080
Less : Rebate u/s 87A	(2,080)
Net Tax liability	NIL

### Section 80CCD Deduction in respect of contribution to Pension Scheme of Central Government

## 1. Assessee - Individual

## 2. Assessee's own contribution

## ➤ Section 80CCD(1)

- a) Salaried EE = EE's Contribution subject to maximum 10% Of RBS
- b) Other Individual = Assessee's Contribution subject to maximum 20% of GTI

## ➤ Section 80CCD(1B)

An additional deduction of upto ₹ 50,000 is allowed over and above u/s 80CCD (1)

**Note:** Always claim deduction under 80CCD(1B) first and then balance under 80CCD (1)

## 3. ER Contribution to EE's NPS [Section 80CCD(2)]

- a) Amount contributed by ER is Added to Gross Salary
- b) Also Deduction is allowed for such contribution subject to maximum 10% Of RBS (14% of RBS in case contribution is made by CG/SG)

However, Deduction is allowed for such contribution subject to maximum 14% of RBS (In case of Default Tax Regime to both Govt. and Non-Govt. Employees)

#### 4. Taxability of amount received from above scheme on closure of the account

In case of Death	Fully Exempt
Other Cases	60% Exempt

#### Example 03

Compute deduction u/s 80CCD in following cases:

1. Retirement benefit salary = ₹12,40,000  
Contribution to NPS = ₹1,40,000
2. Retirement benefit salary = ₹12,40,000  
Contribution to NPS = ₹1,20,000
3. Retirement benefit salary = ₹18,00,000  
Contribution to NPS = ₹2,00,000
4. Retirement benefit salary = ₹18,00,000  
Contribution to NPS = ₹2,50,000

#### Solution

a)

Particulars	₹
Deduction u/s 80CCD(1)	
Lower of Amount invested = 1,40,000 or 10% of RBS = 1,24,000	1,24,000
Deduction u/s 80CCD(1B) (1,40,000 – 1,24,000)	16,000
Total Deduction u/s 80CCD	1,40,000

b)

Particulars	₹
Deduction u/s 80CCD(1)	
Lower of Amount invested = 1,20,000 or 10% of RBS = 1,24,000	1,20,000
Deduction u/s 80CCD(1B)	-
Total Deduction u/s 80CCD	1,20,000

c)

Particulars	₹
Deduction u/s 80CCD(1)	
Lower of Amount invested = 2,00,000 or 10% of RBS = 1,80,000 but max up to 1,50,000 as per section 80CCE	1,50,000
Deduction u/s 80CCD(1B) (2,00,000 – 1,50,000)	50,000

Total Deduction u/s 80CCD	2,00,000
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d)

Particulars	₹
Deduction u/s 80CCD(1)	
Lower of Amount invested = 2,50,000 or 10% of RBS = 1,80,000 but max up to 1,50,000 as per section 80CCE	1,50,000
Deduction u/s 80CCD(1B) (2,50,000 – 1,50,000 but max up to 50,000)	50,000
Total Deduction u/s 80CCD	2,00,000

**Example 04**

Basic Salary is ₹1,00,000 per month

DA is 100% of Basic Salary of which 50% forms part of Retirement benefit

Both Employer & Employee contributes 20% of Basic salary to NPS (Tier I)

Calculate taxable income of Employee under both regime

**Solution****Calculation of Total income of Employee (Under old regime)**

Particulars	₹
Basic Salary (1,00,000 x 12m)	12,00,000
DA (100% of Basic Salary)	12,00,000
Employer contribution to NPS (20% of 12,00,000)	2,40,000
<b>Gross Salary</b>	<b>26,40,000</b>
Less: Standard deduction	50,000
<b>Income under head Salary</b>	<b>25,90,000</b>
Less: Deduction u/s 80CCD(1)	
Amount invested = 2,40,000 10% of RBS = 1,80,000 but Maximum up to 1,50,000	1,50,000
Less: Deduction u/s 80CCD(1B)	50,000
Less: Deduction u/s 80CCD(2)	
Lower of Employer contribution 2,40,000 or Maximum 10% of RBS	1,80,000
<b>Total Income</b>	<b>22,10,000</b>

Retirement benefit Salary = 12,00,000 + 6,00,000 = 18,00,000

**Calculation of Total income of Employee (Under new regime)**

Particulars	₹
Basic Salary (1,00,000 x 12m)	12,00,000
DA (100% of Basic Salary)	12,00,000
Employer contribution to NPS (20% of 12,00,000)	2,40,000
<b>Gross Salary</b>	<b>26,40,000</b>
Less: Standard deduction	75,000
<b>Income under head Salary</b>	<b>25,65,000</b>
Less: Deduction u/s 80CCD(1)	-

Less: Deduction u/s 80CCD(1B)	-
Less: Deduction u/s 80CCD(2)	
Lower of Employer contribution 2,40,000 or Maximum 14% of RBS	2,40,000
<b>Total Income</b>	<b>23,25,000</b>

**Example 05**

Mr. X Basic Salary is ₹70,000 per month

DA is 80% of Basic Salary (50% forms part of Retirement benefit)

Employer & Employee both contribute 20% of Basic Salary to NPS

Calculate Total Income under Old Regime

**Solution****Calculation of Total income of Employee (Under old regime)**

Particulars	₹
Basic Salary (70,000 x 12m)	8,40,000
DA (80% of Basic Salary)	6,72,000
Employer contribution to NPS (20% of 8,40,000)	1,68,000
<b>Gross Salary</b>	<b>16,80,000</b>
Less: Standard deduction	50,000
<b>Income under head Salary</b>	<b>16,30,000</b>
Less: Deduction u/s 80CCD(1)	
Amount invested = 1,68,000	1,17,600
10% of RBS = 1,17,600 but Maximum up to 1,50,000	
Less: Deduction u/s 80CCD(1B)	50,000
Less: Deduction u/s 80CCD(2)	
Lower of Employer contribution 1,68,000 or Maximum 10% of RBS	1,17,600
<b>Total Income</b>	<b>13,44,800</b>

Retirement benefit Salary = 8,40,000 + 3,36,000 = 11,76,000

**Illustration 05**

MR. X is employed in Central Government since 01.01.2025 and is getting basic pay of ₹1,00,000 p.m. She has contributed ₹10,000 p.m. to the notified pension scheme of Central Government and employer has also contributed an equal Amount. She has paid premium of Jeevan Suraksha Policy ₹3,000 and invested ₹1,00,000 in NSC. Compute her tax liability.

**Solution****Computation of Total Income of Mr. X**

Particulars	Amount
Under head Salary	
Basic Pay (1,00,000x12)	12,00,000
Employer's contribution to NPS (10,000x12)	1,20,000
(-) Standard deduction u/s 16	(50,000)
<b>GTI</b>	<b>12,70,000</b>



(-) Deduction u/s 80C-80U		
u/s 80c – Investment in NSC	1,00,000	
u/s 80ccc – premium for Jeevan Suraksha policy	3,000	
u/s 80CCD(1) – NPS contribution by Employee (1,20,000 – 50,000)	70,000	
u/s 80CCE – Maximum deduction restricted to 1,50,000		(1,50,000)
u/s 80CCD(1B) Additional Deduction		(50,000)
u/s 80CCD(2) Contribution by employer to NPS (maximum 14% of Retirement Benefit Salary)		(1,20,000)
Total Income		9,50,000

### Computation of Tax Liability as per Old Regime

Particulars	Amount
Tax on First 5,00,000	12,500
Tax on balance 4,50,000x20%	90,000
Total	1,02,500
(+) Health and Education cess @ 4%	4100
Tax liability	1,06,600

### Illustration 06

The basic salary of Mr. X is ₹80,000 p.m. Both Mr. A and his employer contribute 10% 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. X.

### Solution

#### Computation of Total Income of Mr. X

Particulars	Amount
Under head Salary	
Basic Pay (80,000 x 12)	9,60,000
Employer's contribution to NPS (8,000 x 12)	96,000
(-) Standard deduction u/s 16	(50,000)
GTI	10,06,000
(-) Deduction u/s 80C-80U	
u/s 80CCD(1) – NPS contribution by Employee (maximum 10% of Retirement Benefit Salary)	96,000
u/s 80CCD(2) Contribution by employer to NPS (maximum 10% of Retirement Benefit Salary)	96,000
Total Income	8,14,000

### Computation of Tax Liability as per Old Regime

Particulars	Amount
Tax on First 5,00,000	12,500
Tax on balance 3,14,000x20%	62,800

	Total	75,300
	(+) Health and Education cess @ 4%	3012
	Tax liability	78,310

### SECTION 80 CCE RESTRICTION ON DEDUCTION

- Maximum deduction allowed under section 80C + 80CCC + 80CCD(1) shall be ₹1,50,000.
- **Note:** ER Contribution u/s 80CCD(2) and Additional Deduction u/s 80CCD(1B) is not covered u/s 80CCE. In other words, these are allowed separately to assessee

### SECTION 80CCH DEDUCTION IN RESPECT OF CONTRIBUTION TO AGNIPATH SCHEME

1. Agnipath scheme is a Central Government scheme launched in 2022 for enrolment of Indian youth in the Indian Armed Forces
2. Each Agniveer is to contribute 30% of his monthly customized Agniveer Package to the individual's Agniveer Corpus Fund. Further, the Government will also contribute a matching amount to the 'Agniveer Corpus Fund
3. The Agniveer Corpus Fund means a fund in which consolidated contributions of all the Agniveers and matching contributions of the Central Government along with interest on both these contributions are held.
4. **Deduction**
  - a) **Assessee's own contribution Section 80CCH (1)**  
Agniveer is eligible for contribution made to individual's Agniveer Corpus Fund.
  - b) **Contribution made by CG Section 80CCH (2)**  
Central Government's contribution to the Agniveer Corpus Fund would be included in the salary of the assessee and then whole amount of contribution is allowed as a deduction.

### SECTION 80 D DEDUCTION IN RESPECT OF FAMILY INSURANCE PREMIUM

1. **Assessee - Individual / HUF**
2. **Payment Made For –**
  - a) Health insurance premium
  - b) Contribution in Central Govt. Health Scheme
  - c) Preventive Health Checkup (PHC)
3. **Deduction**
  - i. **Self / Spouse/ dependent Children** - Amount paid Subject to max 25,000. (In case of Resident Senior Citizen max ₹ 50,000)
  - ii. **Parents (dependent / Not dependent)** - Amount paid Subject to max 25,000. (In case of Resident Senior Citizen max ₹ 50,000)
4. In case of Resident senior citizen, Deduction of ₹ 50,000 is allowed in case of medical expenditure even if no insurance premium is paid
5. Maximum Deduction for Preventive Health-Check up of Family & Parents is ₹ 5,000 which is included in overall limit of ₹25,000 / ₹ 50,000.

6. No Deduction is allowed for the payment of premium made in cash. PHC payment can be made by any mode.
7. Where medical insurance is paid in lumpsum for more than 1 year, deduction shall be allowed for each PY as follows:

$$\text{Deduction per year} = \frac{\text{Lumpsum Premium}}{\text{PY for Which Insurance is Valid}}$$

**Example 06**

Mr. X (Age 62 Years –Resident) incurred following amounts

1. ₹30,000 on his Medical Treatment
2. ₹25,000 on medical insurance of his wife (age = 58years)
3. ₹35,000 on medical treatment of his father (age = 79 years and resident)
4. ₹26,000 on medical insurance of his mother (age = 79 years and resident)

Calculate deduction u/s 80D

**Solution****Calculation of Deduction u/s 80D**

Particulars	₹
<b>Mr. X and Spouse:</b>	
Medical Treatment of Mr. X	30,000
Medical Insurance of Mrs. X	25,000
	55,000
Maximum allowed up to 50,000	50,000
<b>Parents of Mr. X:</b>	
Medical treatment of Father	35,000
Medical insurance of Mother	26,000
	61,000
Maximum allowed up to 50,000	50,000
<b>Total Deduction u/s 80D</b>	<b>1,00,000</b>

**Example 07**

Mr. X Incurred following exp. During PY 2025-26 . Calculate Deduction permissible from GTI.

- Medical insurance premium paid for self spouse & dependent child = ₹ 21,000
- Cont. to C.G. Health scheme on his own name = ₹ 1500
- Medical insurance of Father (70 Years) = ₹30,000 & Mother (59 Years) = 15,000
- Preventive health check up of Self = ₹4,000 & Parents = ₹3,000

Calculate deduction u/s 80D.

**Solution****Calculation of Deduction u/s 80D**

Particulars	₹
<b>Mr. X, his Spouse and dependent child:</b>	

Medical Insurance (Self/Spouse/Dependent Child)	21,000
Contribution to C.G. Health Scheme	1,500
Preventive Health Check up	2,000
	24,500
Parents of Mr. X:	
Medical Insurance of Father	30,000
Medical insurance of Mother	15,000
Preventive health check up	3,000
	48,000
Total Deduction u/s 80D	72,500

**Example 08**

Suppose in above e.g., Mrs. X Medical Treatment = ₹25,000

**Solution**

No Deduction u/s 80D shall be allowed as Mrs. X is not a senior citizen and she also have Medical Insurance.

**Illustration 07**

Mr. X, aged 40 years, paid medical insurance premium of ₹18,000 by cheque during the P.Y. 2025–26 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹26,000 by cheque during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹5,000 by cheque to Central Government Health Scheme during the year. He has incurred ₹3,000 in cash on preventive health check-up of himself and his spouse and ₹4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2026–27.

**Solution****Computation of deduction allowable u/s 80D**

Particulars	Self-Family	Parents
Medical Insurance Premium	18,000	26,000
Central Govt. health scheme	5,000	NIL
Preventive Health Check-up	1000	4000
Total Deduction u/s 80D	24,000	30,000

Total deduction = 24,000+30,000=54,000

**Illustration 08**

Mr. X, aged 40 years, paid medical insurance premium of ₹20,000 by cheque during the P.Y. 2025-26 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹51,000 by cheque during the year to insure the health of his father, aged 67 years, who is not dependent on him. He contributed ₹6,000 by

cheque to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y. 2026-27.

### Solution

#### Computation of deduction allowable u/s 80D

Particulars	Self-Family	Parents
Medical Insurance Premium	20,000	51,000 but restricted to 50,000
Central Govt. health scheme	5,000	NIL
Total Deduction u/s 80D	25,000	50,000

Total deduction = 25,000+50,000=75,000

### Illustration 09

Mr. Arjun (52 years old) furnishes the following particulars in respect of the following payments:

Particulars	Amount
<b>Premium paid for insuring the health of –</b>	
Self	₹10,000
Spouse	₹8,000
Dependent son	₹4,000
Mother	₹18,000
<b>Paid for Preventive Health Check-up of</b>	
Himself	₹2,000
Spouse	₹1,500
Mother	₹4,000
Incurring medical expenditure of 25,000 and 15,000 for his mother, aged 80 years and father, aged 85 year. Both mother and father are resident in India.	

Compute the deduction available to Mr. Arjun under section 80D for the A.Y. 2026-27.

### Solution

#### Computation of deduction allowable u/s 80D

Particulars	Self-Family	Parents
Medical Insurance Premium	22,000	18,000
Preventive health check-up	3,000	2,000
Medical Expenditure of Father	NIL	15,000
Total Deduction u/s 80D	25,000	35,000

Total deduction = 25,000+35,000=60,000

### Illustration 10

Compute the eligible deduction under Chapter VI-A for the Assessment year 2026-27 of Ms. Roma, who has a gross total income of ₹15,00,000 for the previous year 2025-26 and provide the following information about his investments/payments during the financial

year:

Particulars	Amount
Life Insurance premium paid (Policy taken on 01.01.2012 and sum assured is ₹1,50,000)	₹35,000
Public Provident Fund contribution.	₹90,000
Repayment of Housing loan to Bhartiya Mahila Bank, Bangalore.	₹20,000
Payment to L.I.C. Pension Fund	₹25,000
Mediclaime Policy taken for self, spouse and dependent children, premium paid by cheque	₹20,000
Medical Insurance premium paid for parents (Senior Citizen), premium paid by cheque	₹25,000

### Solution

#### Computation of Total Income of Ms. Roma

Particulars	Amount
GTI	15,00,000
(-) Deduction u/s 80C-80U	
u/s 80c – Investment in PPF	90,000
LIC premium paid of policy issued before 01.04.12 (up to 20% of sum assured)	30,000
Repayment of Housing loan	20,000
u/s 80ccc – Payment to LIC pension fund	25,000
Total	1,65,000
u/s 80CCE – deduction restricted to maximum	1,50,000
u/s 80D – Medical Insurance premium for self-family	20,000
Medical Insurance Premium for parents	25,000
Total Income	13,05,000

### SECTION 80DD DEDUCTION IN RESPECT OF MAINTENANCE OF DISABLED DEPENDANT

- Assessee** - Resident Individual / HUF
- Deduction** - ₹75,000 irrespective of the expenditure (₹ 1,25,000 in case of severe disability)
- Dependant** -
  - For Individual** - Spouse, children, parents, brothers and sisters who are dependent on the individual
  - For HUF** - Any member of the Hindu Undivided Family

Note: Assessee should incur expenses on medical treatment including nursing or paid/deposited amount in LIC scheme for the maintenance of dependent disabled.

### Illustration 11

Mr. X is a resident individual. He deposits a sum of ₹25,000 with Life Insurance Corporation every year for the maintenance of his handicapped grandfather. A copy of the certificate

from the medical authority is submitted. Compute the Amount of deduction available under section 80DD

### Solution

Since, amount is deposited for maintenance of handicapped grandfather therefore, no deduction shall be allowed to Mr. X u/s 80DD as grandfather is not covered under definition of Dependent

## SECTION 80DDB MEDICAL TREATMENT OF SPECIFIED DISEASE

1. **Assessee** - Resident Individual / HUF
2. **Expenditure** - Treatment of disease specified in the rule 11DD
3. **Incurred On** –
  - a) **For Individual** – Self or a Dependent Spouse, children, parents, brothers and sisters
  - b) **For HUF**- Any member dependent on the Hindu Undivided Family
4. **Deduction** –
  - a) Amount incurred or ₹40,000 whichever is less.
  - b) For senior citizen - Amount incurred or ₹1,00,000 whichever is less.

## SECTION 80E PAYMENT OF INTEREST ON LOAN TAKEN FOR HIGHER EDUCATION

1. **Assessee** – Individual
2. **Deduction** - Payment of interest on loan taken by him from any financial institutions for pursuing higher education (any course after class XII<sup>th</sup>)
3. **Education of** - self or spouse or children or any person for whom the assessee is legal guardian
4. No deduction shall be allowed for repayment of the principal loan amount
5. Deduction is allowed for a maximum period of 8 years starting from the year in which first payment of interest was given

## SECTION 80EE INTEREST ON LOAN TAKEN FOR CERTAIN HOUSE PROPERTY

1. **Assessee** – Individual
2. **Deduction** - Interest payable on loan taken from any financial institution for acquisition of a residential house property (Max deduction = ₹ 50,000).
3. **Conditions:**
  - a) Loan has been sanctioned during 1/4/2016 – 31/3/2017
  - b) Value of house should not exceed ₹ 50 Lakh.
  - c) Loan amount is upto ₹ 35 lakh
  - d) Assessee doesn't own any RHP on the date of loan sanction
4. Assessee shall claim deduction u/s 24(b) first and then remaining interest shall be allowed under this section.

Note: Loan should be taken from banks or financial institutions.

**Illustration 12**

Mr. A purchased a residential house property for self-occupation at a cost of ₹45 lakh on 01.04.2017, in respect of which he took a housing loan of ₹35 lakh from Bank of India @ 11% p.a. on the same date.

The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y. 2026–27 under the provisions of the Income-tax Act, 1961, assuming that the entire loan was outstanding as on 31.03.2026 and he does not own any other house property.

**Solution**

Amount of Interest for PY 2025-26 =  $35,00,000 \times 11\% = 3,85,000$

**Computation of Interest Deduction for AY2026-27**

Particulars	Amount
Deduction u/s 24b Interest on capital borrowed	2,00,000
Deduction u/s 80EE	50,000
<b>Total Eligible Deduction</b>	<b>2,50,000</b>

**SECTION 80EEA INTEREST ON LOAN TAKEN FOR CERTAIN HOUSE PROPERTY**

- Assessee** – Individual
- Deduction** - Interest payable on loan taken from any financial institution for acquisition of a residential house property (Max deduction = ₹1.5 Lacs).
- Conditions:**
  - Loan has been sanctioned during 1/4/19 – 31/3/22
  - SDV ≤ 45 Lakh.
  - Assessee doesn't own any RHP on the date of loan sanction
  - Assessee shall claim deduction u/s 24(b) first and then remaining interest shall be allowed under this section.

**Note:** Loan should be taken from banks or financial institutions.

**Illustration 13**

Mr. X has taken a loan on 01.05.2025 from State Bank of India ₹40,00,000 @ 10% p.a. and purchased one house which is self-occupied. He has submitted a certificate confirming the Amount of interest. He repaid ₹2,00,000 on 01.03.2026 he don't have any other house. He paid municipal tax ₹30,000. He has income under the head salary ₹10,00,000. Compute his total income and tax liability.

What Will be your answer if it is let out @ ₹10,000 per month from 01.05.2025.

**Solution**

Interest = 01.05.25 – 29.02.26 =  $40,00,000 \times 11\% \times 10/12 = 3,66,667$

01.03.26 – 31.03.27 =  $38,00,000 \times 11\% \times 1/12 = 34,833$

Total Interest =  $3,66,667 + 34,833 = 4,01,500$



## Computation of Total Income of Mr. X (Self Occupied)

Particulars	Amount
Under head house property ( Self Occupied )	
Net Annual Value	NIL
(-) Interest on capital borrowed	(2,00,000)
Under head Salary	10,00,000
	GTI
(-) Deduction u/s 80EEA	(1,50,000)
Total Income	6,50,000

## Computation of Tax Liability as per Old Regime

Particulars	Amount
Tax on First 5,00,000	12,500
Tax on balance 1,50,000x20%	30,000
Total	42,500
(+) Health and Education cess @ 4%	1700
Tax liability	44,200

## Computation of Total Income of Mr. X (Let-Out)

Particulars	Amount
Under head house property	
Gross Annual Value (10,000x12)	1,20,000
(-) Municipal Taxes paid	(30,000)
Net Annual Value	90,000
(-) Standard deduction @30%	(27,000)
(-) Interest on capital borrowed	(4,01,500)
Under head Salary	10,00,000
	GTI
(-) Deduction u/s 80EEA	NIL
Total Income	6,61,500

## Computation of Tax Liability as per Old Regime

Particulars	Amount
Tax on First 5,00,000	12,500
Tax on balance 1,61,500x20%	32,300
Total	44,800
(+) Health and Education cess @ 4%	1792
Tax liability (R/off)	46,600

## SECTION 80EEB INTEREST ON LOAN TAKEN FOR PURCHASE OF ELECTRIC VEHICLE

1. **Assessee** – Individual
2. **Deduction** - Interest payable on loan taken from any financial institution for purchase of electric vehicle (Max deduction = ₹1.5 Lacs).
3. **Conditions:** Loan has been sanctioned during 1/4/19 – 31/3/23
4. Deduction is allowed irrespective of fact whether e-vehicle is purchased for official or personal use.

**Note:** Loan should be taken from banks or financial institutions.

**Illustration 14**

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals for A.Y. 2026–27:

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	₹43 lakhs	₹45 lakhs	₹20 lakhs	₹15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	01.03.2022	01.03.2022	01.04.2022	30.03.2021
Date of disbursement of loan	01.05.2022	01.05.2022	01.05.2022	01.05.2021
Purpose of loan	Acquisition of residential house property for self occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	₹45 lakhs	₹48 lakhs	—	—
Cost of electric vehicle	—	—	₹22 lakhs	₹18 lakhs
Rate of interest	9%	9%	10% p.a.	10% p.a.

Compute the Amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y. 2026–27 in the hands of Mr. A, Mr. B, Mr. C and Mr. D. Assume that there has been no principal repayment upto 31/3/2026.

**Solution****(a) Mr. A**

Interest for the current year =  $43,00,000 \times 9\% = 3,87,000$

Since, Loan is sanctioned on 01.03.2022. Therefore, deduction u/s 80EEA shall be allowed.

Since, House is self-occupied. Therefore, deduction u/s 24(b) = 2,00,000 shall be allowed and u/s 80EEA = 1,50,000 shall be allowed.

(b) Mr. B

Interest for the current year = 45,00,000 x 9% = 4,05,000

As the SDV of house exceeds 45,00,000. therefore, deduction u/s 80EEA shall not be allowed.

Since, House is self-occupied Therefore, deduction u/s 24(b) = 2,00,000 shall be allowed.

(c) Mr. C

Interest for the current year = 20,00,000 x 10% = 2,00,000

deduction u/s 80EEB = 1,50,000 shall be allowed.

(d) Mr. D

Interest for the current year = 15,00,000 x 10% = 1,50,000

deduction u/s 80EEB = 1,50,000 shall be allowed

#### SECTION 80G DONATIONS TO CERTAIN FUNDS, CHARITABLE INSTITUTIONS ETC.

1. Deduction is available to all the assesses for donation made to eligible funds or institutions
2. Donations in kind shall not qualify for deduction.
3. No deduction shall be allowed in respect of donation of exceeding ₹ 2,000 unless such sum is paid by any mode other than cash.
4. Quantum of deduction:  
There are four categories of deductions

#### Category 1: Donation qualifying for 100% deduction, without any qualifying limit

1. The National Defence Fund set up by the Central Government
2. Prime Minister's National Relief Fund.
3. Prime Minister's Armenia Earthquake Relief Fund
4. The National Children's Fund
5. The National Foundation for Communal Harmony
6. Approved University or educational institution of national eminence
7. Chief Minister's Earthquake Relief Fund, Maharashtra
8. Any Zila Saksharta Samiti
9. Any State Government Fund set up to provide medical relief to the poor
10. The Army Central Welfare Fund or Indian Naval Benevolent Fund or Air Force Central Welfare Fund established by the armed forces of the Union for the welfare of past and present members of such forces or their dependents.
11. The National Illness Assistance Fund
12. The Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund in respect of any State or Union Territory
13. The National Sports Fund set up by the Central Government

14. The National Cultural Fund set up by the Central Government
15. The Fund for Technology Development and Application set up by the Central Government
16. The Swachh Bharat Kosh
17. The Clean Ganga Fund
18. The National Fund for Control of Drug Abuse

**Category 2: Donation qualifying for 50% deduction, without any qualifying limit**  
Prime Minister's Drought Relief Fund

**Category 3: Donation qualifying for 100% deduction, subject to qualifying limit**

1. The Government or to any approved local authority, institution or association for promotion of family planning
2. Sum paid by a company as donation to the Indian Olympic Association or any other association/institution established in India.

**Category 4: Donation qualifying for 50% deduction, subject to qualifying limit.**

1. Any Institution or Fund established in India for charitable purposes
2. The Government or any local authority for utilisation for any charitable purpose other than the purpose of promoting family planning
3. An authority constituted in India by or under any other law enacted either for dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or both
4. Any Corporation established by the Central Government or any State Government for promoting the interests of the members of a minority community.
5. for renovation or repair of Notified temple, mosque, gurdwara, church or any other similar place

**Qualifying limit:** The eligible donations referred to in category 3 and 4 should be aggregated and the sum total should be limited to 10% of the adjusted gross total income.

**Adjusted Total Income** Means GTI as reduced by LTCG (u/s 112/112A) & STCG u/s 111A & All Deductions except 80G

#### Example 09

Following donations has been made

Category 1 : ₹1,00,000

Category 2 : ₹70,000

Category 3 : ₹90,000

Category 4 : ₹50,000

Qualifying limit = ₹1,70,000

Calculate deduction u/s 80G

## Solution

## Calculation of Deduction u/s 80G

Particulars	₹
Category 01: 1,00,000 x 100%	1,00,000
Category 02: 70,000 x 50%	35,000
Category 03: Lower of Donation 90,000 or Qualifying Limit 1,70,000	90,000
Category 04: 50% of Lower of Donation 50,000 or Balance Qualifying Limit 80,000	25,000
	2,50,000

## Illustration 15

Mr. X, aged 62 years, earned professional income (computed) of ₹5,50,000 during the year ended 31.03.2026. He has earned interest of ₹14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. X for the assessment year 2026-27 from the following particulars:

1. Life insurance premium paid to Birla Sun life Insurance in cash Amounting to ₹25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2024 and the sum assured on life of his dependent parents is ₹1,25,000.
2. Life insurance premium of ₹25,000 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 ₹1,75,000 and the life insurance policy was taken on 18.04.2011.
3. Life insurance premium paid by cheque of ₹22,500 for insurance of his life. The insurance policy was taken on 08.09.2024 and the sum assured is ₹2,00,000.
4. Premium of ₹16,000 paid by cheque for health insurance of self and his wife (₹8,000 for self and ₹8,000 for spouse).
5. ₹1,500 paid in cash for his health check-up and ₹4,500 paid in cheque for health checkup for his parents.
6. Paid interest of ₹6,500 on loan taken from bank for MBA course pursued by his daughter.
7. A sum of ₹15,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.
8. Contribution ₹10,500 made in cheque to an electoral trust

## Solution

## Computation of Total Income of Mr. X

Particulars	Amount
Under head PGBP	5,50,000
Under head other sources	
Interest on savings bank account	14,500
GTI	5,64,500
Deduction u/s 80C	
Life insurance premium for major son 25,000	
Life Insurance premium for self (max. 10% of sum assured) 20,000	
Deduction u/s 80D – Health insurance premium 16,000	

Preventive health check-up	5,000	
Deduction u/s 80E – Interest on Education loan	6,500	
Deduction u/s 80G – Donation in cash 15,000	NIL	
Deduction u/s 80GGC	10,500	
Deduction u/s 80TTB	14,500	(97,500)
Total Income		4,67,000

**Illustration 16**

Mr. Shiva aged 58 years, has gross total income of 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

1. Premium paid to insure the life of her major daughter (policy taken on 01.04.2019) (Assured value 1,80,000) – ₹20,000.
2. Medical Insurance premium for self – ₹12,000; Spouse – ₹14,000.
3. Donation to a public charitable institution registered under 80G ₹50,000 by way of cheque.
4. LIC Pension Fund – ₹60,000.
5. Donation to National Children's Fund – ₹25,000 by way of cheque
6. Donation to Jawaharlal Nehru Memorial Fund – ₹25,000 by way of cheque
7. Donation to approved institution for promotion of family planning – ₹40,000 by way of cheque
8. Deposit in PPF – ₹1,00,000

Compute the total income of Mr. Shiva for A.Y. 2026-27.

**Solution****Computation of Total Income of Mr. Shiva**

Particulars	Amount
GTI	7,75,000
Deduction u/s 80C	
Public Provident Fund	1,00,000
Life insurance premium (max. 10% of sum assured)	18,000
Deduction u/s 80ccc	60,000
	1,78,000
But restricted up to 1,50,000 u/s 80CCE	1,50,000
Deduction u/s 80D	25,000
Deduction u/s 80G (WN)	75,000
	2,50,000
Total Income	5,25,000

**Working Note:****Computation of Deduction u/s 80G**

Particulars	Amount
1. Computation of Adjusted Total Income	
Gross total income	7,75,000
(-) LTCG u/s 112/112A	NIL

(-) STCG u/s 111A	NIL
(-) Deduction u/s 80c-80U (except 80G)	(1,75,000)
<b>Adjusted Total Income</b>	<b>6,00,000</b>
<b>2. Qualifying limit = 10% of Adjusted total income</b>	<b>60,000</b>
<b>3. Deduction u/s 80G</b>	
Category 1 – National Children Fund	25,000
Category 3 – Donation for promotion of family planning 100% of (lower of 40,000 or qualifying limit 60,000)	40,000
Category 4 – Donation to Public charitable institution 50% of (lower of 50,000 or balance qualifying limit 20,000)	10,000
<b>Total Deduction u/s 80G</b>	<b>75,000</b>

**Illustration 17**

Mr. X declares gross total income ₹4,00,000 for the assessment year 2026-27. The gross total income includes taxable long term capital gain 65,000 and short term capital gain ₹35,000 which is taxable @ 15% under section 111A of the Income-tax Act, 1961. The details of fund investment made during the year 2025-26 are:

- 1) Medical insurance premium paid by cheque –
  - (a) in the name of Mr. X ₹4,000
  - (b) in name of MR. X ₹5,000
- 2) Contribution made to –
  - i) Indira Gandhi Memorial Trust by cheque ₹7,000
  - ii) Delhi University (declared as an institution of national eminence) by cheque ₹3,000
  - iii) Zila Saksharta Samiti by cheque ₹5,000
  - iv) An approved charitable institute by cheque ₹30,000
  - v) Government by cheque for the purpose of promoting family planning ₹10,000
  - vi) Hanuman Temple in Mohalla by cheque ₹20,000

Compute the total income of Mr. X chargeable to tax for the Assessment year 2026–27.

**Solution****Computation of Total Income of Mr. X**

Particulars	Amount
<b>GTI</b>	<b>4,00,000</b>
Deduction u/s 80D	9,000
Deduction u/s 80G (WN)	27,550
<b>Total Income</b>	<b>3,63,450</b>

**Working Note:****Computation of Deduction u/s 80G**

Particulars	Amount
<b>1. Computation of Adjusted Total Income</b>	
Gross total income	4,00,000
(-) LTCCG u/s 112/112A	(65,000)

(-) STCG u/s 111A	(35,000)
(-) Deduction u/s 80c-80U (except 80G)	(9,000)
<b>Adjusted Total Income</b>	<b>2,91,000</b>
<b>2. Qualifying limit = 10% of Adjusted total income</b>	<b>29,100</b>
<b>3. Deduction u/s 80G</b>	
Category 1 – Delhi university	3,000
Zila Saksharta Samiti	5,000
Category 3 – Donation for promotion of family planning	10,000
100% of (lower of 10,000 or qualifying limit 29,100)	
Category 4 – Donation to charitable institution	30,000
Donation to hanuman temple	Nil
50% of (lower of 30,000 or balance qualifying limit 19,100)	9,550
<b>Total Deduction u/s 80G</b>	<b>27,550</b>

**Illustration 18**

Mr. Rohan, a resident individual has Gross Total Income of ₹7,50,000 comprising of Income from Salary and income from house property for the assessment year 2026-27. He provides the following information:

- 1) Paid ₹70,000 towards premium on life insurance policy of his Handicapped Son (Section 80U disability). Sum assured ₹4,00,000; and date of issue of policy 01.08.2020.
- 2) Deposited ₹90,000 in tax saver deposit in the name of his major son in State Bank of India.
- 3) Contributed by cheque ₹25,000 to The Clean Ganga Fund, set up by the Central Government.

Compute the Total Income and deduction under Chapter VI-A for the Assessment year 2026-27.

**Solution****Computation of Total Income of Mr. Rohan**

Particulars	Amount
<b>GTI</b>	<b>7,50,000</b>
<b>Deduction u/s 80C</b>	
Life insurance premium for handicapped son	60,000
(max. 15% of sum assured) 4,00,000 x 15%	
<b>Deduction u/s 80G – Ganga Clean Fund Contribution</b>	<b>25,000</b>
<b>Total Income</b>	<b>(85,000)</b>
	<b>6,65,000</b>

**SECTION 80GG DEDUCTION IN CASE OF PAYMENT OF RENT**

1. **Assessee** - Individual (Must Not be receiving HRA/RFAC)
2. **Deduction** – Lower of following shall be allowed as deduction:
  - a) ₹ 5,000 Per Month
  - b) Rent paid - 10% of Adjusted GTI



- c) 25% of Adjusted GTI
3. Adjusted GTI Means GTI as reduced by LTCG (u/s 112/112A) & STCG u/s 111A & All Deductions except 80GG.
4. Other Conditions:
- Individual should not have any house in his name or spouse name or minor child name or in the name of HUF of which he is a member, at a place of his duty.
  - Assessee may have house at any other place but it should not be self occupied i.e. it may be let out or vacant

**Example 10**

Anmol (Age 25Years) having Gross total income of ₹9,00,000 (Including LTCG of ₹2,00,000 and STCG u/s 111A of ₹50,000)

He is paying rent of ₹20,000 p.m.

Following deductions are available:

- u/s 80C = ₹75,000
- u/s 80CCC = ₹25,000
- u/s 80D = ₹15,000
- u/s 80E = ₹70,000

Calculate Deduction u/s 80GG & Total income.

**Solution****Calculation of Total Income and Deduction u/s 80GG**

Particulars	₹
Gross Total Income	9,00,000
Less: Deduction u/s 80C-80U	
80C	75,000
80CCC	25,000
80D	15,000
80E	70,000
80GG	60,000
Total Income	6,55,000
Least of the following shall be allowed as deduction u/s 80GG:	
a) 5,000 x 12m	60,000
b) Rent paid over 10% of Adjusted GTI (2,40,000 – 10% of 4,65,000)	1,93,500
c) 25% of Adjusted GTI	1,16,250
Deduction u/s 80GG	60,000
Calculation of Adjusted GTI:	
Gross Total Income	9,00,000
Less: LTCG	2,00,000
Less: STCG u/s 111A	50,000
Less: Deduction u/s 80C-80U except 80GG	1,85,000
	4,65,000

Particulars	Amount
Tax on Normal income 4,10,000 @ slab rate	8000
Tax on LTCG u/s 112 (2,00,000 x 12.5%)	25,000
Tax on STCG u/s 111A (3,00,000 x 20%)	60,000
Tax on casual income (1,00,000 x 30%)	30,000

	Total	1,23,000
	(+) Health and Education cess @ 4%	4920
	Tax liability	1,27,920

### SECTION 80GGB CONTRIBUTIONS TO POLITICAL PARTIES OR ELECTORAL TRUST

1. **Assessee** - Indian Company
2. **Deduction** – 100% of Amount Contributed

### SECTION 80GGC CONTRIBUTIONS TO POLITICAL PARTIES OR ELECTORAL TRUST

1. **Assessee** – Any person other than Indian Company
2. **Deduction** – 100% of Amount Contributed

### SECTION 80JJAA DEDUCTION IN CASE OF NEW EMPLOYMENT

1. **Assessee** - All Assessee's whose accounts are required to be audited u/s 44AB (i.e. TO > ₹ 1cr/10cr).
2. **Deduction** - 30% of additional employee cost incurred. Deduction is allowed for 3 assessment years including the assessment year in which such employment is provided.
3. **Conditions**
  - a) Emoluments should be paid through account payee cheque, an account payee bank draft or by use of electronic clearing system
  - b) "Additional employee" means an employee who has been employed during the previous year and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year.
  - c) Additional EE does not include —
    - (i) an employee whose total emoluments are more than ₹ 25,000 per month; or
    - (ii) an employee employed for a period of less than 240 days during PY (in case of business of manufacturing of apparel or footwear or leather products, 150 days shall be considered).
    - (iii) an employee who does not participate in the recognized provident fund.
4. If an EE is employed for less than 240/150 days as the case may be during the PY, but is employed for a period of 240/150 days or more in the immediately succeeding year, then he shall be deemed to be employed in succeeding year and accordingly ER shall be entitled for deduction under this section for such EEs in the succeeding year.

#### Illustration 20

Mr. Satya is a manufacturer of household goods in a factory located in Navi Mumbai and commenced his business on 1st April 2023 and he employed 120 new work men during the previous year 2025-26 which included:

- a) 20 employee whose total emoluments paid @ ₹30,000 p.m. per employee
- b) 40 worker employed on 01st April, 2025

- c) 35 worker employed on 1st May, 2025  
 d) 25 worker employed on 5th October, 2025

Compute the Deduction under Section 80JJAA, if available to Mr. Satya for Assessment year 2026-27, if wages are paid to each worker @ ₹3,000 per month. His profit from the manufacture of goods for Assessment year 2026-27 is 9.50 lakhs. The Assessee is liable to Audit his accounts. What will be your answer is assessee is engaged in manufacturing of leather products business.

### Solution

#### Household goods manufacturer

Additional employees = 40 workers + 35 workers = 75 workers

Additional employees cost = 40 workers x 3000 x 12 = 14,40,000

35 workers x 3000 x 11 = 11,55,000

Total additional employees cost = 25,95,000

Deduction u/s 80JJAA = 25,95,000 x 30% = 7,78,500

#### Leather Product Manufacturer

Additional employees cost = 40 workers x 3000 x 12 = 14,40,000

35 workers x 3000 x 11 = 11,55,000

25 workers x 3000 x 5 (Nov-March) = 3,75,000

25 workers x 3000 x 27/31 (5 oct – 31 oct) = 65,323

Total additional employees cost = 30,35,323

Deduction u/s 80JJAA = 30,35,323 x 30% = 9,10,597

### SECTION 80QQB ROYALTY INCOME, ETC., OF AUTHORS OF BOOKS OTHER THAN TEXT BOOKS

1. **Assessee** - Resident individual
2. **Deduction** – Royalty income or ₹3,00,000 whichever is less.  
 However, Royalty received in excess of 15% of the value of books sold during the previous year shall be ignored
3. **Royalty from Foreign Country:** Deduction allowed if Royalty brought to India in convertible foreign exchange within 6 Months from the end of previous year.

#### Example 11

Salary (Computed)	₹6,00,000
Royalty from fiction book (20% of value of Book)	₹4,00,000
Exp. Incurred to earn royalty	₹1,00,000
PPF Contribution	₹75,000
Medical Insurance	₹15,000

Calculate Deduction u/s 80QQB & Total Income

## Solution

## Calculation of Total income and Deduction u/s 80QBB

Particulars	₹
Income under head Salary	6,00,000
Income under head other sources	
Royalty received 4,00,000	
Less: Expenditure 1,00,000	3,00,000
Gross Total Income	9,00,000
Less: Deduction u/s 80C	75,000
Less: Deduction u/s 80D	15,000
Less: Deduction u/s 80QBB	2,00,000
Total Income	6,10,000
Calculation of deduction u/s 80QBB:	
a) Royalty Income	
Royalty received (4,00,000/20% x 15%) 3,00,000	
Less: Expenditure incurred 1,00,000	2,00,000
b) Limit for Deduction	3,00,000
Deduction shall be lower of a and b	2,00,000

## Illustration 21

Mr. X, a writer and a professional, furnishes the following particulars for the previous year ended 31.03.2026:

- a) Royalty on books (eligible for deduction u/s 80QBB) ₹42,000
- b) Expenditure on books ₹8,000
- c) Income from profession 3,80,000
- d) Deposited in public provident fund (15.03.2025) ₹70,000

You are required to compute

- (i) Taxable income
- (ii) Tax payable for assessment year 2026-27.

## Solution

## Computation of Total Income of Mr. X

Particulars	Amount
Under head PGBP	3,80,000
Under head other sources	
Royalty earned 42,000	
Less : Expenditure incurred (8,000)	34,000
GTI	4,14,000
(-) Deduction u/s 80C 70,000	
Deduction u/s 80QBB (Lower of Royalty income 34,000 or 3,00,000) 34,000	(1,04,000)
Total Income	3,10,000

## Computation of Tax Liability as per Old Regime

Particulars	Amount
Tax on First 2,50,000	NIL
Tax on balance 60,000 x 5%	3000
Total	3000
(+) Health and Education cess @ 4%	120
Tax liability	3120
(-) Rebate u/s 87A	(3120)
Net Tax Liability	NIL

## SECTION 80RRB DEDUCTION IN RESPECT OF ROYALTY ON PATENTS

1. **Assessee** - Resident individual
2. **Deduction** – Royalty income or ₹3,00,000 whichever is less.
3. Royalty from Foreign Country: Deduction allowed if Royalty brought to India in convertible foreign exchange within 6 Months from the end of previous year.

## SECTION 80TTA INTEREST ON DEPOSITS IN SAVINGS ACCOUNT

1. **Assessee** - Individual / HUF (other than senior citizen)
2. **Deduction** – Lower of Following is allowed as deduction
  - a) Interest Amount
  - b) ₹ 10,000
3. Interest income on saving bank accounts with any Bank/ Post Office is eligible for deduction under this section.
4. No deduction is allowed from interest on time deposit/ fixed deposit.

**Note:** As per section 10(15), Interest on Post Office Savings Bank Account to the extent of ₹3,500 per year shall be exempt from income tax and in the case of joint account, exemption shall be allowed up to ₹7,000 per year.

## SECTION 80TTB INTEREST ON DEPOSITS IN CASE OF SENIOR CITIZENS

1. **Assessee** - Senior citizen
2. **Deduction** – Lower of Following is allowed as deduction
  - a) Interest Amount
  - b) ₹ 50,000
3. Interest income on Saving, fixed, time, recurring or any other deposit is eligible for deduction under this section.

**Example 12**

Income Under head House Property (Computed)	₹6,00,000
Post Office Savings A/c interest	₹15,000
Saving A/c with Bank-Interest	₹10,000
FD Interest	₹25,000
Recurring Deposit interest	₹10,000
Calculate Taxable income under old Regime of Mr. X, who is a resident individual of age 65 Years.	

**Solution****Calculation of Total income of Mr. X (Under old regime)**

Particulars	₹
Income under head House Property	6,00,000
Income under head Other sources	
Interest on Savings A/c	10,000
Interest on FD	25,000
Interest on RD	10,000
Post Office savings A/c Interest	15,000
Less: Exemption on individual A/c	3,500
	11,500
Gross Total Income	6,56,500
Less: Deduction u/s 80TTB max up to 50,000	50,000
Total Income	6,06,500

**SECTION 80U DEDUCTION FOR HANDICAPPED ASSESSEE**

- Assessee** – Resident Individual
- Deduction** – ₹ 75,000 (₹ 1,25,000 for severe Disability)

**SECTION 10AA DEDUCTION IN RESPECT OF SEZ UNIT**

- In computing the total income of an undertaking which begins to manufacture or produce articles or things or computer software in SEZ unit.
- Deduction shall be allowed only if SEZ unit has received approval up to 31/03/2020 and manufacturing is commenced up to 31/03/2021
- Deduction u/s 10AA shall be allowed as follows:
  - For the first 5 years - 100% of export profit
  - For the next 5 years - 50% of export profit
  - For the next 5 years lower of the following :-
    - 50% of export profit or
    - Amount credited in Re-investment allowance reserve A/c
- Export profit = (Profit of SEZ unit x Export turnover) ÷ Total turnover

- 3) Export turnover means consideration received in India in convertible foreign exchange within 6 months from end of previous year.
- 4) Export turnover does not include freight, insurance, telecommunication charges or other expenses for providing services outside India.
- 5) Above mentioned expenses shall also be excluded from total turnover.
- 6) Deduction u/s 10AA shall be allowed only under old regime.
- 7) Deduction under this section shall be allowed after claiming all the deduction u/s 80c-80u from GTI
- 8) P&M used in the business should be new, except:
  - a) 20% of total value of P&M used in the undertaking can be second hand.
  - b) P&M imported from outside India for the first time shall be treated as New P&M.

**Example 13**

Compute deduction u/s 10AA if business Commenced in SEZ 6 Years ago.

Total turnover of SEZ Unit	=	₹100 lakhs
Export turnover of SEZ Unit	=	₹75 lakhs
Profit of SEZ Unit	=	₹15 lakhs

**Solution****Calculation of Deduction u/s 10AA**

Particulars	₹
Export Profit (15,00,000 x 75,00,000/1,00,00,000)	11,25,000
Deduction u/s 10AA (11,25,000 x 50%)	5,62,500

**Illustration 22**

Krishna furnishes the following particulars for the previous year 2025-26 in respect of an industrial undertaking established in “Special Economic Zone” during the financial year 2020-21.

Particulars	Amount
Total sales	₹85,00,000
Export sales	₹55,00,000
Domestic sales	₹30,00,000
Money received in or brought to India in convertible foreign exchange up to 30-09-2025	₹40,00,000
Profit from the above undertaking	₹10,00,000

Total Sales includes freight of 5 lacs for delivery of goods outside India. Compute the amount of deduction available to Mr. Krishna under section 10AA for PY 2025-26.

**Solution****Computation of the amount of deduction available to Mr. Krishna u/s 10AA**

Exemption shall be allowed to the units in the Special Economic Zone for a continuous period of 15 years in the manner given below:

For first 5 Assessment Years 100% of export profits

For next 5 Assessment Years 50% of export profits



For next 5 Assessment Years 50% of export profit provided such profits have been credited to the Special Economic Zone Re-investment Reserve Account

Export profit means = Profit of business / Total Turnover x Export turnover

In the given case, deduction is calculating for P.Y. 2025-26 and the business was established in P.Y. 2020-21 which is 6th year hence, assessee is eligible for 50% of export profits.

Export turnover = 55,00,000 - 5,00,000 = 50,00,000

Export turnover received up to 30/09/2025 = 40,00,000

Total Turnover = 85,00,000 - 5,00,000 = 80,00,000

Export profit = 10,00,000 / 80,00,000 x 40,00,000 = 5,00,000

Deduction allowed = 5,00,000 x 50% = 2,50,000

**Note:** Freight shall not be included in export turnover

### Illustration 23

Mrs. Vibha Gupta, a resident individual is running a SEZ unit, as well as a unit in Domestic Tariff Area (DTA). She furnishes the following details relating to the year ended 31-3-2026, pertaining to these two units (in lakhs)

Particulars	DTA Unit (₹)	SEZ Unit (₹)
Export turnover	100	1000
Total turnover	400	1100
Net profit	50	220

Compute the deduction available u/s 10AA:

- 1) When the SEZ unit had been set up on 12-3-2020
- 2) When the SEZ unit had been set up on 12-3-2022

### Solution

- (a) 50% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, F.Y.2025-26 falls in the next five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ.

As per section 10AA, profit derived from export of articles or things or services shall be = Profit of the business of Unit in SEZ x Export Turnover of Unit in SEZ / Total Turnover of Unit in SEZ

= 50% of ₹ 220 lakhs x 1000 Lakhs / 1100 Lakhs

= 50% x 200 lakhs = 100 lakhs

- (b) 100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, F.Y.2025-26 falls in the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ.

As per section 10AA, profit derived from export of articles, things or services shall be = Profit of the business of Unit in SEZ x Export Turnover of Unit in SEZ / Total Turnover of Unit in SEZ

= 50% of ₹ 220 lakhs x 1000 Lakhs / 1100 Lakhs

= 100% x 200 lakhs = 200 lakhs

## CHAPTER 7A: ADVANCE PAYMENT OF TAX

### Liability to pay Advance Tax

- Tax shall be payable in advance during any financial year in respect of an assessee's current income
- Obligation to pay advance tax arises in every case where the tax payable is ₹ 10,000 or more

**Note:** In case of senior citizens who have passive sources of income like interest, rent, etc., exemption from payment of advance tax has been provided to a resident individual-

- a) not having any income chargeable under the head PGBP and
- b) of the age of 60 years or more.

Such senior citizens need not pay advance tax and are allowed to discharge their tax liability (other than TDS) by payment of self-assessment tax.

### Calculation of Advance Tax

The amount of advance tax payable in the financial year calculated by –

- a) the assessee himself based on his estimation of current income or
- b) the Assessing Officer as a result of an order

### Installments of Advance Tax (Other than Presumptive basis)

Due date of Installment	Amount Payable
On or before 15th June	15% of advance tax liability
On or before 15th September	45% of advance tax liability, as reduced by the amount, if any, paid in the earlier instalment
On or before 15th December	75% of advance tax liability, as reduced by the amount or amounts, if any, paid in the earlier instalments
On or before 15th March	The whole amount of advance tax liability as reduced by the amounts, if any, paid in the earlier instalments

**Note -** Any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during each financial year ending on 31st March.

### Interest u/s 234C

If any person has defaulted in payment of advance tax, interest shall be charged @ 1% per month for a period of 3 months on the Amount of default in each installment, but for the last installment, interest shall be charged only for one month.

Circumstances	Amount On which Interest is to be Paid
Where advance tax paid on or before 15/06 is less than 12% of the tax due	15% of tax due on income less advance tax paid upto 15/06

Where advance tax paid on or before 15/09 is less than 36% of the tax due	45% of tax due on income less advance tax paid upto 15/09
Where advance tax paid on or before 15/12 is less than 75% of the tax due	75% of tax due on income minus advance tax paid upto 15/12
Where advance tax paid on or before 15/03 is less than 100% of the tax due	100% of tax due on income minus advance tax paid upto 15/03

**Note:** In case of capital gains and casual income, no advance tax is payable on estimated basis but if there is actual accrual of casual income or capital gains, advance tax is to be paid in the subsequent installments and if such accrual is after 15th March, advance tax is to be paid upto 31st March of previous year otherwise interest shall be charged under section 234C

#### Interest u/s 234B

If advance tax paid is less than 90% of actual tax liability, assessee shall be required to pay interest @ 1% per month or part of a month from 1st April of assessment year upto the date of payment.

#### Interest u/s 234A

If any person has paid income tax after expiry of the last date of filing of return of income, interest shall be payable @ 1% p.m. or part of the month for the period subsequent to the last date of filing of return of income

#### Rule 119A

As per rule 119A, the principal Amount shall be rounded off in the multiples of ₹ 100 and for this purpose any fraction of ₹ 100 shall be ignored

#### Example 01

Calculate Interest u/s 234C for AY 2026-27

Paid advance tax installment as follows:

Upto 15/06/2025: ₹ 10,000

Upto 15/12/2025: ₹ 45,000

Upto 15/09/2025: ₹ 25,000

Upto 15/03/2026: ₹ 1,20,000

Actual Tax liability ₹ 1,50,000

#### Solution

#### Computation of interest u/s 234C

Installment	Advance Tax due	Adv. Tax Deposited	% of Adv. Tax	Default	Interest
15/06/25	$1,50,000 \times 15\% = 22,500$	10,000	6.67%	12,500	$12,500 \times 1\% \times 3 = 375$
15/09/25	$1,50,000 \times 45\% = 67,500$	25,000	16.67%	1,25,000	$125,000 \times 1\% \times 3 = 3,750$
15/12/25	$1,50,000 \times 75\% = 1,12,500$	45,000	-	67,500	$67,500 \times 1\% \times 3 = 2,025$

15/03/26	$1,50,000 \times 100\% = 1,50,000$	1,20,000	-	30,000	$30,000 \times 1\% \times 1 = 300$
Interest u/s 234C					6,450

**Example 02**

Calculate Interest u/s 234C for AY 2026-27

Paid advance tax installment as follows:

Upto 15/06/2025: ₹ 15,000

Upto 15/12/2025: ₹ 1,00,000

Upto 15/09/2025: ₹ 60,000

Upto 15/03/2026: ₹ 1,40,000

Actual Tax liability ₹ 1,50,000

**Solution****Computation of interest u/s 234C**

Installment	Advance Tax due	Adv. Tax Deposited	% of Adv. Tax	Default	Interest
15/06/25	$1,50,000 \times 15\% = 22,500$	15,000	10%	7,500	$7,500 \times 1\% \times 3 = 225$
15/09/25	$1,50,000 \times 45\% = 67,500$	60,000	40%	-	-
15/12/25	$1,50,000 \times 75\% = 1,12,500$	1,00,000	-	12,500	$12,500 \times 1\% \times 3 = 375$
15/03/26	$1,50,000 \times 100\% = 1,50,000$	1,40,000	-	10,000	$10,000 \times 1\% \times 1 = 100$
Interest u/s 234C					700

**Illustration 01**

Mr. X has paid advance tax as given below:

Upto 15.06.2025 ₹ 15,000

Upto 15.12.2025 ₹ 95,000

Upto 15.09.2025 ₹ 45,000

Upto 15.03.2026 ₹ 1,70,000

He had long term capital gains of ₹ 3,00,000 on 01.01.2026 and his income under the head business/ Profession is ₹ 11,00,000. He has filed return of income on 10.12.2026 and has paid difference of the tax on 10.12.2026. Last date for filing of return is 31.07.2026. Compute interest payable under section 234A, 234B and 234C.

**Solution****Computation of Tax Liability on PGBP income of 11,00,000 (Old Regime)**

Particulars	Amount
Tax on First 10,00,000 @slab rate	1,12,500
Tax on balance 1,00,000 @30%	30,000
Total	1,42,500
(+) Health and Education cess @ 4%	5,700
Tax liability	1,48,200

**Computation of Tax Liability on 14,00,000 (Old Regime)**

Particulars	Amount
Tax on 11,00,000 (1,12,500+30,000)	1,42,500

Tax on LTCG 3,00,000@12.5%	37,500
<b>Total</b>	<b>1,80,000</b>
(+) Health and Education cess @ 4%	7,200
<b>Tax liability</b>	<b>1,87,200</b>

**Computation of interest u/s 234C**

Installment	Advance Tax due	Adv. Tax Deposited	%	Default	Interest
15/06/25	148200x15%=22230	15000	10.12%	7230	7200 x 1% x 3 = 216
15/09/25	148200x45%=66690	45000	30.3%	21690	21600 x 1% x 3 = 648
15/12/25	148200x75%=111150	95000	-	16150	16100 x 1% x 3 = 483
15/03/26	187200x100%=187200	170000	-	17200	17200 x 1% x 1 = 172
<b>Interest u/s 234C</b>					<b>1519</b>

**Interest u/s 234B**

% of Advance Tax =  $1,70,000 / 1,87,200 \times 100 = 90.81\%$

As advance tax paid is more than 90% of tax liability therefore Interest u/s 234B shall not be charged

**Interest u/s 234A**

Default Period = 01/08/26 – 10/12/26 = 5 months

Interest u/s 234A =  $17,200 \times 1\% \times 5 = 860$

**Illustration 02**

C Ltd. has estimated its tax liability for assessment year 2026–27 ₹ 4,40,000 and has paid advance tax accordingly but actual tax liability was found to be ₹ 10,00,000. The company has paid balance Amount on 02.01.2027 and filed return of income on the same date. Compute interest payable under section 234A, 234B, and 234C.

**Solution****Computation of interest u/s 234C**

Installment	Advance Tax due	Adv. Tax Deposited	%	Default	Interest
15/06/25	10,00,000x15% =1,50,000	440000x15% =66000	6.6%	84000	84000x1%x3 =2520
15/09/25	10,00,000x45% =4,50,000	440000x45% =198000	19.8%	252000	252000x1%x3 =7560
15/12/25	10,00,000x75% =7,50,000	440000x75% =330000	-	420000	420000x1%x3 =12600
15/03/25	10,00,000x100% =10,00,000	440000x100% =440000	-	560000	560000x1%x1 =5600
<b>Interest u/s 234C</b>					<b>28,280</b>

**Interest u/s 234B**

% of Advance Tax =  $440000/1000000 \times 100 = 44\%$

As advance tax paid is less than 90% of tax liability therefore Interest u/s 234B shall be charged

Default Period = 01/04/26 – 02/01/27 = 10 months

Interest u/s 234B =  $5,60,000 \times 1\% \times 10 = 56,000$

**Interest u/s 234A**

Default Period = 01/11/26 – 02/01/27 = 3 months

Interest u/s 234A =  $5,60,000 \times 1\% \times 3 = 16,800$

**Illustration 03**

C Ltd. has paid advance tax for the previous year 2025–26 as given below:

Upto 15.06.2025 ₹ 50,000

Upto 15.12.2025 ₹ 3,00,000

Upto 15.09.2025 ₹ 1,50,000

Upto 15.03.2026 ₹ 6,00,000

Actual tax liability was found to be 7,00,000 and balance tax was paid on 10.12.2026.

Compute interest payable under section 234A, 234B, 234C.

**Solution****Computation of interest u/s 234C**

Installment	Advance Tax due	Adv. Tax Deposited	%	Default	Interest
15/06/25	$7,00,000 \times 15\% = 1,05,000$	50,000	7.14%	55,000	$55,000 \times 1\% \times 3 = 1650$
15/09/25	$7,00,000 \times 45\% = 3,15,000$	1,50,000	21.43%	1,65,000	$165,000 \times 1\% \times 3 = 4950$
15/12/25	$7,00,000 \times 75\% = 5,25,000$	3,00,000	-	2,25,000	$2,25,000 \times 1\% \times 3 = 6750$
15/03/26	$7,00,000 \times 100\% = 7,00,000$	6,00,000	-	1,00,000	$1,00,000 \times 1\% \times 1 = 1000$
Interest u/s 234C					14,350

**Interest u/s 234B**

% of Advance Tax =  $600000/7000000 \times 100 = 85.71\%$

As advance tax paid is less than 90% of tax liability therefore Interest u/s 234B shall be charged

Default Period = 01/04/26 – 10/12/26 = 9 months

Interest u/s 234B =  $1,00,000 \times 1\% \times 9 = 9,000$

**Interest u/s 234A**

Default Period = 01/11/26 – 10/12/26 = 2 months

Interest u/s 234A =  $1,00,000 \times 1\% \times 2 = 2,000$

**Illustration 04**

MR. Ram has income under the head house property ₹ 18,00,000 and she has received gift of ₹ 3,00,000 in cash from her husband's sister and ₹ 1,00,000 from her sister's

husband and ₹ 1,20,000 from sister of her mother in law. She has an agricultural income of ₹ 4,00,000. She has paid advance tax as given below:

Upto 15th June 2025 ₹ 15,000

Upto 15th December 2025 ₹ 75,000

Upto 15th Sept 2025 ₹ 45,000

Upto 15th March 2026 ₹ 1,00,000

Balance Amount of tax was paid on 10th Dec 2026 and return of income filed on the same date and due date for filing return of income is 31.07.2026. Compute her tax liability for the Assessment Year 2026–27 and also interest under section 234A, 234B and 234C.

### Solution

#### Computation of Total Income of Mrs. Ram

Particulars	Amount
Under head House property	18,00,000
Under head other sources	
Gift from Husband's sister	NIL
Gift from Sister's Husband	NIL
Gift from Sister's Mother in Law	1,20,000
GTI/Total Income	19,20,000

#### Computation of Tax Liability (Old Regime)

Particulars	Amount
<b>1. Tax on Total income incl. agricultural income i.e. 23,20,000</b>	
Tax on First 10,00,000 @slab rate	1,12,500
Tax on balance 13,20,000 @30%	3,96,000
Total(A)	5,08,500
<b>2. Tax on basic exemption limit and agricultural income i.e. 6,50,000</b>	
Tax on First 5,00,000	12,500
Tax on balance 1,50,000 @20%	30,000
Total(B)	42,500
Tax (A-B)	4,66,000
(+) Health and Education cess @ 4%	18640
Tax liability	4,84,640

#### Computation of interest u/s 234C

Installment	Advance Tax due	Adv. Tax Deposited	%	Default	Interest
15/06/25	$484640 \times 15\% = 72696$	15,000	3.1%	57600	$57600 \times 1\% \times 3 = 1728$
15/09/25	$484640 \times 45\% = 218088$	45,000	9.3%	173000	$173000 \times 1\% \times 3 = 5190$
15/12/25	$484640 \times 75\% = 363480$	75,000	-	288400	$288400 \times 1\% \times 3 = 8652$
15/03/25	$484640 \times 100\% = 484640$	1,00,000	-	384600	$384600 \times 1\% \times 1 = 3846$
Interest u/s 234C					19,416

#### Interest u/s 234B

% of Advance Tax =  $100000 / 484640 \times 100 = 20.63\%$

As advance tax paid is less than 90% of tax liability therefore Interest u/s 234B shall be charged

Default Period = 01/04/26 – 10/12/26 = 9 months

Interest u/s 234B =  $3,84,600 \times 1\% \times 9 = 34,614$

Interest u/s 234A

Default Period = 01/11/26 – 10/12/26 = 2 months

Interest u/s 234A =  $3,84,600 \times 1\% \times 2 = 7,692$



## CHAPTER 7B: TAX DEDUCTION AT SOURCE

### Section 192 TDS On Salary

Payment	Payer	Payee	Rate
Salary	Any Person (ER)	Any Person (EE)	Slab Rate
<b>Additional Points</b>			
<ol style="list-style-type: none"> <li>1. TDS to be deducted @ the time of payment</li> <li>2. If any person is working with two or more employers, in that case he should submit the particulars of his salary from all the employers to one of the employer who will deduct TDS on total Salary from all the Employers</li> <li>3. For taxability of Salary under normal scheme (i.e. old regime) EE has to submit declaration to ER, then ER shall deduct TDS under Normal Scheme.</li> <li>4. If any employee has income under any other head, the employee may report such incomes to the employer and the employer shall take it into consideration while deducting TDS.</li> <li>5. If employee has loss under the head house property, he shall be allowed to report such loss to the employer.</li> <li>6. If any tax has been deducted or collected under any other section then EE is allowed to report such details to ER.</li> <li>7. EE has to give evidence/proof of deductions, Rent Paid for HRA Exemption, Travel expenses for LTC exemption.</li> <li>8. If the ER bears the tax on non-monetary perquisite, then such tax shall not be deducted from salary of EE.  <b>Note:</b> Tax on non-monetary perquisite paid by ER is exempted in hands of EE u/s 10(10CC) and ER is not allowed to dr. such expense to P/L.</li> <li>9. Where firm pays salary to partner, then section 192 is not applicable.</li> </ol>			

#### Example 01

Mr. X is an employee and gets the following emoluments:

Basic Salary ₹5,00,000

Dearness Allowance ₹5,00,000

Rent free accommodation ₹1,00,000

Tax on rent free accommodation is paid by employer

Calculate TDS to be deducted every month under default regime

#### Solution 01

#### Computation of Total Income and TDS (New Regime)

Particulars	Amount(₹)
Basic Salary	5,00,000
DA	5,00,000
Rent Free Accommodation	1,00,000
<b>Gross Salary</b>	<b>11,00,000</b>

**TELEGRAM: CA NOTE HUB**

Less: Standard Deduction	75,000
<b>Income under head Salary</b>	<b>10,25,000</b>
Tax on 10,25,000 as per slab rate	32,500
Add: HEC @4%	1,300
	<b>33,800</b>

Average tax rate =  $33,800 / 10,25,000 \times 100 = 3.30\%$

Tax on RFAC payable by employer =  $1,00,000 \times 3.30\% = 3,300$

Tax to be paid by employer = Total tax – Paid by employer =  $33,800 - 3,300 = 30,500$

TDS deducted from Salary =  $30,500 / 12 = \text{Rs. } 2,542 \text{ per month.}$

**Computation of Monthly Tax to be deposited by employer**

Particulars	Amount(₹)
TDS amount	2,542
Add: Monthly tax to be paid by employer on RFAC ( $3300/12$ )	275
	<b>2,817</b>

**Example 02**

Mr. A is an employee and gets the following emoluments:

From A Ltd. (April – July) @ ₹60,000 p.m.

From B Ltd. (Aug – March) @ ₹90,000 p.m.

Deduction u/s 80C: Life Insurance Premium = ₹50,000

Calculate TDS to be deducted every month under the old regime

**Solution 02 Computation of Total Income and TDS by A Ltd.**

Particulars	Amount(₹)
Estimated Salary ( $60,000 \times 12$ )	7,20,000
Less: Standard Deduction	50,000
	<b>6,70,000</b>
Less: Deduction u/s 80C	50,000
<b>Total income</b>	<b>6,20,000</b>
Tax on 6,20,000 as per slab rate including 4% HEC	37,960
TDS to be deducted by A Ltd. per month = $37,960/12$	<b>3163</b>

**Computation of Total Income and TDS by B Ltd.**

Particulars	Amount(₹)
Estimated Salary ( $60,000 \times 4 + 90,000 \times 8$ )	9,60,000
Less: Standard Deduction	50,000
	<b>9,10,000</b>
Less: Deduction u/s 80C	50,000
<b>Total income</b>	<b>8,60,000</b>
Tax on 8,60,000 as per slab rate including 4% HEC	87,880
Tax payable = Total Tax liability – TDS deducted by A Ltd. (i.e. $87,880 - (3160 \times 4m)$ )	<b>75,240</b>
TDS to be deducted by B Ltd. per month = $75,240/8$	<b>9,405</b>

## Section 192A Withdrawal From Employees Provident Fund

Payment	Payer	Payee	Rate
Accumulated Balance Of PF	Any Person	Any Person (EE)	10%
<b>Additional Points</b>			
<ol style="list-style-type: none"> <li>1. TDS to be deducted @ the time of payment</li> <li>2. No TDS, if payment is less than 50,000</li> <li>3. No TDS if Withdrawal from PF is Exempt (Refer Salary Chapter)</li> <li>4. If EE fails to furnish the PAN, then TDS is deducted @ MMR (30% + 37% + 4% i.e. 42.744%)</li> </ol>			

## Section 193 Interest on Securities

Payment	Payer	Payee	Rate
Interest on Securities	Any Person	Resident Person	10%
<b>Additional Points</b>			
<p>No TDS shall be deducted if interest is up to Rs. 10,000</p> <p>No TDS in Following Cases</p> <ol style="list-style-type: none"> <li>1) 7 Years NSC;</li> <li>2) National Development/Defence Bond;</li> <li>3) 54EC Bonds: PFCL &amp; IRFCL;</li> <li>4) Listed DEMAT Securities;</li> <li>5) Interest is payable to LIC/GIC/Insurance co.</li> <li>6) Interest on Debentures of Public Co. to Resident Ind/HUF by A/c payee cheque in FY is upto ₹ 5,000.</li> <li>7) CG/SG Securities Note: TDS Shall be deducted on 8% saving (taxable) bonds &amp; 7.75% Savings (Taxable) Bonds if interest is more than ₹ 10,000</li> <li>8) Individual holding 6.5% Gold Bonds, 1977 or 7% gold bonds, 1980 provided that nominal value of bond is upto ₹ 10,000</li> </ol>			

## Section 194 Dividend

Payment	Payer	Payee	Rate
Dividend	Domestic Company	Resident Person	10%
<b>Additional Points</b>			
<ol style="list-style-type: none"> <li>1. TDS to be deducted @ the time of payment</li> <li>2. No TDS where dividend is payable to LIC/GIC/Insurance co.</li> <li>3. No TDS If dividend is upto ₹ 10,000 in a FY is paid to individual by any mode other than cash.</li> </ol>			

## Section 194A Interest Other Than Interest On Securities

Payment	Payer	Payee	Rate
Interest Other than Securities Interest	Any Person Other Than Ind/HUF	Resident Person	10%
<b>Additional Points</b>			
<ol style="list-style-type: none"> <li>Ind/HUF shall deduct TDS if Last year TO exceeds 1cr in case of business or GR exceeds 50L in case of profession.</li> <li>No TDS In Following Cases: <ol style="list-style-type: none"> <li>Interest Paid by Bank/Post Office on time deposits (FD) not exceeding ₹ 50,000 (₹ 1,00,000 for Senior Citizen) Above limit is Branch wise However, if CBS exist, Such limit is for Whole bank (All Branches)</li> <li>Interest on savings account.</li> <li>Other Interest up to ₹10,000</li> <li>Interest to banks, Financial corporation, LIC, UTI, Co-op Banks;</li> <li>Interest paid by firm to its partner</li> <li>Exempted interest u/s 10(15)</li> <li>Interest paid by primary agricultural credit society on deposits made with them.</li> <li>Interest on tax refund by Government</li> <li>Interest on Zero Coupon Bonds</li> </ol> </li> </ol>			

**Example 03**

Mr. X has 3 Fixed Deposit Accounts of ₹3,00,000 each in 3 branches of Bank of Baroda

Branch 1 – ₹3,00,000 @ 9%

Branch 2 – ₹3,00,000 @ 9%

Branch 3 – ₹3,00,000 @ 9%

Note: FD Matures in 12 months

Calculate TDS implications if

a) CBS exists

b) CBS does not exist

**Solution**

Total interest from all branches =  $3,00,000 \times 9\% \times 3 \text{ branch} = 81,000$ .

Per Branch interest =  $3,00,000 \times 9\% = 27,000$ .

a) CBS Exist (Bank Wise calculation)

Bank will be liable to deduct TDS at 10% as interest paid from all branches exceeds 50,000.

Therefore, Amount of TDS =  $81,000 \times 10\% = 8,100$ .

b) CBS Not Exist (Branch Wise calculation)

No TDS shall be deducted as branch wise interest is below 50,000.

**Illustration 01**

- a) Examine the TDS implications under section 194A in the cases mentioned hereunder—  
On 1.10.2025, Mr. Harish made a six-month fixed deposit of ₹20 lakh @ 9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2026.
- b) On 1.6.2025, Mr. Ganesh made three nine months fixed deposits of ₹3 lakh each, carrying interest@9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2026.
- c) On 1.10.2025, Mr. Rajesh started six months recurring deposit of ₹2,00,000 per month@8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2026.

**Solution**

- a) ABC Co-operative Bank has to deduct tax at source@10% on the interest of 90,000 ( $9\% \times 20 \text{ lakh} \times \frac{1}{2}$ ) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, 9,000.
- b) XYZ Bank has to deduct tax at source@10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is 60,750 [ $3,00,000 \times 3 \times 9\% \times 9/12$ ], which exceeds the threshold limit of 50,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/ paid by all branches has to be considered. Since the aggregate interest of 60,750 exceeds the threshold limit of 50,000, tax has to be deducted@10% u/s 194A
- c) No tax has to be deducted under section 194A by PQR Bank on the interest of 28,000 falling due on recurring deposit on 31.3.2026 to Mr. Rajesh, since such interest does not exceed the threshold limit of 50,000

**Section 194B WINNING FROM LOTTERIES OR CROSS WORD PUZZLES, ETC.**

Payment	Payer	Payee	Rate
WINNING FROM LOTTERIES OR CROSS WORD PUZZLES, ETC.	Any Person	Any Person	30%
<b>Additional Points</b>			
<ol style="list-style-type: none"> <li>1. TDS required to be deducted @ time of payment</li> <li>2. No TDS if winning amount is up to ₹ 10,000 per transaction</li> <li>3. If prize is given partly in cash and partly in kind then tax on whole prize (i.e. aggregate of cash and value of prize in kind) shall be deducted from the cash prize.</li> <li>4. If prize is given in kind only (or cash prize is not sufficient), then payer should ensure that tax has been paid on such income before releasing such prize.</li> <li>5. If prize money is paid in instalments, then tax shall be deducted at the time of payment of each instalment.</li> <li>6. Where an agent receives the prize money on unsold ticket or becomes entitled to an unclaimed prize, it shall form part of his business income and therefore not liable for tax deduction u/s 194B</li> </ol>			

## Section 194BA Winnings From Online Games

Payment	Payer	Payee	Rate
Winnings From Online Games	Any Person	Any Person	30%
<b>Additional Points</b>			
<ol style="list-style-type: none"> <li>1. TDS is to be deducted at the end of the FY. In case, there is withdrawal from user account during the FY, tax would be deducted at the time of such withdrawal on net winnings comprised in such withdrawal. Net winnings = A - (B + C), where A = Amount withdrawn from the user account; B = Aggregate amount of non-taxable deposit made in the user account by the owner of such account during the financial year, till the time of such withdrawal; and C = Opening balance of the user account at the beginning of the financial year.</li> <li>2. Any deposit in the form of bonus, referral bonus, incentives etc. would form part of net winnings and tax under section 194BA of the Act is liable to be deducted at the time of withdrawal as well as at the end of the financial year.</li> <li>3. If some incentives/bonus which is credited in user account only for the purposes of playing and they cannot be withdrawn or used for any other purposes, then such deposit shall be ignored for calculation of net winnings. However when these incentive / bonus are recharacterised and they are allowed to be withdrawn, they will become part of net winnings for the year in which they are withdrawn.</li> <li>4. No TDS where net winnings withdrawn does not exceed Rs 100 in a month</li> <li>5. If prize is given partly in cash and partly in kind then tax on whole prize (i.e. aggregate of cash and value of prize in kind) shall be deducted from the cash prize.</li> <li>6. If prize is given in kind only (or cash prize is not sufficient), then payer should ensure that tax has been paid on such income before releasing such prize.</li> </ol>			

## Section 194BB Winning From Horse Races

Payment	Payer	Payee	Rate
Winnings From Horse Races	Any Person	Any Person	30%
<b>Additional Points</b>			
<ol style="list-style-type: none"> <li>1. TDS required to be deducted @ time of payment</li> <li>2. No TDS if winning amount is upto ₹ 10,000 per transaction.</li> </ol>			

## SECTION 194C PAYMENT TO CONTRACTOR

Payment	Payer	Payee	Rate
Payment to contractor. Works / labour contract ; Advertising contract, Catering, TV, Transporters, Job Work.	Any Person Other Than Ind/HUF/AOP/BOI	Resident Person	Payee Ind/HUF – 1% Other – 2%
<b>Additional Points</b>			

1. Ind/HUF/AOP/BOI shall deduct TDS if Last year TO exceeds 1cr in case of business or GR exceeds 50L in case of profession.
2. NO TDS in following Cases:
  - a) If Single payment is upto ₹ 30,000 & Aggregate payment upto ₹ 1,00,000 during FY.
  - b) Personal contract of Individual / HUF
  - c) Payment to contractor in transport business owning not more than 10 trucks during FY & furnishes PAN
3. Works Includes
  - a) advertising
  - b) broadcasting and telecasting including production of programmes for such broadcasting or telecasting;
  - c) carriage of goods and passengers by any mode of transport other than by railways;
  - d) catering.
  - e) manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer or its associate, being a person placed similarly in relation to such customer as is the person placed in relation to the assessee u/s 40A(2).  
but does not include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer or associate of such customer
4. In case of Job work, TDS shall be applied on the invoice value excluding the value of material purchased from the customer, provided bifurcation is given in the invoice. Otherwise, TDS is applied on entire value.
5. Payment by broadcaster or telecasters (TV Channels / OTT) to production houses for the production of content for broadcasting/Telecasting:
  - a) Content is produced as per broadcasters requirement and Copyright of such content is with broadcaster → Covered under definition of work → TDS u/s 194C is Applicable
  - b) Broadcaster acquires telecast rights of the content already produced → Not covered under definition of work → No TDS u/s 194C is Applicable.
6. Payment for transportation of gas:
 

If seller sells as well as transports the gas to the buyer till the point of delivery, nature of such contract remains “contract of sale” and not a works contract. It is irrelevant whether transportation charges are included in cost of gas or it is shown separately. However, if transportation facility is availed from third person, then transport charges are liable for TDS u/s 194C.

**Illustration 02**

ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y.2025-26:

- ₹20,000 on 01-05-2025
- ₹25,000 on 01-08-2025



## TELEGRAM: CA NOTE HUB

- ₹28,000 on 01-12-2025

On 1.3.2026, a payment of ₹30,000 is due to Mr. X on account of a contract work. Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. X.

### Solution

In this case, the individual contract payments made to Mr. X does not exceed 30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2025-26 exceeds 1,00,000 (on account of the last payment of 30,000, due on 01.03.2026, taking the total from 73,000 to 1,03,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted @1% on the entire amount of 1,03,000 from the last payment of 30,000 and the balance of 28,970 (i.e. 30,000 – 1,030) has to be paid to Mr. X

### Illustration 03

Moon TV, a television channel, made payment of ₹50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss.

Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

### Solution

In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of 50 lakhs made by Moon TV to the production house would be subject to tax deduction at source under section 194C. If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source under section 194C

### Section 194D Insurance Commission

Payment	Payer	Payee	Rate
Insurance Commission	Any Person	Resident Person	5%
<b>Additional Points</b>			
No TDS if Commission is upto ₹ 20,000.			



## Section 194DA Maturity of Life Insurance Policy

Payment	Payer	Payee	Rate
Maturity of Life Insurance Policy	Any Person	Resident Person	2% of Income Received.
<b>Additional Points</b>			
<ol style="list-style-type: none"> <li>1. TDS required to be deducted @ time of payment</li> <li>2. No TDS if maturity Amount Received is less than ₹ 1,00,000</li> <li>3. No TDS if maturity Amount is Exempt u/s 10(10D)</li> </ol>			

## Illustration 04

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 ₹4.50 lakhs on 31.3.2026, towards maturity proceeds of LIC policy taken on 1.4.2022, for which the sum assured is 4 lakhs and the annual premium is ₹1,25,000.
- Mr. Y, a resident, is due to receive ₹3.95 lakhs on 31.3.2026 on LIC policy taken on 31.3.2012, for which the sum assured is 3.50 lakhs and the annual premium is 30,100.
- Mr. Z, a resident, is due to received ₹95,000 on 1.8.2025 towards maturity proceeds of LIC policy taken on 1.8.2015 for which the sum assured is 90,000 and the annual premium was ₹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 4.50 lakhs due on 31.3.2026 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 75,000 (4,50,000, being maturity proceeds – 3,75,000, being the aggregate 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 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 95,000 due on 1.8.2025 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 1 lakh

# TELEGRAM: CA NOTE HUB

## Section 194E Payment To Non Resident Sportsman/Entertainer Or Sports Associations

Payment	Payer	Payee	Rate
Payment To Non Resident Sportsman Or Sports Associations	Any Person	Non Resident Sportsman Or Sports Associations	20.8% (20% + 4%)
<b>Additional Points</b>			
Income Received by NR Sportsperson by way of			
(a) Participation in India in any game (excluding card game or gambling) or sport			
(b) Advertising			
(c) Contribution of articles relating to any game or sports in any newspaper, magazine or journal.			
(d) Income received for performing in India by NR entertainer.			

### Illustration 05

Calculate the amount of tax to be deducted at source (TDS) on payment made to Ricky Ponting, an Australian cricketer non-resident in India, by a newspaper for contribution of articles ₹ 25,000.

### Solution

Under section 194E, the person responsible for payment of any amount to a non resident sportsman for contribution of articles relating to any game or sport in India in a newspaper shall deduct tax @20%. Further, since Ricky Ponting is a non-resident, HEC @4% on TDS would also be added.

Therefore, tax to be deducted =  $25,000 \times 20.8\% = 5,200$

## Section 194G Commission On Sale Of Lottery Tickets

Payment	Payer	Payee	Rate
Commission On Sale Of Lottery Tickets	Any Person	Any Person	2%
<b>Additional Points</b>			
No TDS if Commission is upto ₹ 20,000			

## Section 194H Commission & Brokerage

Payment	Payer	Payee	Rate
Commission & Brokerage	Any Person Other Than Ind/HUF	Resident Person	2%
<b>Additional Points</b>			
1. Ind/HUF shall deduct TDS if Last year TO exceeds 1cr in case of business or GR exceeds 50L in case of profession.			
2. No TDS if Commission is upto ₹ 20,000			

3. No TDS on any commission or brokerage payable by BSNL or MTNL to their public call office franchisees.
4. NO TDS if commission or brokerage related to security like commission to underwriter, brokerage on public issue etc.

**Section 194-I TDS ON RENT**

Payment	Payer	Payee	Rate		
Rent of Land & Building, Plant & Machinery, Furniture & Fixture	Any Person Other Than Ind/HUF	Resident Person	P&M	2%	
			L&B	10%	
			F&F	10%	
Additional Points					
<div><div>1.</div><div>Ind/HUF shall deduct TDS if Last year TO exceeds 1cr in case of business or GR exceeds 50L in case of profession.</div></div> <div><div>2.</div><div>No TDS if Rent is upto ₹ 50,000 per month or part of a month.</div></div> <div><div>3.</div><div>Lump sum lease premium or one-time upfront lease charges, which are not adjustable against periodic rent, paid or payable for acquisition of long-term leasehold rights are not payments in the nature of rent within the meaning of sec. 194-I. Therefore, NO TDS.</div></div> <div><div>4.</div><div>Passenger Service Fees paid by airline company to airport operator is not treated as rent. Therefore, NO TDS u/s 194-I.</div></div> <div><div>5.</div><div>No TDS on refundable deposit.</div></div> <div><div>6.</div><div>Advance rent is liable for TDS @ the time of payment.</div></div> <div><div>7.</div><div>Warehousing Charges are covered under this section.</div></div>					

**Section 194-IA TRANSFER OF CERTAIN IMMOVABLE PROPERTY**

Payment	Payer	Payee	Rate
Transfer Of Immovable Property other Than Rural Agriculture Land	Any Person (Buyer)	Resident Person (Seller)	1% of consideration paid or SDV, whichever is higher.
<b>Additional Points</b>			
<ol style="list-style-type: none"> <li>1. No TDS Where the consideration for the transfer of an immovable property is less than ₹ 50 lakh.</li> <li>2. Consideration for transfer of any immovable property shall include all charges of the nature of club membership fee, car parking fee, electricity or water facility fee, maintenance fee, advance fee, or any other charges of similar nature, which are incidental to transfer of the immovable property.</li> </ol>			

**Example 04**

Mr. X sold land to Mr. Y on 01/12/2025 for ₹80,00,000

SDV of land on 01/12/2025 was ₹90,00,000

Mr. X purchased land on 01/04/2025 for ₹79,00,000

Show Tax implications in hands of Mr. X and Mr. Y

**Solution**

Capital Gain implication shall arise in the hands of Mr. X due to transfer of land

**Computation of Capital Gain**  
(Period of Holding: 01/04/2025 – 30/11/2025)

Particulars	₹
FVC (SDV = 90,00,000 and Sale Consideration = 80,00,000, Since SDV exceeds 110% of SC, Therefore, FVC shall taken as SDV as per section 50C)	90,00,000
Less: Transfer Expenses	-
Net Consideration	90,00,000
Less: Cost of Acquisition	79,00,000
STCG	11,00,000

Provisions of Gift shall be applicable in the hands of Mr. Y due to purchase of immovable property for inadequate consideration if following 2 conditions are satisfied:

a) SDV > 110% of sale consideration i.e. 90,00,000 > 88,00,000: Satisfied

b) (SDV-Consideration)>50,000 i.e. (90,00,000-80,00,000)>50,000: Satisfied

Therefore, Gift Taxable = SDV – Consideration i.e. 90,00,000 – 80,00,000 = 10,00,000.

Also, Mr. Y is liable to deduct TDS as consideration paid exceeds 50,00,000.

TDS u/s 194-IA = Higher of 1% of sale consideration or SDV

i.e. Higher of 1% of 90,00,000 or 1% of 80,00,000 = 90,000.

**Illustration 06**

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹60 lakh and ₹15 lakh, respectively, to Mr. Y on 1.8.2025. He has purchased the house property and the land in the year 2023 for ₹40 lakh and ₹10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2025, is ₹85 lakh and ₹20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

**Solution****Tax implications in the hands of Mr. X**

As per section 50C, the stamp duty value of house property (i.e. 85 lakh) would be deemed to be the full value of consideration arising on transfer of property, since the stamp duty value exceeds 110% of the consideration received. Therefore, 45 lakh (i.e., 85 lakh – 40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.2026-27. Since rural agricultural land is not a capital asset, the gains arising on sale of such land are not taxable in the hands of Mr. X.

**Section 194-IB Rent of Immovable Property**

Payment	Payer	Payee	Rate
Rent of Immovable Property	Ind/HUF (Not covered u/s 194-I)	Resident Person	2%
<b>Additional Points</b>			
<ol style="list-style-type: none"> <li>1. NO TDS Where rent for a month or part thereof does not exceed ₹ 50,000</li> <li>2. TDS is to be deducted At the time of credit of rent for the last month of the previous year (or the last month of tenancy, if the property is vacated during the year) to the account of the payee or at the time of payment, whichever is earlier.</li> <li>3. If payee fails to provide his PAN, TDS is required to be deducted @ 20%. However, deduction under this section shall not exceed the amount of rent payable for the last month</li> </ol>			

**Illustration 07**

Mr. X, a salaried individual, pays rent of ₹55,000 per month to Mr. Y from June, 2025. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source. Would your answer change if Mr. X vacated the premises on 31st December, 2025? Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

**Solution**

Since Mr. X pays rent exceeding 50,000 per month in the F.Y. 2025-26, he is liable to deduct tax at source @2% u/s 194-IB.

Thus, 11,000 [ $55,000 \times 2\% \times 10$ ] has to be deducted from rent payable for March 2026. If Mr. X vacated the premises in December 2025, then tax of 7,700 [ $55,000 \times 2\% \times 7$ ] has to be deducted from rent payable for December 2025.

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 [ $55,000 \times 20\% \times 10$ ], but the same has to be restricted to 55,000, being rent for March 2026.

In case 2 above, this would amount to 77,000 [ $55,000 \times 20\% \times 7$ ], but the same has to be restricted to 55,000, being rent for December 2025.

**Section 194J Fees For Professional Or Technical Services**

Payment	Payer	Payee	Rate	
Fees for technical service; Professional Fees; Royalty; Non-Compete Fee; Director's Remuneration	Any Person Other Than Ind/HUF	Resident Person	Payee	%
			Call Center	2%
			FTS/ Royalty for Cinem. Films	2%
			Other	10%
Additional Points				
1. Ind/HUF shall deduct TDS if Last year TO exceeds 1cr in case of business or GR exceeds 50L in case of profession.				

2. No TDS to be deducted if Amount paid is upto ₹50,000 each in the case of Fees for technical service; Professional Fees; Royalty; Non-Compete Fee.
3. TDS is always deducted from Directors Remuneration.
4. NO TDS on Fees for professional service by Ind/HUF if made for Personal Purpose.
5. Ind/HUF is not required to deduct tax on royalty or NCF even if last year TO/GR exceeds Threshold.
6. Payments made to sportsperson, Umpire, Commentator, Referee, Physiotherapist, team physician, Anchor, Event Manager will also be regarded as professional fee and liable to TDS u/s 194J.
7. 'fees for technical services' means consideration for rendering of any managerial, technical or consultancy services but does not include consideration for any construction, assembly, mining or like project undertaken by the recipient.
8. TPAs (Third Party Administrator's) who are making payment on behalf of insurance companies to hospitals for settlement of medical/insurance claims etc. are liable to deduct tax at source under section 194J on all such payments to hospitals etc.

**Illustration o8**

XYZ Ltd. makes a payment of 28,000 to Mr. Ganesh on 2.8.2025 towards fees for professional services and another payment of ₹25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted

**Solution**

TDS provisions under section 194J would not get attracted, since the limit of 50,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2025-26.

**Section 194K Income In Respect Of Units**

Payment	Payer	Payee	Rate
Income In Respect Of Units	Any Person (UTI/MF)	Resident Person	10%
<b>Additional Points</b>			
NO TDS If the aggregate amounts of income credited during the FY to the payee does not exceed ₹ 10,000			

**Section 194LA Compensation On Acquisition Of Immovable Property**

Payment	Payer	Payee	Rate
Compensation On Compulsory Acquisition Of Immovable Property	Any Person	Resident Person	10%
<b>Additional Points</b>			
1. TDS is required to Deduct only @ the time of Payment.			
2. NO TDS if payment is upto ₹ 5,00,000 during a FY.			
3. No TDS if Urban Agricultural Land is compulsory acquired as capital gain on this transaction is Exempted u/s 10(37) and RAL is not a Capital Asset			

## Section 194M Payment Of Certain Sums By Ind/HUF

Payment	Payer	Payee	Rate
Payment Of Works Contract, Commission, Fees for Professional Services	Ind/HUF – Not Covered u/s 194C, 194H & 194J	Resident Person	2%
<b>Additional Points</b>			
1. No TDS if amount paid is up to ₹ 50,00,000			
2. Sec. 194M is applicable if Sec. 194C/194H/194J is NOT Applicable to Resident Individual/HUF			

## Illustration 09

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

S. No.	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y.2025-26
1.	Mr. Ganesh, an individual carrying on retail business with turnover of 2.5 crores in the P.Y. 2024-25	1) Contract Payment for repair of residential house 2) Payment of commission to Mr. Vallish for business purposes	₹5 lakhs  ₹80,000
2.	Mr. Rajesh, a wholesale trader whose turnover was 95 lakhs in P.Y. 2024-25.	Contract Payment for reconstruction of residential house (made during the period January–March, 2026)	20 lakhs in January, 2026, 15 lakhs in Feb 2026 and 20 lakhs in March 2026.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2026	₹51 Lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2025 for reconstruction of residential house	₹48 Lakhs

## Solution

S. No.	Particulars of the payer	Nature of payment	Aggregate payments	Whether TDS provisions are attracted ?
1)	Mr. Ganesh, an individual carrying on	1) Contract Payment for repair of	5 lakhs	No, TDS u/s 194C is not attracted, since the payment is for personal purpose . TDS u/s



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	retail business with turnover of 2.5 crores in the P.Y. 2024-25	residential house 2) Payment of commission to Mr. Vallish for business purposes	80,000	194M is not attracted as aggregate of contract payment does not exceed 50 lakhs Yes, TDS u/s 194H is attracted as payment exceeds 20,000 and Mr. Ganesh's Turnover exceeds 1cr
2)	Mr. Rajesh, a wholesale trader whose turnover was 95 lakhs in P.Y. 2024-25.	Contract Payment for reconstruction of residential house	55 lakhs	Yes, u/s 194M, since the payment in aggregate exceeds 50lakhs. Since, his turnover does not exceed 1Cr., TDS u/s 194C is not attracted
3)	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house	51 Lakhs	Yes, u/s 194M, since the payment in aggregate exceeds 50lakhs . Since, Mr. Satish is a salaried individual, TDS u/s 194H is not applicable
4)	Mr. Dheeraj, a pensioner	Contract payment made for reconstruction of residential house	48 Lakhs	TDS u/s 194C is not attracted as Mr. Dheeraj is a pensioner. TDS u/s 194M is not applicable since the payments in aggregate do not exceed 50 lakhs

**Section 194N Cash Withdrawal From Bank**

Payment	Payer	Payee	Rate
Cash Withdrawal From Bank	Bank, Co-op Bank, Post Office	Any Person	Refer Note 2
<b>Additional Points</b>			
1. TDS is to be deducted @ time of payment			
2. TDS Rate			
<b>In case of Defaulter</b>			
Aggregate payment exceeds ₹ 20 lakh but does not exceed ₹ 1 crore			2%
Aggregate payment exceeds ₹ 1 crore			5%
<b>In any other case</b>			
Aggregate payment exceeds ₹ 1 crore			2%
3. Defaulter means the recipient who has not filed the returns of income last 3 previous years, for which the time limit to file return of income u/s 139(1) has expired.			
4. No TDS if payment is made to:			
a) the Government;			
b) Any bank, co-op bank, post office or their business correspondent			
c) Any white label automated teller machine operator			



**TELEGRAM: CA NOTE HUB****Example 05**

Mr. X withdrawn following amount from his two banks as follows:

Month	Canara Bank		Yes Bank
	Current A/c	Savings A/c	Savings A/c
April	₹20,00,000	₹10,00,000	₹5,00,000
May	₹10,00,000	₹2,00,000	₹10,00,000
July	₹6,00,000	₹7,00,000	₹4,00,000
August	₹10,00,000	₹2,00,000	₹1,00,000
September	₹15,00,000	₹6,00,000	₹7,00,000
October	₹6,00,000	₹2,00,000	₹1,00,000
November	₹7,00,000	₹2,00,000	₹4,00,000
December	₹8,00,000	₹9,00,000	₹1,00,000
January	-	-	-
February	₹6,00,000	-	-
March	-	₹4,00,000	₹1,00,000
Total	₹88,00,000	₹44,00,000	₹34,00,000

1. Calculate TDS u/s 194N
2. What will be your answer if assessee has failed to file ITR for last 3 years and due date has been lapsed?

**Solution**

- a) Total withdrawal from Canara Bank = 88,00,000 + 44,00,000 = 1,32,00,000  
 As withdrawal from Canara Bank exceeds 1Cr. Therefore, Canara Bank will be liable for deduction of TDS u/s 194N at 2% on withdrawal in excess of 1Cr.  
 i.e. 32,00,000 x 2% = 64,000.  
 Total withdrawal from YES Bank = 34,00,000  
 As withdrawal from YES Bank does not exceeds 1Cr. Therefore, YES Bank will not be liable for deduction of TDS u/s 194N.
- b) As assessee has not filed ITR for last 3PYs. Therefore, TDS u/s 194N shall be applicable on withdrawal exceeding Rs. 20,00,000.

**Computation of TDS u/s 194N**

Particulars	₹
Canara Bank:	
First 20,00,000	Nil
Next 80,00,000 x 2%	1,60,000
Balance 32,00,000 x 5%	1,60,000
	3,20,000
YES Bank:	
First 20,00,000	-
Balance 14,00,000 x 2%	28,000
	28,000
Total TDS liability	3,48,000

## Section 194O Payment of Certain Sums By E-Commerce Operator

Payment	Payer	Payee	Rate
Payment By E-Commerce Operator to E-Commerce Participant for Sale of Goods or Services	E-Com Operator (E.g. Flipkart, Amazon, Meesho, etc.)	Resident Person (E-com participant selling goods or service through E-com operator	0.1% of gross amount of sale.

**Additional Points**

- Any payment made by a purchaser of goods or recipient of services directly to an e-commerce participant, shall be deemed to be the amount credited or paid by the e-commerce operator to the e-commerce participant and shall be included in the gross amount of such sale or services for the purpose of TDS.
- No TDS if following conditions are satisfied:
  - e-com participant is an individual or Hindu undivided family.
  - The gross amount of such sale or services during the PY is upto ₹ 5,00,000
  - Such e-com participant has furnished his PAN or Aadhaar to the e-com operator.
- A transaction in respect of which TDS deducted u/s 194O (or which is not liable to deduction i.e. upto 5 Lakhs), shall not be liable to TDS under any other provisions.
- However, TDS shall be deducted under any other provision if any amount received by an e-com operator for hosting advertisements or providing any other services which are not in connection with the sale or services.

## Section 194P TDS by Bank In case of Specified Senior Citizen

Payment	Payer	Payee	Rate
Pension From ER and Interest On Deposit with Bank	Specified Bank	Resident Individual Age is 75 years or more	Slab Rate

**Additional Points**

- This section is applicable if specified senior citizen
  - is having pension income [Also, he should have no other income except interest income from any account maintained in the same specified bank in which he is receiving his pension income]
  - has furnished a declaration to the specified bank containing such particulars, in the prescribed form and verified in the prescribed manner
- The specified senior citizen is exempted from filing his return of income for the assessment year relevant to the previous year in which the tax has been deducted under this section.

**Illustration 10**

Mr. Sharma, a resident Indian aged 77 years, gets pension of ₹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

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deposit of ₹20 lakh, ₹2 lakh represents five year term deposit made by him on 1.4.2025. Interest on savings bank credited to his SBI savings account for the P.Y.2025-26 is ₹9,500.

1. From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2026-27, assuming that he has not opted for section 115BAC.
2. What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y.2026-27, if tax deductible at source has been fully deducted? Examine.
3. Would your answer to Q.2 be different if the fixed deposit of ₹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. 2026-27**

Particulars	Amount	Amount
Salaries		
Pension (52,000 × 12)	6,24,000	
Less: Standard deduction u/s 16	(50,000)	5,74,000
Income from Other Sources		
Interest on fixed deposit (20 lakh × 8%)	1,60,000	
Interest on savings account	9,500	1,69,500
Gross total income		7,43,500
Deductions under Chapter VI-A		
Under Section 80C		
Five year term deposit (2 lakh, restricted to 1.5 lakh)	1,50,000	
Under section 80TTB		
Interest on fixed deposit and savings account, restricted to 1,00,000, since Mr. Sharma is a resident Indian of the age of 77 years.	1,00,000	2,50,000
Total Income		4,93,500

**Computation of tax liability for A.Y. 2026-27**

Particulars	Amount
Tax payable [1,93,500 × 5%]	9,675
Add: Health and Education Cess@4%	387
Tax liability	10,062
Tax liability (rounded off)	10,060

2. SBI, being a specified bank, is required to deduct tax at source u/s 194P (after considering the tax, if any, deducted on pension u/s 192) and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.
3. If the fixed deposit of 20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a “specified senior citizen”,

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consequent to which SBI would not be liable to deduct tax under section 194P. In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI- A) exceeds the basic exemption limit. It may be noted that in this case, TDS provisions u/s 192 would, in any case, be attracted in respect of pension income. Further, Canara Bank would, be liable to deduct tax@10% under section 194-A on interest on fixed deposit, since the same exceeds 1,00,000.

### Section 194 Q Purchase of Goods

Payment	Payer	Payee	Rate
Purchase of goods of the value exceeding ₹ 50 lakhs in a PY	Buyer [LY TO is more than 10 Cr]	Resident Seller	0.1% of sum paid in excess of 50 lakhs
<b>Additional Points</b>			
<ol style="list-style-type: none"> <li>1. TDS is to be deducted at the time of payment or crediting the seller, whichever is earlier.</li> <li>2. No TDS in this section in respect of a transaction on which TDS under any of the provisions of this Act has been deducted</li> <li>3. If PAN of PAYEE is not available then, TDS rate is 5%</li> <li>4. TDS u/s 194Q is not applicable on GST/VAT/Sales Tax/Excise Duty (i.e. in short it is not applicable on indirect tax). However if advance payment is made then TDS should be deducted on entire advance amount paid including IDT.</li> <li>5. In case of purchase return where money is returned by the seller, TDS may be adjusted against the next purchase from the seller.</li> <li>6. If business is commenced by the buyer in the current year, then his last year TO is NIL and hence this section shall not be applicable.</li> <li>7. No TDS if seller is department of Govt. (i.e. CG/SG shall not be considered as Seller for this section)</li> </ol>			

### Illustration 11

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2024-25 was 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2025-26 was ₹95 lakh ( 20 lakh on 1.6.2025, 25 lakh on 12.8.2025, ₹22 lakh on 23.11.2025 and ₹28 lakh on 25.3.2026). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2024-25 was ₹15 crores.

1. Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
2. Would your answer be different if Mr. Gupta's turnover for F.Y.2024-25 was 8 crores, all other facts remaining the same?
3. Would your answer to (1) change, if PAN has not been furnished by the buyer or seller, as required?

**Solution**

- 1) Since Mr. Gupta's turnover for F.Y.2024-25 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed 50 lakhs in the P.Y.2025-26, he is liable to deduct tax@0.1% of 45 lakhs (being the sum exceeding 50 lakhs) in the following manner – No tax is to be deducted u/s 194Q on the payments made on 1.6.2025 and 12.8.2025, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of 50 lakhs.  
Tax of 1,700 (i.e., 0.1% of 17 lakhs) has to be deducted u/s 194Q from the payment/credit of 22 lakh on 23.11.2025 [ 22 lakh – 5 lakhs, being the balance unexhausted threshold limit]. Tax of 2,800 (i.e., 0.1% of 28 lakhs) has to be deducted u/s 194Q from the payment/credit of 28 lakhs on 25.3.2026.
- 2) If Mr. Gupta's turnover for F.Y.2024-25 was only 8 crores, TDS provisions under section 194Q would not be attracted.
- 3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax@5%, instead of 0.1%. Accordingly, tax of 85,000 (i.e., 5% of 17 lakhs) and 1,40,000 (5% of 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2025 and 25.3.2026, respectively.

**194R Benefit Or Perquisite In Respect Of Business Or Profession**

Payment	Payer	Payee	Rate
Benefit Or Perquisite In Respect Of Business Or Profession	Any Person Other Than Ind/HUF	Resident Person	10%
<b>Additional Points</b>			
<ol style="list-style-type: none"> <li>1. Ind/HUF shall deduct TDS if Last year TO exceeds 1cr in case of business or GR exceeds 50L in case of profession.</li> <li>2. <b>valuation of benefit/perquisite</b>  <b>Benefit/Perq Purchased by Payer</b> → Purchase price shall be the value of Benefit/Perq  <b>Benefit/Perq Manuf. By Payer</b> → Price Charged from customer  GST would not be included for the valuation of benefit/perq for TDS u/s 194R</li> <li>3. NO TDS if amount of benefit or perq provided to a person is upto ₹ 20,000 in PY.</li> <li>4. In a case where the benefit or perquisite, is wholly in kind or partly in cash and partly in kind but the part in cash is not sufficient to meet the TDS Liability the payer shall, before releasing the benefit or perquisite, ensure that TDS has been paid in respect of the benefit or perquisite by way of <ol style="list-style-type: none"> <li>a) Payer has collected TDS amount from Payee</li> <li>b) Payer pays TDS by his own (i.e. Benefit or perq paid is treated as Net amount itself)</li> <li>c) Payee deposit TDS to govt by way of advance tax and submit proof to payer.</li> </ol> </li> <li>5. Note: <ol style="list-style-type: none"> <li>a) NO TDS on sales disc./cash disc./rebates allowed to customer.</li> </ol> </li> </ol>			

- b) The deductor is not required to check whether the amount of benefit or perquisite would be taxable in the hands of the recipient u/s 28. The amount could be taxable under any other section like section 41(1) etc.
- c) one-time loan settlement with borrowers or waiver of loan granted by Bank, Co-op Bank, PFI, NBFC etc. would not be considered as benefit or perq for TDS u/s 194R
- d) Product is given to Influencer for advertisement/awareness of product:
  - i. **product is returned to the manufacturing company** – NO TDS u/s 194R
  - ii. **Product is retained by influencer** – Considered as Benefit/Perq & TDS is attracted.
- e) If capital asset has been provided as benefit/perq to payee and payer has deducted TDS u/s 194R, then FMV of such benefit/perq shall be treated as actual cost of asset for payee and dep is allowed u/s 32 on such FMV.
- f) Issue of bonus shares and right shares by the widely held company to all shareholders are outside the scope of section 194R

### 194T TDS on Payment by Partnership Firm to Partners

Payment	Payer	Payee	Rate
Salary, Commission, Remuneration, Bonus or Interest on any A/c	Partnership Firm or LLP	Partner	10%
<b>Additional Points</b>			
<ol style="list-style-type: none"> <li>1. TDS is to be deducted only where in case the aggregate payments to a partner exceeds Rs. 20,000 in a FY.</li> <li>2. TDS is to be deducted at the earlier of the following Dates:               <ol style="list-style-type: none"> <li>a) Credit of sum/Payment to the account of Partner in the Books of Firm; or</li> <li>b) Actual Payment to the Partner</li> </ol> </li> <li>3. No TDS shall be deducted on repayment of Capital A/c balance.</li> <li>4. TDS will also be applicable on Interest Payments by Firm. However, No TDS shall be deducted on Loan Given by firm to Partner.</li> <li>5. No TDS shall be deducted in case of reimbursement of expenses incurred by Partner on behalf of Firm</li> </ol>			

### Other Provisions

1. TDS requirement arise
  - a) At the time of payment
  - b) At the time of crediting the payee, Whichever is earlier.

However, in following cases TDS is deducted at the time of payment:

- |                               |                                    |
|-------------------------------|------------------------------------|
| a) Salary (Section 192)       | d) Winnings (194B/BA/BB)           |
| b) EPF Payment (Section 192A) | e) Maturity Of LIP (Section 194DA) |
| c) Dividend (Section 194)     |                                    |

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- f) Compulsory Acquisition of Immovable Prop. (Section 194LA) (section 194N)
- h) Benefit or Perquisites (Section 194R)

g) Cash Withdrawal from bank

## 2. Section 197 Lower Deduction Certificate

- Section 197 allows an assessee to apply to the AO for a certificate of lower or nil TDS. If the AO is satisfied that the total income of the assessee justifies the TDS at a lower rate or no TDS at all, the AO may issue a certificate to that effect.
- The application for this certificate is made in Form 13.
- The certificate is usually granted when the assessee's estimated income and existing deductions/credits suggest that their total tax liability will be less than the TDS being deducted.

## 3. Section 197A Declaration in form 15G/15H

Where total income of resident is below BEL during the year, then no TDS shall be deducted u/s 192, 193, 194, 194A, 194DA, 194-I, 194K if assessee file declaration to the "PAYER" in form 15G.

However, senior citizen can file declaration u/s 15H for No TDS deduction if TAX PAYABLE during the year is NIL.

## 4. Section 206AA TDS Rate If Payee Fails To Furnish A PAN

If payee doesn't furnish a PAN, then TDS shall be deducted:

- (a) Rate prescribed in the relevant section
- (b) 20% Whichever is higher.

Note: for section 194-O/194-Q maximum TDS rate is 5%

## 5. Due Dates for Payment of TDS

- a. For the months of April to February - 7th of the following month.
- b. For the month of March - 30th of April of the following financial year.'

However, TDS must be deposited within 30 days from the end of the month in which the deduction is made u/s 194-IA, 194-IB & 194M

## 6. Consequences Of Failure To Deduct Or Pay [Section 201]

**Assessee in Default:** If payer has not deducted the TDS or after deduction has not been deposited to Govt, then such person is treated as assessee in default and required to pay penalty u/s 221 and that can be upto 100% of TDS amount.

### Non-applicability of deeming provision:

Payer shall not be treated as assessee in default if payee-

- a) has furnished his return of income under section 139;
  - b) has taken into account such sum for computing income in such return of income;
- and



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- c) has paid the tax due on the income declared by him in such return of income, and the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed.

### Interest Liability

**Late deduction-** Payer is liable to pay simple interest @ 1% for every month or part of month on the amount of such tax from the date on which tax was deductible to the date on which such tax was actually deducted

**Late Deposit-** Payer is liable to pay simple interest @ 1.5% for every month or part of month from the date on which tax was deducted to the date on which such tax is actually paid

### 7. TDS Returns Due Dates:

Q1 (April to June)	:	31st July of the financial year
Q2 (July to September)	:	31st October of the financial year
Q3 (October to December)	:	31st January of the financial year
Q4 (January to March)	:	31st May of the financial year

### Illustration 12

An amount of ₹40,000 was paid to Mr. X on 1.7.2025 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹50,000 was due to Mr. X on 28.2.2026, from which tax @10% (amounting to ₹9,000) on the entire amount of ₹90,000 was deducted. However, this tax of ₹9,000 was deposited only on 22.6.2026. Compute the interest chargeable under section 201(1A).

### Solution

Interest under section 201(1A) would be computed as follows –

Particulars	Amount
1% on tax deductible but not deducted i.e., 1% on 4,000 for 8 months	320
1½% on tax deducted but not deposited i.e. 1½% on 9,000 for 4 months	540
	860

### Illustration 13

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2026-27.

- XY a partnership firm is selling its product 'R' through the E-commerce Platform provided by AB Ltd. (E-commerce Operator). AB Ltd., credited in its books of account, the account of XY on 28th February 2026 by sum of ₹ 4,90,000 for the sale of product R, made during the month February 2026. Mr. Rai, who purchased product 'R' through the platform provided by AB Ltd. made payment of ₹ 60,000 directly to XY on 21st February 2026
- 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



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the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges

3. 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 2025-26 as under:

BILL NO.	DATE	AMOUNT (₹)
01	30-04-2025	27,000
57	30-06-2025	25,000
105	30-09-2025	28,000
151	30-12-2025	32,000

[PYQ May 22]

**Solution**

1. AB Ltd, an e-commerce operator is required to deduct tax @0.1% under section 194-O on ₹5,50,000 (i.e., ₹4,90,000 credited on 28.2.2026 plus deemed payment of ₹ 60,000 on 21.2.2026, being payment directly made by Mr. Rai to the e-commerce participant XY), being the gross amount of sale of product 'R' of XY, an e-commerce participant, since such sale is effected in February, 2026 is facilitated by AB Ltd. through its e-commerce platform.

Hence, TDS u/s 194O = 0.1% on ₹ 5,50,000 = ₹ 550

2. 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.

**Alternate Answer:**

The above solution is based on Circular wherein it has been clarified that in case the Owner/Seller of the gas sells as well as transports the gas to the purchaser till the point of delivery, where the ownership of gas to the purchaser is simultaneously transferred, the manner of raising the sale bill, 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 of the Act.

Since, the question is silent on the timing of the transfer of ownership of the gas to the purchaser, an assumption that the ownership of the gas to the purchaser is transferred before its transportation is possible. In such a case, the transportation of gas after transfer of ownership may be considered as a separate contract for transportation of gas i.e. 'works contract' u/s 194C, and hence TDS @ 2% has to be deducted by M/s. Deep Co. on ₹ 1,70,000/- i.e. ₹ 3,400/-.

3. In this case, the individual contract payments (through the bills dated 30.4.2025, 30.6.2025 and 30.9.2025) made by ABC LLP to XYZ does not exceed ₹ 30,000. However, since the aggregate amount paid to XYZ during the P.Y. 2025-26 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 32,000, due on 30.12.2025, 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 30.12.2025.

Hence, TDS u/s 194C = ₹ 2,240.

#### Illustration 14

Answer the following: -

1. 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 1st December 2025, 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
2. 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 10th August, 2025 and ₹ 30,00,000 on 22nd November, 2026. 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
3. 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. [PYQ May 23]

#### Solution

1. 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.
2. 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.

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In this case, tax is required to be deducted at source from such amount under section 194M, since the aggregate payment made to Mr. Suresh for the said contract exceeds ₹ 50 lakhs during the P.Y. 2025-26.

Accordingly, ₹ 1,10,000, [being 2% of ₹ 55,00,000], 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. 2024-25], 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 ₹ 1,10,000 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—

- i) 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.
- ii) 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. 2024-25, 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.

3. According to section 194C, the definition of “work” include catering. In the present case, nationalised 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, nationalised bank is required to deduct tax at source of ₹ 1,200 per month amounting to ₹ 14,400 for the year.

**Illustration 15**

ABC Limited paid rent of ₹ 75,000 + 18% GST per month to Mr. Ram for the office premises from 01.04.2025 to 31.03.2026. Mr. Ram has furnished his PAN and also filed his return of income before due date regularly.

[PYQ May 24]

**Solution**

ABC Limited is required to deduct tax at source under section 194-I @10% on rent of ₹ 75,000 per month exclusive of GST component, since the aggregate rent of ₹ 9,00,000 during the financial year exceeds the threshold limit of ₹ 6,00,000.

Tax has to be deducted at the time of payment or credit, whichever is earlier.

**Illustration 16**

Examine the applicability and the amount of TDS to be deducted in the following cases for F.Y. 2025-26:

1. S and Co. Ltd. paid ₹ 25,000 to one of its directors as sitting fees on 02-02-2026
2. ₹ 2,20,000 paid to Mr. Mohan, a resident individual, on 28-02-2026 by the State of Haryana on compulsory acquisition of his urban land
3. Mr. Purushotham, a resident Indian, dealing in hardware goods has a turnover of ₹ 12 crores in the previous year 2024-25. He purchased goods from Mr. Agarwal a resident seller, regularly in the course of his business. The aggregate purchase made during the previous year 2025-26 on various dates is ₹ 80 lakhs which are as under:

10-06-2025	₹ 25,00,000
20-08-2025	₹ 27,00,000
12-10-2025	₹ 28,00,000

He credited Mr. Agarwal's account in the books of accounts on the same date and made the payment on the 28-02-2026 ₹ 80 lakh. Mr. Agarwal's turnover for the financial year 2024-25 is ₹ 20 crores.

[PYQ Nov 22]

**Solution**

1. Tax @10% has to be deducted by S and Co. Ltd. under section 194J on directors sitting fees of ₹ 25,000. The threshold limit of ₹ 50,000 is not applicable in respect of sum paid to a director.  
The amount of tax to be deducted at source = ₹ 25,000 x 10% = ₹ 2,500
2. There is no liability to deduct tax at source under section 194LA, since the payment to Mr. Mohan, a resident, by State of Haryana on compulsory acquisition of his urban land does not exceed ₹ 5,00,000.
3. Since Mr. Purushotham's turnover for F.Y.2024-25 exceeds ₹ 10 crores, and value of goods purchased from Mr. Agarwal, a resident seller, exceeds ₹ 50 lakhs in the P.Y.2025-26, he is liable to deduct tax@0.1% on ₹ 30 lakhs (being the sum exceeding ₹ 50 lakhs), at the time of credit or payment, whichever is earlier.  
On 10.06.2025 = Nil (No tax is to be deducted u/s 194Q on the purchases made on 10.6.2025 since the purchases made till that date has not exceeded the threshold of ₹ 50 lakhs and TDS provisions u/s 194Q was effective from 01.07.2025)  
On 20.8.2025 = 0.1% of ₹ 2 lakhs (amount exceeding ₹ 50 lakhs) = ₹ 200  
On 12.10.2025 = 0.1% of ₹ 28 lakhs = ₹ 2,800.

**Illustration 17**

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2026- 27. (State applicable provision and give brief reasons for your answer, wherever applicable)

1. XYZ, a resident partnership firm is in retail business buying fabric material regularly from ABC, a resident proprietorship firm. Details of transactions during P.Y. 2025-26 are as given:

Particulars	Date of Payment	Amt (₹)
Advance payment	1.4.2025	40,00,000
Payment for supplies	2.7.2025	20,00,000
Advance payment	4.8.2025	12,00,000

XYZ achieved gross turnover of ₹ 12 crore from the business during the financial year 2024-25 and the gross business turnover for financial year 2025-26 turns out to be ₹ 9 crores. Gross business turnover of ABC for the financial year 2023-24 was ₹ 6 crores. Will your answer be same, if the gross turnover of XYZ during the financial year 2024-25 includes ₹ 4 crore towards supply of material for charitable purposes?

2. MJ, a part time director of ABZ Pvt. Ltd. was paid an amount of ₹ 2,49,000 as commission on sales (which was not in the nature of Salary) for the period 01.04.2025 to 31.03.2026
3. Mr. Kumar, a resident senior citizen, aged 86 years, is a retired State Govt. employee. He gets pension of ₹ 72,000 p.m. He has his saving account with Bank of Baroda, a bank notified by the Central Govt. u/s 194P, has received the interest on saving account ₹ 15,000 during the P.Y. 2025-26. His pension is also credited in this account. In the same bank he has deposited ₹ 10 Lakh in a Term Deposit @7% simple interest on 01.07.2025. He has no other income. He has not opted section 115BAC. Discuss requirement of filing of income tax return also.

[PYQ Nov 23]

### Solution

1. Tax is required to be deducted at source under section 194Q by XYZ, being a buyer, since its turnover in the immediately preceding financial year i.e., F.Y. 2024-25 exceeds ₹ 10 crores and it has purchased goods exceeding ₹ 50 lakhs in the F.Y. 2025-26. TDS u/s 194Q would be 0.1% of the sum exceeding ₹ 50 lakhs and the same has to be deducted at the time of payment or credit of such sum to the account of resident seller, whichever is earlier. Therefore, in the present case, XYZ, a resident partnership, is required to deduct tax at source – On 2.7.2025 of ₹ 1,000, being @0.1% on ₹ 10 lakhs exceeding ₹ 50 lakhs (₹ 40,00,000 on 1.4.2025 + ₹ 20,00,000 on 2.7.2025). On 4.8.2025 of ₹ 1,200, being @0.1% ₹ 12 lakhs. No, in such case, the amount of turnover of XYZ would not exceed ₹ 10 crores in F.Y. 2024-25, since ₹ 4 crores towards supply of material for charitable purposes, being a non-business activity, would not be considered for the purpose of turnover. Accordingly, XYZ is not required to deduct tax at source under section 194Q.
2. ABZ Pvt. Ltd. is required to deduct tax at source u/s 194J @10% on ₹ 2,49,000 paid to MJ, a part time director, as commission, which is not in the nature of salary on which tax is deductible under section 192. Therefore, ₹ 24,900 (₹ 2,49,000 x 10%) is required to be deducted at source.
3. Bank of Baroda, being a specified bank notified by the Central Government u/s 194P is required to deduct tax at source at the rates in force on the total income of Mr. Kumar, being a specified senior citizen (75 years or more) computed as follows: Computation of total income of Mr. Kumar not opting for section 115BAC and tax liability for A.Y.2026-27

Particulars	₹	₹
Under head Salary		
Pension (₹72,000 x 12)	8,64,000	
Less: Standard Deduction u/s 16	50,000	8,14,000
Income from Other Sources		
Interest on savings account	15,000	
Interest on fixed deposit (₹ 10 lakh x 7% x 9/12)	52,500	67,500
Gross total income		8,81,500
Less: Deductions under Chapter VI-A Under section 80TTB	67,500	67,500
Total Income		8,14,000
Tax on ₹ 8,14,000		62,800
[20% on income exceeding ₹ 5 lakhs, being the basic exemption limit, since Mr. Kumar is of the age of 80 years or more]		
Add: Health and Education Cess@4%		2,512
Tax liability (Rounded off)		65,310

Accordingly, Bank of Baroda is required to deduct tax at source of ₹ 65,310 for the P.Y. 2025-26. In such case, Mr. Kumar is not required to file his return of income for A.Y. 2026-27.

**Note –** The question mentions that Mr. Kumar has deposited ₹ 10 lakhs in a Term Deposit in the same bank but does not specify the duration of the term deposit. The above solution is given assuming that term deposit is not for 5 years. However, alternate assumption that such term deposit is for 5 years is also possible. In such a case, Mr. Kumar would be eligible for deduction under section 80C of ₹ 1,50,000 for deposit in 5 years term deposit. In that case, deduction under Chapter VI-A would be ₹2,00,000.



## CHAPTER 7C: TAX COLLECTION AT SOURCE

### APPLICABILITY AND RATES

#### 1. Sale of certain goods

Under section 206C (1), sellers of Following goods are required to collect tax from the buyers at the specified rates.

Goods (MAST – Timber)	Rate
Alcoholic liquor for human consumption	1%
Scrap	1%
Minerals, being coal or lignite or iron ore	1%
Tendu leaves	5%
Timber & other forest produce	2%

However, No TCS If following Conditions are satisfied

- Buyer is Resident
- Buyer Furnishes declaration that goods referred above are to be utilised for the purpose of manufacturing, processing or producing articles or things or for the purposes of generation of power and not for trading purposes.

**Note:** If buyer turnover is more than 10 crores in last year, then buyer required to deduct TDS u/s 194Q

#### Illustration 01

M/s XYZ sold coal of value 70,00,000 to A Ltd. Show TCS implications u/s 206C (1) in following cases

- Whether TCS is applicable, when A Ltd. Is dealer of Coal?
- What will be your answer if A Ltd. Filed declaration that coal will be used for generation of power
- Whether provisions of S.206C(1) or S.194Q is applicable if A Ltd. is a Dealer of coal and his Last year Turnover was 15Cr.?
- Whether provisions of S.206C(1) or S.194Q is applicable if A Ltd. Purchased coal for generation of power and his Last year Turnover was 15Cr.?

#### Solution

- Yes, TCS u/s 206C(1) shall be applicable.  
1% of 70,00,000 i.e. 70,000 shall be collected by M/s XYZ from A Ltd.
- Provisions of Section 206C(1) shall not be applicable as coal will be use for generation of power.
- As A Ltd. is a dealer of coal, Therefore Provisions of Section 206C(1) shall be applicable and Provisions of section 194Q shall not be applicable.  
Hence, TDS shall be collected by M/s XYZ @1% of 70,00,000 i.e. 70,000.

- d) As coal is purchased for generation of power. Therefore, Provisions of Section 206C(1) shall not be applicable. However, as Turnover of buyer i.e. A Ltd. of last year exceeds 10Cr and payment made to M/s XYZ exceeds 50,00,000. Therefore, provisions of Section 194Q shall be applicable and A Ltd. shall be liable to deduct TDS u/s 194Q @0.1% of payment in excess of 50,00,000.
- $$\text{TDS u/s 194Q} = (70,00,000 - 50,00,000) \times 0.1\% = 2,000.$$

### Illustration 02

State Government of Madhya Pradesh grants a lease of coal mine to ABC Co. Ltd., an Indian company, on 1.10.2025 and charged ₹ 8 crores for the lease. ABC Co. Ltd. sold coal for ₹ 2 crores to Mahapower Ltd., another Indian company, during PY2025-26.

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. 2024-25 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?

[RTP Nov 22]

### 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 TCS 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 TCS 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.
- 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 ₹ 50 lakhs. The provisions of section 194Q do not apply in respect to those transactions where tax is collectible under section 206C.
- 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. 2024-25 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.

## 2. Lease or a license of parking lot, toll plaza or mine or a quarry

Section 206(1C) provides for collection of 2% TCS by every person who grants a lease or a license or enters into a contract or otherwise transfers any right or interest in any parking lot or toll plaza or a mine or a quarry to another person (other than a public sector company).

## 3. Sale of Motor vehicle & Notified Luxury Goods of value exceeding ₹ 10 lakhs.

Section 206C(1F) provides that a seller, shall collect tax from the buyer @1% of the sale consideration where value of a motor vehicle or other notified goods exceeds ₹ 10 lakhs.

**Notified Luxury Goods [Effective from 22/04/2025]:**

1. Wristwatches
2. Art items such as antiques, paintings and sculptures
3. Collectibles, including Coins and stamps
4. Yachts, rowing boats, canoes and Helicopters
5. Sunglasses
6. Handbags and Purses
7. Pair of shoes
8. Sportswear and equipment like Golf kits or Ski wear
9. Home theatre systems
10. Horses used for racing or polo

Notified Luxury Goods					
	Wrist watches		Antique Paintings		Coins
	Helicopters		Sunglasses		Handbag

	Home Theatre		Pair of Shoes		Racehorses
	Golf Set		Horse for Polo Game		Ski wear

**Note:** No TCS shall be collected by manufacturers when they sell cars to dealer or distributor.

### Illustration 03

XYZ Pvt. Ltd sells two cars to Mrs. Anju costing ₹ 4,00,000 and ₹ 12,00,000 respectively on 01.05.2025 and 25.12.2025. Mrs. Anju has furnished her PAN and filed her return of income regularly before the due date. [PYQ May 24]

### Solution

XYZ Pvt. Ltd. is not required to collect tax at source on sale of car of ₹ 4,00,000 to Mrs. Anju since its value does not exceed ₹ 10 lakhs. However, it is required to collect tax at source u/s 206C(1F) @1% on the total sale consideration of ₹ 12 lakhs since the value of this car exceeds ₹ 10 lakhs. Tax has to be collected at the time of receipt of ₹ 12 lakhs.

## 4. Overseas remittance or an overseas tour package

### A. Overseas Remittance Under Liberalized Remittance scheme

Particulars	Rate Of TCS
Remittance for the purpose of education or medical treatment	5%
Remittance out of Loan obtained from any Financial Institution for pursuing education	Nil
Other Purpose	20%
NO TCS on above three remittances up to aggregate amount of Rs. 10 Lakhs	

### B. Overseas Tour Package

Particulars	Rate Of TCS
Tour Package	5% up to 10 Lakhs & 20% above 10 Lakhs

Overseas tour package means tour package which offers visit to a country or countries or territories outside India and includes expenses for travel as well as for stay or any other expenses of similar nature.

## Illustration 04

Mr. X has remitted following amounts outside India. Show TCS implications

Date	Purpose	Amount
15/04/2025	Education	₹2,00,000
15/07/2025	Medical Treatment	₹3,00,000
15/09/2025	P.G. Rent	₹3,00,000
15/12/2025	Education	₹4,00,000
12/02/2026	Medical Treatment	₹3,00,000

## Solution

Date	Purpose	Amount	Aggregate	Treatment for TCS
15/04/2025	Education	₹2,00,000	₹2,00,000	No TCS on ₹2,00,000
15/07/2025	Medical Treatment	₹3,00,000	₹5,00,000	No TCS on ₹3,00,000
15/09/2025	P.G. Rent	₹3,00,000	₹8,00,000	No TCS on ₹3,00,000
15/12/2025	Education	₹4,00,000	₹12,00,000	TCS = ₹2,00,000 x 5% = ₹10,000
12/02/2026	Medical Treatment	₹3,00,000	₹15,00,000	TCS = ₹3,00,000 x 5% = ₹15,000
		Total		₹25,000

## Illustration 05

Mr. J purchased following tour packages during PY 2025-26. Show TCS implications :-

Date	Purpose	Amount
15/07/2025	Europe	₹4,00,000
15/10/2025	America	₹5,00,000
15/02/2026	Australia	₹4,00,000

## Solution

Amount	Treatment for TCS
₹4,00,000	TCS = ₹4,00,000 x 5% = ₹20,000
₹5,00,000	TCS = ₹5,00,000 x 5% = ₹25,000
₹4,00,000	TCS = ₹1,00,000 x 5% = ₹10,000
	TCS on Remaining amount = ₹3,00,000 x 20% = ₹60,000
Total	₹1,15,000

## Time Of Collection Of Tax

Tax shall be collected at the earlier of following

- Date of Debiting Buyer
- Date of Receiving Payment

However, as per section 206C(1F) and 206C(1H) TCS shall be collected at the time of receipt of payment.

**Note:** TCS must be deposited by the 7th of the following month in which the tax is collected.

#### Interest on late collection/deposit TCS [Section 206C(7)]

Same As TDS.

#### Due Date Of TCS Statement or Return

##### TCS Returns Due Dates:

- Q1 (April to June) : 15th July of the financial year
- Q2 (July to September) : 15th October of the financial year
- Q3 (October to December) : 15th January of the financial year
- Q4 (January to March) : 15th May of the financial year

#### TCS Rate If Collectee Fails to furnish PAN or AADHAR to Collector [Section 206CC]

TCS rate shall be higher of:

- a) Twice the rate
- b) 5%

**Note:** Maximum rate of TCS under sub section (1H) shall be 1%.

## CHAPTER 8: RETURN OF INCOME

### SECTION 139(1) COMPULSORY FILING OF RETURN OF INCOME

- a) It is compulsory for companies and firms to file a return of income or loss for every previous year
- b) For other assesses return filling is mandatory if GTI without giving effect to the provisions of section 54/54B/54D/54EC/54F exceeds BEL.
- c) For Following Person Return Filling is Mandatory
  1. ROR – Individual if at any time during the PY,
    - i. Is a beneficial owner of any asset (including any financial interest in any entity) located outside India or has a signing authority in any account located outside India
    - ii. is a beneficiary of any asset (including any financial interest in any entity) located outside India

**Note:** where income is already includes in the income of person referred in (i), then person in (ii) is not required to file the return.

**“Beneficial Owner”** means An individual who has provided, directly or indirectly, consideration for the asset for the immediate or future benefit, of himself or any other person.

**“Beneficiary”** means An individual who derives benefit from the asset during the previous year and the consideration for such asset has been provided by any person, other than such beneficiary

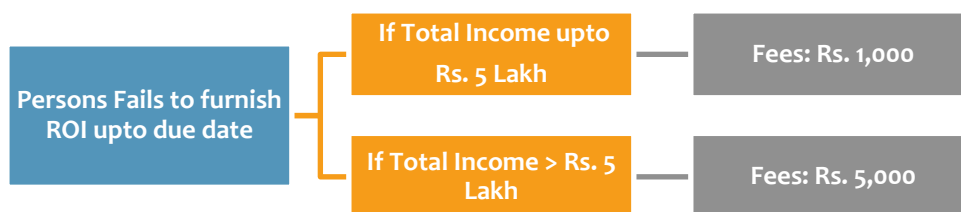
2. has deposited an amount or aggregate of the amounts exceeding ₹ 1 crore in one or more current accounts or 50 lakhs or more in one or more saving accounts.
3. has incurred Foreign travel expenditure of aggregate amount exceeding ₹ 2 lakh for himself or any other person.
4. has incurred expenditure of aggregate amount exceeding ₹ 1 lakh towards consumption of electricity
5. if his total sales, turnover or gross receipts, as the case may be, in the business exceeds ₹ 60 lakhs or total gross receipts in profession exceeds ₹ 10 lakhs, during the previous year
6. if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more (50,000 in case of Senior citizen).

#### d) Due Date

a) A company	31 <sup>st</sup> October of AY
b) A person (other than a company) whose accounts are required to be audited any law; or	

c) A partner of a firm whose accounts are required to be audited under any law	
An assessee including the partners of the firm being such assessee who is required to furnish a report referred to in section 92E	30 <sup>th</sup> Nov Of AY
In the case of any other assessee	31 <sup>st</sup> July

### SECTION 234F FEE FOR DEFAULT IN FURNISHING RETURN OF INCOME



### SECTION 139(3) RETURN OF LOSS

- Section 80 requires mandatory filing of return of loss u/s 139 (3) on or before the due date specified u/s 139 (1) for carry forward of the following losses –
  - Business loss u/s 72 (1)
  - Speculation business loss u/s 73 (2)
  - Loss from specified business u/s 73A (2)
  - Loss under the head “Capital Gains” u/s 74 (1)
  - Loss from the activity of owning and maintaining race horses u/s 74A (3)

If return is not filed up to the due date as per section 139(1) then, above losses are not allowed to be carried forward.

**Note:** restriction is on carried forward and not on set-off i.e. if return is filed late, then set-off of above losses are allowed but not allowed to C/F.

- However, loss under the head “Income from house property” u/s 71B and unabsorbed depreciation u/s 32 can be carried forward for set-off even though return of loss has not been filed before the due date.

### SECTION 139(4) BELATED RETURN

Any person who has not furnished a return within the time allowed to him under section 139 (1) may furnish the return for any previous year at any time –

- before 31/12/AY
- before the completion of the assessment, whichever is earlier

Consequences of Belated return

- Not allowed to C/F losses as per section 80

- b) Interest u/s 234A @ 1% pm or part thereof
- c) Late fees u/s 234F.

#### SECTION 139(5) REVISED RETURN

If any person having furnished a return under section 139(1) or a belated return under section 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time –

- (i) before 31/12/AY
- (ii) before the completion of the assessment, whichever is earlier

#### Note:

- a) Revised return substitutes original return from the date original return was filed
- b) Assessee can revise the belated return as well
- c) Assessee can revise return any no. of times within the time limit.

#### SECTION 139(9) DEFECTIVE RETURN

1. Return shall be considered as defective, if –
  - a) Return is not filed in prescribed form
  - b) Tax proof is not provided along with return filed.
  - c) Audit report u/s 44AB is not submitted.
2. If return is defective then AO may intimate the defect to the assessee and give him an opportunity to rectify the defect within a period of 15 days or extended period at the discretion of AO.
3. If the defect is not rectified within the time allowed, then the return would be treated as an invalid return.

#### SECTION 139(8A) OPTION TO FILE UPDATED RETURN OF INCOME

1. Any person may furnish an updated return of his income or the income of any other person in respect of which he is assessable whether or not he has furnished a return under section 139(1) or belated return or revised return for that AY.
2. Updated return is to be filed within 48 months from the end of the relevant assessment year.
3. Not allow to file the updated return if –
  - a) It is a loss return
  - b) has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1)/(4)/(5).
  - c) results in refund or increases the refund due on the basis of return furnished under section 139(1)/(4)/(5).
  - d) An updated return has been filed earlier.
  - e) any proceeding for assessment or reassessment or re-computation or revision of income is pending or has been completed for the relevant assessment year

4. If the loss or any part thereof carried forward or unabsorbed depreciation carried forward or AMT credit carried forward is to be reduced for any subsequent previous year as a result of furnishing of updated return of income for a previous year, an updated return is required to be furnished for each such subsequent previous year.
5. Additional Income Tax Payable at the time of Updated Return.
  - a) If such return is furnished after the expiry of time limit u/s 139(4)/(5) of the AY and before the expiry of 12 months from the end of Relevant AY  
Additional Tax = 25% of (Tax + Interest)
  - b) If such return is furnished after the expiry of 12 months from the end of Relevant AY but before the end of 24 months from the end of Relevant AY  
Additional Tax = 50% of (Tax + Interest)
  - c) If such return is furnished after the expiry of 24 months from the end of Relevant AY but before the end of 36 months from the end of Relevant AY  
Additional Tax = 60% of (Tax + Interest)
  - d) If such return is furnished after the expiry of 36 months from the end of Relevant AY but before the end of 48 months from the end of Relevant AY  
Additional Tax = 70% of (Tax + Interest)

#### PERMANENT ACCOUNT NUMBER (PAN) [SECTION 139A]

It is mandatory to furnish PAN in the following transactions:

S.No.	Nature of Transaction	Value of Transaction
1.	Sale or purchase of a motor vehicle or vehicle	All such transactions
2.	Opening an account [other than a time-deposit and a Basic Savings Bank Deposit Account]	All such transactions
3.	Opening of a demat account with a depository, participant, custodian of securities	All such transactions
4.	Payment to a hotel or restaurant against a bill or bills at any one time	Payment in cash of an amount exceeding ₹ 50,000
5.	Payment in connection with travel to any foreign country or payment for purchase of any foreign currency at any one time	Payment in cash of an amount exceeding ₹ 50,000
6.	Payment to a Mutual Fund for purchase of its units	Amount exceeding ₹ 50,000
7.	Payment to a company or an institution for acquiring debentures or bonds issued by it	Amount exceeding ₹ 50,000



8.	Payment to the Reserve Bank of India for acquiring bonds issued by it	Amount exceeding ₹ 50,000
9.	Deposit with a banking company or a co-operative bank	Cash deposits exceeding ₹ 50,000 during any one day
10.	Purchase of bank drafts or pay orders or banker's cheques from a banking company or a co-operative bank	Payment in cash of an amount exceeding ₹ 50,000 during any one day
11.	Time Deposit with Banking company , post office or NBFC	Amount exceeding ₹ 50,000 or aggregating to more than ₹ 5 lakh during a financial year
12.	Payment as life insurance premium to an insurer	Amount aggregating to more than ₹ 50,000 in a financial year
13.	A contract for sale or purchase of securities (other than shares)	Amount exceeding ₹ 1 lakh per transaction
14.	Sale or purchase, by any person, of shares of a company not listed in a recognised stock exchange	Amount exceeding ₹ 1 lakh per transaction
15.	Sale or purchase of any immovable property.	Amount exceeding ₹ 10 lakh or valued by stamp valuation authority referred to in section 50C at an amount exceeding ₹ 10 lakh

#### Minor to quote PAN of parent or guardian

Minor shall quote the PAN of his father or mother or guardian, as the case may be, in the document while entering into the transactions mentioned above

#### Declaration by a person not having PAN

Any person who does not have a PAN and who enters into any transaction specified in this rule, shall make a declaration in Form No.60 giving therein the particulars of such transaction either in paper form or electronically under the electronic verification code

#### VERIFICATION OF RETURN [SECTION 140]

Assessee	Cases	Verified by
Individual	In General	Individual Himself
	If individual concerned is absent from India	Individual himself or by the duly authorized person of such individual
	If individual is mentally incapacitated	Guardian of such individual or any other person competent to act on his behalf
	Where by any other reason it is not possible for the individual to verify the return	Any person duly authorised by him

<b>HUF</b>	In general	Karta
	Where the 'Karta' is absent from India or is mentally incapacitated	Any adult member of the family
<b>Firm</b>	In General	Managing partner
	If due to any reason it is not possible for managing partner to verify or where there is no managing partner	Any adult partner
<b>LLP</b>	In General	Designated partner (DP)
	If due to any unavoidable reason such DP is not able to verify the return, or where there is no DP as such	Any partner or any other prescribed person
<b>Local authority</b>	In General	Principal Officer
<b>Political Party</b>	In General	Chief Executive Officer
<b>Company</b>	In General	Managing Director (MD)
	If due to any reason it is not possible for MD to verify or where there is no MD	Any director or any other prescribed person
	Where an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under IBC, 2016	Insolvency professional appointed by such Adjudicating Authority
	Non-resident company	A person holding a valid power of attorney. Copy of such power of attorney must be attached with the return
	Company in process of winding up	Liquidator of the company
	Where the management of the company has been taken over by the Central or State Government	Principal officer
<b>Any other association</b>	Any member or principal officer	
<b>Any other person</b>	Such person or any other person competent to act on its behalf	

**QUOTING OF AADHAAR NUMBER [SECTION 139AA]****(1) Mandatory quoting of Aadhaar Number**

Every person who is eligible to obtain Aadhaar Number is required to mandatorily quote Aadhaar Number:

- a) in the application form for allotment of Permanent Account Number (PAN)
- b) in the return of income

**Note:** CBDT has clarified that it is mandatory to quote Aadhaar number while filing the return of income unless specifically exempted. Thus, returns being filed either electronically or manually on or after 1.4.2019 cannot be filed without quoting the Aadhaar number.

**(2) Mandatory quoting of Enrolment Id, where person does not have Aadhaar Number**

If a person does not have Aadhaar Number, he is required to quote Enrolment ID of Aadhaar application form issued to him at the time of enrolment in the application form for allotment of Permanent Account Number (PAN) or in the return of income furnished by him.

Enrolment ID means a 28 digit Enrolment Identification Number issued to a resident at the time of enrolment

**(3) Intimation of Aadhaar Number to prescribed Authority**

Every person who has been allotted Permanent Account Number (PAN) as on 1st July, 2017, and who is eligible to obtain Aadhaar Number, shall intimate his Aadhaar Number to prescribed authority on or before 31st March, 2022.

**(4) Consequences of failure to intimate Aadhaar Number**

If a person fails to intimate the Aadhaar Number, the permanent account Number (PAN) allotted to such person shall be made inoperative and he would be liable for payment of fee in accordance with section 234H (Rs. 1000)

Where such person who has not intimated his Aadhaar number on or before 31st March, 2022, has intimated his Aadhaar number under section 139AA(2) after 31st March, 2022, after payment of fee specified in section 234H read with Rule 114(5A), his PAN would become operative within 30 days from the date of intimation of Aadhaar number

**A person whose PAN has become inoperative, would be liable for following further consequences: -**

- 1) no refund of any amount of tax or part thereof, due under the provisions of the Act
- 2) interest would not be payable on such refund
- 3) where tax is deductible at source in case of such person, such tax shall be deducted at higher rate, in accordance with provisions of section 206AA

- 4) where tax is collectible at source in case of such person, such tax shall be collected at higher rate, in accordance with provisions of section 206CC

### EXCEPTIONS TO SECTION 139AA

Provisions of section 139AA relating to quoting of Aadhaar Number would not apply to an individual who does not possess the Aadhaar number or Enrolment ID and is:

- 1) residing in Assam, Jammu & Kashmir and Meghalaya
- 2) a non-resident as per Income-tax Act, 1961
- 3) of the age of 80 years or more at any time during the previous year
- 4) not a citizen of India

### Practice Questions

#### Illustration 01

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

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

#### Solution

- a) Disagree

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

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

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

- b) Disagree

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

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

#### Illustration 02

Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12-09-2026 for A.Y 2026- 27 consisting of income under the head “Salaries”, “Income from house property” and bank interest. On 21-12-2026, he realized that he had not claimed deduction under section 80TTA in respect of his interest

income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21-03-2027?

### Solution

Since Mr. Vineet has income only under the heads “Salaries”, “Income from house property” and “Income from other sources”, he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2026-27 under section 139(1), in his case, is 31st July, 2026. Since Mr. Vineet had submitted his return only on 12.9.2026, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4) in December 2026, to claim deduction under section 80TTA, since the time limit for filing a revised return is three months prior to the end of the relevant assessment year, which is 31.12.2026. However, he cannot revise return had he discovered this omission only on 21-03-2027, since it is beyond 31.12.2026.

### Illustration 03

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- a) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable
- b) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

### Solution

- a) 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
- b) 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.

### Illustration 04

Explain the term “return of loss” under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?

### Solution

A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2), in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)
- loss under the head “Capital Gains” to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward even if return of loss has not been filed as required under section 139(3).

#### Illustration 05

Mr. Aakash has undertaken certain transactions during the F.Y. 2025-26, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents:

S. No.	Transaction
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2025-26 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash
3.	Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company
4.	Payment of ₹ 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.

#### Solution

S. No.	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y. 2025-26 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed ₹ 50,000 in the F.Y. 2025-26.
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash	Yes, since the amount paid in cash exceeds ₹50,000

3.	Payment of ₹ 80,000, by ECS through bank account, for acquiring the debentures of A Ltd., an Indian company	Yes, since the amount paid for acquiring debentures exceeds ₹ 50,000. Mode of payment is not relevant in this case.
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000
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

**Illustration 06**

Mr. Rahul, an Indian citizen residing in Mumbai, files his return of income every year on time. He has Aadhaar number as well. He has not intimated his Aadhaar number to the prescribed authority till August 2025. He approached you on 1.9.2025 and asked you the consequences for not doing so and the effective date from which those consequences would become effective?

What would be your answer if Mr. Rahul wants to intimate his Aadhaar number to the prescribed authority now?

[RTP May 24]

**Solution**

Where a person, who has been allotted PAN and is required to intimate his Aadhaar number, has failed to intimate the same on or before the 31.3.2022, the PAN of such person shall become inoperative

Consequences of failure to intimate Aadhaar Number A person, whose PAN has become inoperative, would be liable for further consequences for the period commencing from the date specified by the Board till the date it becomes operative, namely –

- refund of any amount of tax or part thereof, due under the provisions of the Act shall not be made;
- interest shall not be payable on such refund for the period, beginning with the date specified and ending with the date on which it becomes operative;
- where tax is deductible under Chapter XVIIB in case of such person, such tax shall be deducted at higher rate, in accordance with provisions of section 206AA;
- where tax is collectible at source under Chapter XVII-BB in case of such person, such tax shall be collected at higher rate, in accordance with provisions of section 206CC.

The consequences specified above will be effective from 1.7.2023.

If Mr. Rahul wants to intimate his Aadhaar number to the prescribed authority on 1.9.2025, he would be liable to pay a fee of ₹ 1,000 as specified under section 234H. His PAN would become operative within 30 days from the date of intimation of Aadhaar number and would not be liable for the above consequences once his PAN becomes operative



**Illustration 07**

Who is authorized to verify the return of income of the following assessee?

1. HUF whose Karta is absent from India
2. Company where the company is being wound up
3. Local authority
4. Individual who is mentally incapacitated from attending to his affairs

[RTP Nov 23]

**Solution**

Person authorized to verify return of income

S. No.	Assessee	Authorized Persons
1.	HUF whose Karta is absent from India	Any other adult member of the HUF
2.	Company where the company is being wound up	Liquidator
3.	Local authority	The principal officer
4.	Individual who is mentally incapacitated from attending to his affairs	His guardian or any other person competent to act on his behalf

**Illustration 08**

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 1.4.2025. He does not have any other source of income. Is Mr. Vikas required to file his return of income for A.Y. 2026-27. If yes, why?

[RTP Nov 22]

**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., 31st July, 2026.

Clause (iv) of seventh proviso to section 139(1) provides that 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. 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. 2026-27 on or before 31.07.2026, even though his total income is below the basic exemption limit of ₹ 5,00,000.



**Illustration 09**

Mr. Aakash has undertaken certain transactions during the F.Y.2025-26, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –

S. No.	Transaction
1.	Opening a current account with HDFC Bank
2.	Sale of shares of ABC (P) Ltd. for ₹ 1,50,000
3.	Purchase of two wheeler motor vehicle of ₹ 1 lakh
4.	Purchase of a professional laptop of ₹ 3 lakhs

[RTP May 23]

**Solution**

S. No.	Transaction	Is quoting of PAN mandatory in related documents?
1.	Opening a current account with HDFC Bank	Yes, quoting of PAN is mandatory on opening of a current account by a person with bank
2.	Sale of shares of ABC (P) Ltd. for ₹ 1,50,000	Yes, since the amount for sale of unlisted shares exceeds ₹ 1,00,000
3.	Purchase of two wheeler motor vehicle of ₹ 1 lakh	Since the purchase is of two wheeler motor vehicle, quoting of PAN is not mandatory
4.	Purchase of a professional laptop of ₹ 3 lakhs	Yes, since the amount paid exceeds ₹ 2,00,000

**Illustration 10**

Mrs. Shivani is a US Citizen. She got married to Mr. Sriram, an Indian citizen and resident of India, in the year 2019. 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. 2025-26. Is she required to furnish her return of income? If yes, can she furnish a belated return?

[RTP May 22]

**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., 31st July, 2026.

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. 2026-27 since she has been staying in India since the year 2019. 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. 2026-27 on or before 31.07.2026.

Yes, she can furnish a belated return under section 139(4), if she has not furnished her return on or before 31.7.2026, at any time before the –

1. three months prior to the end of the relevant assessment year i.e., 31.12.2026;
  2. completion of the assessment
- whichever is earlier.

### Illustration 11

Explain with brief reasons, whether the return of income can be revised under Section 139(5) of the Income-tax Act, 1961 in the following cases:

1. Belated return filed under Section 139(4)
2. Return already revised twice under Section 139(5)
3. Return of loss filed under Section 139(3)

[PYQ May 22]

### Solution

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time

- before three months prior to the end of the relevant assessment year or
  - before the completion of assessment,
- whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

1. A belated return filed under section 139(4) can be revised
2. A return revised earlier can be revised again as the first revised return replaces the original return; and the second revised return replaces the earlier return filed
3. A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

### Illustration 12

What is the time limit within which an updated return can be filed? Also enumerate the circumstances in which updated return cannot be furnished.

[PYQ May 23]

### Solution

Any person may furnish an updated return of his income or the income of any other person in respect of which he is assessable, for the previous year relevant to the assessment year at any time within 48 months from the end of the relevant assessment year.

Circumstances in which updated return cannot be furnished

No updated return can be furnished by any person for the relevant assessment year, where

- a) an updated return has been furnished by him for the relevant assessment year
- b) any proceeding for assessment or reassessment or recomputation or revision of income is pending or has been completed for the relevant assessment year in his case;

- c) he is such person or belongs to such class of persons, as may be notified by the CBDT.
- d) an updated return is a loss return
- e) the updated return has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return
- f) the updated return results in refund or increases the refund due on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return.

### Illustration 13

State with reason whether the following persons are required to file their return of income as per the provisions of the Income Tax Act, 1961 for the assessment year 2026-27:

- a) Mr. Aneesh aged 31 years, who opted for default tax regime u/s 115BAC(1A) had a total income of ₹ 2,90,000 for the previous year 2025-26
- b) Smt. Patel, aged 65 years, has a TDS credit of ₹ 55,000 during the previous year 2025-26
- c) The gross receipts of Mr. Ajit, aged 45 years, an architect for the previous year 2025-26 was ₹ 12,00,000, but his profit from profession was only ₹ 2,25,000 and he has no other income

[PYQ May 24]

### Solution

- a) In this case, Mr. Aneesh is not required to file return of income, since his total income does not exceed ₹ 4,00,000, being the basic exemption limit as per the default tax regime u/s 115BAC, assuming Mr. Aneesh has not claimed any deduction u/s 54/54D/54EC or 54F and deduction allowable under Chapter VI-A
- b) In the present case, since Smt. Patel, a senior citizen has a TDS credit of ₹ 55,000, which exceeds the threshold limit of ₹ 50,000, she is required to file her return of income even if it is assumed that her total income does not exceed the basic exemption limit
- c) In this case, since Mr. Ajit's gross receipts from the profession of architect was ₹ 12,00,000 for the P.Y. 2025-26, 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.

### Illustration 14

CBDT has vide Notification No. 37/2022 dated 21.04.2022, inserted Rule 12AB, notified which are all the person other than a company or firm who is not required to file return of income under Section 139(1) must file the return of Income. State who are required compulsorily to file return of Income.

[PYQ May 24]

### Solution

The CBDT has, vide Notification No. 37/2022 dated 21.4.2022, inserted Rule 12AB to provide that a person, other than a company or a firm, who is not required to furnish a return under section 139(1), and who fulfils any of the following conditions during the previous year has to file their return of income on or before the due date in the prescribed form and manner –

- a) if his total sales, turnover or gross receipts, as the case may be, in the business > ₹ 60 lakhs during the previous year; or
- b) if his total gross receipts in profession > ₹ 10 lakhs during the previous year; or
- c) if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more; or  
However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year (or senior citizen) would be required to file return of income only, if the aggregate of TDS and TCS during the previous year, in his case, is ₹ 50,000 or more
- d) the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year.

### Illustration 15

In the context of Tax Return Preparer Scheme, 2006, explain the following:

- a) Eligible Persons
- b) Educational Qualifications of Tax Return Preparer
- c) Persons not entitled to act as return preparer

[PYQ Nov 23]

### Solution

In the context of Tax Return Preparer scheme, 2006

- a) Eligible Persons  
Any person being an individual or a Hindu undivided family
- b) Educational Qualifications of Tax Return Preparer  
An individual, who
  - holds a bachelor degree from a recognised Indian University or institution, or
  - has passed the intermediate level examination conducted by
    - the Institute of Chartered Accountants of India (ICAI) or
    - the Institute of Company Secretaries of India (ICSI) or
    - the Institute of Cost Accountants of India (ICWAI)
- c) Person not entitled to act as return preparer  
An individual who is –
  - any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings
  - a legal practitioner, entitled to practice in any civil court in India
  - an accountant
  - an employee of the “specified class or classes of persons” i.e., any person other than a company or a person whose accounts are required to be audited under section 44AB (tax audit) or under any other existing law, who is required to furnish a return of income under the Act.