

SUPER 45 QUESTIONS

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onwards



CA AMIT MAHAJAN



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SUPER 45

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CA Amit Mahajan



Tax & Law Notes and
Guidance - CA Amit
Mahajan

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Residential Status and Scope of Total Income

Question 1

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

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

Answer

Taxability of receipts

	Taxable/Not Taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	6,25,000	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India. He would be entitled to standard deduction of ₹ 75,000 under section 16(ia).
(ii)	Taxable	5,00,000	As per section 9(1)(v) (c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.
(iii)	Partly Taxable	5,500	The interest on Post office savings bank a/c would be exempt u/s 10(15)(i) only to the extent of ₹ 3,500 in case of an individual a/c. Further, interest upto ₹ 10,000, would be allowed as deduction u/s 80TTA from Gross Total Income. Balance 5,500 i.e., ₹ 19,000 - ₹ 3,500-10,000 would be taxable in the hands of Mr. Ram, a resident.
(iv)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).

(v)	Taxable	5,00,000	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a non-resident lawyer of UK, who visited India to represent a case at the Delhi High Court would be taxable in India.
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Question 2

Mrs. Sarika, an Indian citizen, is in employment with an overseas company located in UAE. She is not liable to tax in UAE. During the P.Y. 2023-24, she comes to India for 121 days. She was in India for 50 days, 100 days, 76 days and 145 days in the financial years 2019-20, 2020-21, 2021-22 and 2022-23, respectively. Her annual income for the previous year 2023-24 is as follows:

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

Mrs. Sarika has opted out of the default tax regime under section 115BAC. From the information given above,

- You are required to determine the residential status and total income of Mrs. Sarika for the A.Y. 2024-25.
- What would be your answer if income arising and received in UAE, from a business set up in India is Rs 10,00,000 instead of Rs 5,00,000?
- In continuation to point (ii), what would be your answer if Mrs. Sarika comes to India in P.Y. 2022-23 for 45 days instead of 145 days?

Answer

- Mrs. Sarika is an Indian citizen and in employment in UAE. She comes on a visit to India during the P.Y. 2023-24 for 121 days. Her stay in India in the four immediately preceding previous years i.e., in P.Y. 2019-20 to P.Y. 2022-23 is 371 days (50 + 100 + 76 + 145 days).

Her total income, other than the income from foreign sources, during the P.Y. 2023-24 would be –

Particulars	Amount (₹)
Salary accrued or arisen in UAE (income from a foreign source, hence, to be excluded)	-
Income accrued and arisen in India	2,00,000
Income deemed to be accrued and arisen in India	7,00,000
Income arising in UAE, from a business set up in India (to be included since the business is controlled from India, even though such income accrues and is received outside India)	5,00,000
Less: Deduction u/s 80C (LIC premium paid by cheque in India)	14,00,000
Total income (excluding income from foreign sources)	13,00,000

Mrs. Sarika, an Indian citizen, having total income other than income from foreign sources not exceeding Rs 15 lakhs and visiting India during the P.Y 2023–24, would be a resident in India for the A.Y.2024–25, if she has stayed in India for 182 days or more during the P.Y. 2023–24.

Since she has stayed only for 121 days in India during the P.Y. 2023–24, she is a non-resident for the A.Y. 2024–25. Her total income during the P.Y. 2023–24 would be –

Particulars	Amount (₹)
Salary accrued or arisen in UAE (income from a foreign source, hence, to be excluded)	-
Income accrued and arisen in India	2,00,000
Income deemed to be accrued and arisen in India	7,00,000
Income arising in UAE, from a business set up in India (not taxable)	-
Gross Total Income	9,00,000
Less: Deduction u/s 80C (LIC premium paid by cheque in India)	1,00,000
Total income	8,00,000

(ii) If Income arising and received in UAE, from a business set up in India is Rs ₹ 10,00,000 instead of ? ₹ 5,00,000, her total income, other than the income from foreign sources, during the P.Y. 2023–24 would have been Rs ₹ 18 lakhs.

In such a case, Mrs. Sarika, an Indian citizen, having total income other than income from foreign sources exceeding Rs ₹ 15 lakhs and visiting India during the P.Y 2023–24, can be a resident in India for A.Y.2024–25, if she has been in India for 120 days or more but less than 182 days in the P.Y. 2023–24 and during the 4 years immediately preceding the P.Y. 2023–24 for a total period of 365 days or more.

Since she has stayed in India for 121 days during the P.Y. 2023–24 and her stay in India in the four immediately preceding previous years is 371 days, she would a resident in India for A.Y. 2024–25 and by default, she would be treated as resident but not ordinarily resident.

In such case, income arising and received in UAE, from a business set up in India would also form part of total income of Mrs. Sarika and her total income during the P.Y. 2023–24 would be Rs ₹ 18 lakhs [₹ 8,00,000 (computed in (i) above) plus ₹ 10,00,000].

(iii) If Mrs. Sarika comes to India in P.Y. 2022–23 for 45 days instead of 145 days, she would not be a resident in India for the P.Y. 2023–24 as per section 6(1) since her stay in India in the four immediately preceding previous years would be less than 365 days.

However, since she is an Indian citizen having total income (excluding income from foreign sources) of Rs ₹ 18 lakhs, which exceeds the threshold of Rs ₹ 15 lakhs during the previous year; and not liable to tax in UAE, she would be a deemed resident in India for the P.Y. 2023–24 by virtue of section 6(1 A).

A deemed resident is always a resident but not ordinarily resident. In such case, her total income during the P.Y. 2023–24 would be same i.e., Rs ₹ 18 lakhs as computed in point (ii) above.

Question 3

Miss Geeta, a citizen of India, got married to Mr. Peter of Australia and left India for the first time on 20.8.2024. She has not visited India again during the P.Y. 2024–25. She has derived the following income for the year ended 31–3–2025:

	Particulars	₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in kanyakumari.	1,50,000
(ii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo. Sale consideration was received in Chennai.	5,00,000
(iii)	Income from sale of tea grown and manufactured in West Bengal.	12,00,000
(iv)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	2,00,000

You are required to determine the residential status of Miss Geeta and compute the business income and agricultural income of Miss. Geeta for the Assessment Year 2025–26.

Answer

Miss Geeta is said to be resident if she satisfies any one of the following basic conditions:

(i) Has been in India during the previous year for a total period of 182 days or more
(or)
 (ii) Has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days during the previous year.

Miss Geeta's stay in India during the P.Y.2024–25 is 142 days [30+31+30+31+20] which is less than 182 days. However, her stay in India during the P.Y.2024–25 exceeds 60 days. Since, she left India for the first time, her stay in India during the four previous years prior to P.Y.2024–25 would be more than 365 days. Hence, she is a resident for P.Y.2024–25.

Further, Miss Geeta would be "Resident and ordinarily resident" in India in during the previous year 2024–25, since her stay in India in the last seven previous years prior to P.Y.2024–25 is more than 729 days and she must be resident in the preceding ten years.

Computation of business income and agricultural income of Miss Geeta for A.Y. 2025–26

	Particulars	Income	Business Income ₹	Agricultural Income ₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Kanyakumari (Apportioned between business and agricultural income in the ratio of 35:65 as per Rule 7A of Income-tax Rules, 1962)	1,50,000	52,500	97,500
(ii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo and received in Chennai [See Note 1 below]	5,00,000	5,00,000	-

(iii)	Income from sale of tea grown and manufactured in West Bengal (Apportioned between business and agricultural income in the ratio of 40:60 as per Rule 8 of the Income-tax Rules, 1962)	12,00,000	4,80,000	7,20,000
(iv)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out on land [See Note 2 below]	2,00,000	—	2,00,000
		20,50,000	10,32,500	10,17,500

Notes:

- (1) Since Ms. Geeta is resident and ordinarily resident in India for A.Y. 2025-26, her global income is taxable in India. Entire income from sale of coffee grown, cured, roasted and grounded in Colombo is taxable as business income since such income is earned from sale of coffee grown, cured, roasted and grounded outside India i.e., in Colombo.
- (2) As per Explanation 3 to section 2(1A), income derived from sapling or seedlings grown in a nursery would be deemed to be agricultural income, whether or not the basic operations were carried out on land. Hence, income of ₹ 2,00,000 from sapling and seedling grown in a nursery at Cochin is agricultural income.

Question 4

Sagar, a Chartered Accountant, is presently working in a firm in India. He has received an offer for the post of Chief Financial Officer from a company at New York. As per the offer letter, he should join the company at any time between 1st September, 2024 and 31st October, 2024. He approaches you for your advice on the following issues to mitigate his tax liability in India:

- (i) Date by which he should leave India to join the company;
- (ii) Direct credit of part of his salary to his bank account in Delhi maintained jointly with his mother to meet requirement of his family.

Answer

An Indian citizen, who leaves India in any previous year, *inter alia*, for purposes of employment outside India, would be resident in India during the relevant previous year if he stayed in India during that previous year for 182 days or more.

- (i) Since Sagar is leaving India for the purpose of employment outside India, he will be treated as resident only if the period of his stay during the previous year amounts to 182 days or more. Therefore, Sagar should leave India on or before 28th September, 2024, in which case, his stay in India during the previous year would be less than 182 days and he would become non-resident for the purpose of taxability in India. In such a case, only the income which accrues or arises in India or which is deemed to accrue or arise in India or received or deemed to be received in India shall be taxable.

The income earned by him in New York would not be chargeable to tax in India for A.Y. 2025-26, if he leaves India on or before 28th September, 2024.

- (ii) If any part of Sagar's salary will be credited directly to his bank account in Delhi then, that part of his salary would be considered as income received in India during the previous year under section 5 and would be chargeable to tax under Income-tax Act, 1961, even if he is a non-resident. Therefore, Sagar should receive his entire salary in New York and then remit the required amount to his bank account in Delhi in which case, the salary earned by him in New York would not be subject to tax in India.

Income from House Property

Question 5

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2016–2017. The property consists of eight identical units and is situated at Cochin. During the financial year 2024–25, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

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

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

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

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the financial year 2024–25.

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

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

Answer

(i) If Arun and Bimal pay tax under the default tax regime under section 115BAC

Computation of total income for the A.Y. 2025–26

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

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

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

 **Question 6**

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2024–25. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is \$ 20,000. The value of one USD (\$) may be taken as ₹ 75. She took ownership and possession of a flat in Chennai on 1.7.2024, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2025. The municipal valuation is ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

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

She had taken a loan from Standard Chartered Bank in June, 2022 for purchasing this flat. Interest on loan was as under:

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

She had a house property in Bangalore, which was sold in March, 2021. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2025.

This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the A.Y. 2025–26 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Would your answer change if she pays tax under the default tax regime under section 115BAC?

Answer

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

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

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

Accordingly, the income from house property of Mrs. Rohini Ravi for A.Y.2025-26 will be calculated as under:

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

Note: Interest on borrowed capital

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

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

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

Question 7

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

The construction was completed on 31st May, 2023 and he occupied the house on 1st June, 2023. The entire loan is outstanding as on 31st March, 2025. Property tax paid in respect of the second house is ₹ 2,400 for the Financial Year 2024-25. Compute the income chargeable under the head "Income from House property" in the hands of Mr. Kamal for the Assessment Year 2025-26 under regular provisions of the Act.

Answer

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

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

Notes

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

(2) **Interest on housing loan for construction of self-occupied property allowable as deduction under section 24**

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

Income from Salaries

Question 8

Mr. Kunal (age 27 years) is an employee in a private company posted in Delhi. He was appointed on 01.02.2023 in the scale of ₹ 60,000 – ₹ 1,000 – ₹ 70,000. He furnishes you the following information for the previous year 2024–25:

- (i) Dearness allowance @25% of basic salary (60% of DA forms part of retirement benefits)
- (ii) Bonus equal to one month salary. Paid in November 2024 on basic salary applicable for that month.
- (iii) Leave encashment for P.Y. 2024–25 of ₹ 10,000.
- (iv) He also received a motor car on 01.12.2024 (cubic capacity of engine exceeds 1.60 litres) along with chauffeur for both official and personal purpose. The motor car is owned by his employer and all expenses are met by the employer.
- (v) His employer granted him a loan of ₹ 2,00,000 on 1st June, 2024 which is repayable in equal quarterly installments over 2 years starting from 1st October, 2024. The State Bank of India (SBI) lending rate for such loans is 9.5% per annum as on 01.04.2024, while the employer recovers interest @5.5% per annum from the employee.
- (vi) His employer gave him a rent-free accommodation (fully furnished) in Delhi from 01.04.2023. This house is owned by the employer. The perquisite value of such furnished rent-free accommodation during the previous year 2023–24 was valued at ₹ 92,000. Further, the accommodation is continued to be provided by the employer to the employee in P.Y. 2024–25 also.
- (vii) The furniture and appliances provided with the house were bought by the employer at an aggregate cost of ₹ 1,50,000 on 01.01.2023. Electricity and water bills of ₹ 5,000 p.m. for the said house were paid by the employer.

Cost Inflation Index

F.Y. 2023–24–348, F.Y. 2024–25–363.

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

You are required to compute the income chargeable under the head Salaries in the hands of Mr. Kunal for the Assessment Year 2025–26 assuming that he wants to pay tax under default tax regime under section 115BAC.

Answer

Computation of income chargeable under the head "Salaries" of Mr. Kunal for A.Y.2025–26 under default tax regime

Particulars	₹	₹
Basic Pay [₹ 61,000 × 10 + ₹ 62,000 × 2]		7,34,000

Dearness Allowance [$\text{₹ } 7,34,000 \times 25\%$]			1,83,500
Bonus			61,000
Leave encashment for P.Y. 2024-25			10,000
Value of perquisite			
Perquisite of Motor Car [$\text{₹ } 3,300 \times 4$]			13,200
As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 litres) owned by the employer is provided to employee with chauffeur for both official and personal use, the value of perquisite shall be ₹ 3,300 (₹ 2,400 + ₹ 900). The car was provided to employee from 01.12.2024, therefore the perquisite value has been calculated for 4 months.			
Perquisite of interest on loan (Working Note Below)			5,917
Value of Rent-free accommodation			
Value of Rent-free accommodation {10% of ₹ 9,15,100 i.e., [₹ 7,34,000, basic salary + ₹ 1,10,100 (₹ 1,83,500 × 60%, DA forming part of retirement benefit) + ₹ 10,000, leave encashment + ₹ 61,000, bonus]} Add: Value of furniture [$\text{₹ } 1,50,000 \times 10\%$ p.a.]	91,510	15,000	1,06,510
As per Rule 3, value of perquisite in case of accommodation continued to be provided to an employee for more than one previous year, shall not exceed the amount calculated for first previous year, as multiplied by the amount which is a ratio of CII for the previous year for which the value is calculated and CII for the previous year in which accommodation was initially provided to the employee. Accordingly, value of perquisite for P.Y. 2024-25 to be restricted to = ₹ 92,000 × 363/348		95,966	95,966
Facility of use of electricity and water [Electricity and water bills paid by the employer would be taxable as perquisite] [$\text{₹ } 5,000 \times 12$]			60,000
Mobile phone received as gift from colleagues (Not taxable under the head "Salaries")			Nil
Gross Salary			11,63,583
Less: Standard deduction under section 16 [Actual salary or { 75,000, whichever is less}]			75,000
Net Salary			10,88,583

Working Note:

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

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

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

Month	Maximum outstanding balance as on last date of month (?)	Perquisite value at 4% for the month (?)
June, 2024	2,00,000	667
July, 2024	2,00,000	667
August, 2024	2,00,000	667
September, 2024	2,00,000	667
October, 2024	1,75,000	583
November, 2024	1,75,000	583
December, 2024	1,75,000	583
January, 2025	1,50,000	500
February, 2025	1,50,000	500
March, 2025	1,50,000	500
Taxable Value of perquisite		5,917

Question 9

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

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

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

Question 10

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2022. 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 1.4.2023, 31.3.2024 and 31.3.2025 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)(viiA) for the A.Y. 2024–25 and A.Y. 2025–26. Prior to 1.9.2022, he was a consultant, whose professional fees

was taxable under the head "Profits and gains of business or profession".

Answer

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2024-25

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 – ₹ 7,50,000 = ₹ 27,600
2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.111 + 0$
 $= ₹ 1,532$

PC ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2023-24 = ₹ 27,600

PC1 Nil since employer's contribution is less than ₹ 7.5 lakh to recognized provident fund in P.Y. 2022-23 and there is no employer's contribution in P.Y. 2020-21 and P.Y. 2021-22.

TP1 Nil

R $I/Favg = 2,06,711/18,62,093 = 0.111$

I RPF balance as on 31.3.2024 – employee's and employer's contribution during the year – RPF balance as on 1.4.2023 = ₹ 2,06,711 (₹ 27,43,048 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 9,81,137)

Favg Balance to the credit of recognized provident fund as on 1st April, 2023 + Balance to the credit of recognized provident fund as on 31st March, 2024)/2 = (₹ 9,81,137 + ₹ 27,43,048)/2 = ₹ 18,62,093

Note - Interest on the aggregate of following will also be chargeable to tax during A.Y. 2024-25-

- (i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]
- (ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]
- (iii) interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2022-23

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2025-26

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

2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.09479 + (27,600 + 1,532) \times 0.09479$
 $= ₹ 1,308 + ₹ 2,761 = ₹ 4,069$

PC ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2024-25 = ₹ 27,600

PC1 Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2020-21, P.Y. 2021-22 and P.Y. 2022-23 = ₹ 27,600

TP1 Taxable perquisite under section 17(2)(viia) for the P.Y. 2023-24 = ₹ 1,532

R $I/Favg = 3,50,307/36,95,802 = 0.09479$

I RPF balance as on 31.3.2025 – employee's and employer's contribution during the year – RPF balance as on 1.4.2024 = ₹ 3,50,307 (₹ 46,48,555 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 27,43,048)

Favg Balance to the credit of recognized provident fund as on 1st April, 2024 + Balance to the credit of recognized provident fund as on 31st March, 2025)/2 = (₹ 27,43,048 + ₹ 46,48,555)/2 = ₹ 36,95,802

Question 11

Mr. Kashyap, aged 38 years, is entitled to a salary of ₹ 40,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was ₹ 8,000 per month. The rent for the hired accommodation was ₹ 6,500 per month at New Delhi. Advice Mr. Kashyap whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kashyap does not opt for the provisions of section 115BAC.

Answer

Computation of tax liability of Kashyap under both the options

Particulars	Option I - HRA(₹)	Option II - RFA(₹)
Basic Salary (40,000 × 12 Months)	4,80,000	7,34,000
Perquisite value of rent-free accommodation (10% of ₹ 4,80,000)	N.A.	48,000
House rent Allowance (? 8,000 × 12 Months)	₹ 96,000	
Less: Exempt u/s 10(13A) — least of the following –		
- 50% of Basic Salary ₹ 2,40,000		
- Actual HRA received ₹ 96,000		
- Rent paid less 10% of salary ₹ 30,000	₹ 30,000	₹ 66,000
Gross Salary	5,46,000	5,28,000
Less: Standard deduction u/s 16(ia)	50,000	50,000
Net Salary	4,96,000	4,78,000
Less: Deduction under Chapter VI-A	—	—
Total Income	4,96,000	4,78,000
Tax on total income	12,300	11,400

Particulars	Option I - HRA(₹)	Option II - RFA(₹)
Less: Rebate u/s 87A – Lower of ₹ 12,500 or income-tax of ₹ 12,300 & ₹ 11,900. since total income does not exceed ₹ 5,00,000	12,300	11,400
	Nil	Nil

Cash Flow Statement

Particulars	Option I - HRA	Option II - RFA
Inflow: Salary	5,76,000	4,80,000
Less: Outflow: Rent paid	(78,000)	—
Tax on total income	Nil	Nil
Net Inflow	4,98,000	4,80,000

Since the net cash inflow under Option 1 (HRA) is higher than in Option II (RFA), it is beneficial for Mr. Kashyap to avail Option I, i.e., House Rent Allowance

Capital Gains

Question 12

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

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

She purchased this property on 15.07.1998 for ₹ 8.80 lakhs. The FMV of the property as on 1st April, 2001 was ₹ 10.8 lakhs and Stamp duty value on the said date was ₹ 10 lakhs. She had incurred brokerage and other expenses @1% on purchase price at that time.

Compute the capital gain tax to be paid by Ms. Priya for A.Y. 2025–26 assuming her other income exceeds the basic exemption limit.

CII – F.Y. 2001–02: 100; F.Y. 2021–22: 317; F.Y. 2024–25:363

Answer

Computation of capital gain tax paid by Ms. Priya for A.Y. 2025–26

Particulars	₹	₹
On sale of jewellery		
Sale consideration	4,75,000	
Less: Cost of acquisition (As transfer is on or after 23.07.2024, the indexation benefit would not be available)	3,25,000	
Long term capital gains [Since jewellery is sold on or after 23.7.2024 and held for more than 24 months]		1,50,000
On sale of house property		
Full Value of Consideration [Stamp duty value of ₹ 90 lakhs, since stamp duty value of ₹ 90 lakhs exceed actual consideration of ₹ 80 lakhs by more than 10%]	90,00,000	
Less: Cost of acquisition [₹10,00,000] (As transfer is on or after 23.07.2024, the indexation benefit would not be available)	<u>10,00,000</u>	80,00,000
Cost of acquisition		
Higher of –		
- Actual cost ₹ 8,80,000 + ₹ 8,800 = ₹ 8,88,800 and		
- Lower of Fair Market Value (FMV) as on 1.4.2001 of ₹ 10.8 lakhs and stamp duty value of ₹ 10 lakhs.		
Capital Gain chargeable to tax		81,50,000
Tax on capital gains		
Tax on LTCG on sale of jewellery [₹ 1,50,000 × 12.50%]		18,750

Tax @12.5% on LTCG on sale of house property [As the asset is a long term capital asset, being land or building acquired before 23.07.2024 and transferred on or after 23.07.2024 by a resident individual, the tax shall be computed with indexation @20% and without indexation @12.5%, whichever is beneficial to the assessee.]	<u>10,00,000</u>	
<u>Tax @20% with indexation –</u>		
Sale consideration ₹ 90,00,000		
Less: Indexed cost of acquisition ₹ $10,00,000 \times 363/100 = ₹ 36,30,000$		
LTCG = ₹ 53,70,000		
Tax @20% = ₹ $53,70,000 \times 20\% = ₹ 10,74,000$		
<u>Tax @12.5% without indexation –</u>		
Tax @12.5% = Rs $80,00,000 \times 12.5\% = ₹ 10,00,000$		
		10,18,750
Add: Surcharge @10% [Since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		1,01,875
		11,20,625
Add: HEC@4%		44,825
Tax on capital gain		11,65,450

Question 13

Mr. Surinder furnishes the following particulars for the previous year ending 31.03.2025. He had a Residential House, inherited from his father in December 2009, the Fair Market Value of which on 01.04.2001 is ₹ 13 lakhs. In the year 2013–2014, further construction and improvements costing of ₹ 10 lakhs. The House was originally purchased by his father on 01.03.2000 for ₹ 10 Lakhs. On 10.05.2024, the House was sold for ₹ 85 Lakhs. Expenditure in connection with transfer is Rs 50,000. On 20.12.2024, he purchased a Residential House for ₹ 12 lakhs and he does not own any other house. Compute the taxable Capital Gain for the assessment year 2025–26. (Cost Inflation Index: F.Y. 2013–14: 220, F.Y. 2024–25: 363, F.Y. 2009–10: 148 and F.Y. 2001–02: 100)

Answer

Computation of Taxable Capital Gains for A.Y.2025–26

Particulars	₹
Full Value of Consideration	85,00,000
Less: Expenditure in connection with transfer	50,000
Net Sales Consideration	84,50,000
Less: Indexed cost of acquisition [₹ 13,00,000 (higher of actual cost to the previous owner of ₹ 10 lakhs and Fair market value as on 1.4.2001 of ₹ 13 lakhs) $\times 363/100$]	47,19,000
Less: Indexed cost of improvements [₹ 10 lakhs $\times 363/220$]	16,50,000
	20,81,000
Less: Exemption u/s 54 – in respect of residential house purchased on 20.12.2024	12,00,000
Taxable Long Term Capital Gains	8,81,000

Note - The above answer is on the basis of the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, wherein it was held that Indexed cost of acquisition in case of gifted asset has to be computed with reference to the year in which the previous owner first held the asset

and not the year in which the assessee became the owner of the asset.

Alternative answer is possible on basis of the plain reading of the provisions of section 48 wherein the indexed cost of acquisition would be determined by taking the Cost Inflation Index (CII) for the year in which the asset is first held by the assessee i.e. F.Y.2009-10. In such a case, the Indexed cost of acquisition would ₹ 31,88,514 ($₹ 13,00,000 \times 363/148$) and taxable long term capital gains would be ₹ 24,11,486.

Question 14

Determine the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the A.Y.2025-26 and tax, if any, payable thereon, in the following cases, assuming that these are the only transactions covered under section 112A during the P.Y.2024-25 in respect of these assessees:

(i) Mr. Shagun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of ₹ 400 per share. He sold all the shares of A Ltd. on 31.5.2024 for ₹ 1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows –

Particulars	Amount in ₹
Highest Trading Price	700
Average Trading Price	680
Lowest Trading Price	660

(ii) Mr. Raj purchased 200 units of equity oriented fund, Fund A on 1.2.2017 at a cost of ₹ 550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.4.2024 for ₹ 900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units are given hereunder:

Particulars	Fund A
	Amount in ₹
Highest Trading Price	750 (on 31.1.2018)
Average Trading Price	700 (on 31.1.2018)
Lowest Trading Price	650 (on 31.1.2018)
Net Asset Value on 31.1.2018	800

Answer

For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the longterm capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of

- (a) cost of acquisition of such asset, i.e., actual cost; and
- (b) lower of
 - (i) the fair market value of such asset as on 31.1.2018; and
 - (ii) the full value of consideration received or accruing as a result of the transfer of the capital asset.
- (i) The fair market value of listed equity shares as on 31.1.2018 is the highest price quoted on the recognized stock exchange as on that date.

Accordingly, long-term capital gain on transfer of STT paid listed equity shares by Mr. Shagun would be determined as follows:

The FMV of shares of A Ltd. would be ₹ 700, being the highest price quoted on National Stock Exchange on 31.1.2018. The cost of acquisition of each equity share in A Ltd. would be ₹ 700, being higher of actual cost i.e., ₹ 400 and ₹ 700 [being the lower of FMV of ₹ 700 as on 31.1.2018 (i.e., the highest trading price) and actual sale consideration of ₹ 1,200]. Thus, the long-term capital gain would be ₹ 1,50,000 i.e., $(₹ 1,200 - ₹ 700) \times 300$ shares. The long-term capital gain of ₹ 25,000 (i.e., the amount in excess of ₹ 1,25,000) would be subject to tax@10% under section 112A (plus cess@4%), without benefit of indexation. The tax on capital gain @10.4% would be ₹ 2,600 ($₹ 25,000 \times 10.4\%$)

- ii) In the case of units listed on recognised stock exchange on the date of transfer, the FMV as on 31.1.2018 would be the highest trading price on recognised stock exchange as on 31.1.2018 (if units are listed on that date), else, it would be the net asset value as on 31.1.2018 (where units are unlisted on that date).

Accordingly, the FMV of units of Fund A as on 31.1.2018 would be ₹ 750 (being the highest trading price on 31.1.2018, since the units of Fund A are listed on that date).

The cost of acquisition of a unit of Fund A would be ₹ 750, being higher of actual cost i.e., ₹ 550 and ₹ 750 (being the lower of FMV of ₹ 750 as on 31.1.2018 and actual sale consideration of ₹ 900).

Thus, the long-term capital gains on sale of units of Fund A would be ₹ 30,000 ($₹ 900 - ₹ 750$) $\times 200$ units.

Since the long term capital gains on sale of units of Fund A is ₹ 30,000, which is less than ₹ 1,25,000, the said sum is not chargeable to tax under section 112A.

PGBP

Question 15

M/s. Ravi & sons, a partnership firm consisting of two partners, reports a net profit of ₹ 7,50,000 before deduction of the following items:

- Salary of ₹ 25,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership)
- Depreciation on plant and machinery under section 32 is ₹ 2,50,000
- Interest on capital 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is ₹ 6,00,000 for both partners
- Carry forward loss of P.Y. 2023-24 – ₹ 50,000

Compute for A.Y. 2025-26:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- (ii) Amount of salary that can be paid to working partners as per section 40(b).

Answer
(b) (i) Computation of book profit of the firm under section 40(b)

Particulars	Amount (₹)	Amount (₹)
Net Profit (before deduction of depreciation, salary and interest)		7,50,000
Less: Depreciation under section 32	2,50,000	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (6,00,000 × 12%)	72,000	3,22,000
Book profit		4,28,000

"Book profit" means the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit. Hence, brought forward loss of ₹ 50,000 of P.Y. 2023-24 is not allowed to be set off for computation of "book profit".

- (ii) Salary actually paid to working partners = ₹ 25,000 × 2 × 12 = ₹ 6,00,000.

As per the provisions of section 40(b)(v), the maximum allowable working partners' salary for the A.Y. 2025-26 in this case would be:

Particulars	₹
On the first ₹ 6,00,000 of book profit [(3,00,000 or 90% of ₹ 4,28,000) whichever is more]	3,85,200
Maximum allowable working partners' salary	3,85,200

Hence, allowable working partner's salary for the A.Y. 2025-26 as per the provisions of section 40(b) is ₹ 3,85,200.

Question 16

Mr. Piyush runs a sole proprietorship firm and owns four machines which was put in use for business in March, 2023. The depreciation on these machines is charged @ 15%. The written down value of these machines as on 1st April, 2024 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2024 for ₹ 10,00,000. A second hand plant was bought for ₹ 6,10,000 on 30th December, 2024. Further, Mr. Piyush has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2025:

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

Compute the following for Assessment Year 2025-26

- (i) Claim of depreciation
- (ii) Capital gains liable to tax
- (iii) Deduction available under section 35 if he has shifted out of the default tax regime

Answer

- (i) Computation of depreciation for A.Y.2025-26

Particulars	₹
W.D.V. of the block as on 1.4.2024	7,70,000
Add: Purchase of second hand plant during the year [in December, 2024]	6,10,000
Less: Sale consideration of old machinery during the year [in July, 2024]	13,80,000
W.D.V of the block as on 31.03.2025	10,00,000
Depreciation @ 15% but restricted to 50% thereon. ₹ 3,80,000 X 7.5%	3,80,000
[Since the value of the block as on 31.3.2025 represents part of actual cost of second hand plant purchased in December, 2024, which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7%2%. Therefore, the depreciation allowable for the year is ₹ 28,500 being 7% of ₹ 3,80,000]	28,500

- (ii) In the given case, no capital gains would arise, since the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block as increased by the actual cost of asset purchased during the year
- (iii) Computation of deduction allowable under section 35

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

IFOS

Question 17

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

- (1) Cash gift of ₹775,000 on his anniversary, 15th April, 2024.
- (2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2024.
- (3) A plot of land at Faridabad on 1st July, 2024, the stamp value of which is ₹ 75 lakh on that date. Mr. B had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹400 each on 19th June, 2023, the fair market value of which was ₹600 each on that date. Mr. A sold these shares in the course of his business on 23th June, 2024.

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

On 1st March, 2025, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2025–26.

Answer

Computation of "Income from other sources" of Mr. A for the A.Y. 2025–26

Particulars	₹
(1) Cash gift is taxable under section 56(2)(x), since it exceeds ₹50,000	75,000
(2) Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds ₹50,000	60,000
(3) Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
(4) Difference of ₹2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	
(5) Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	3,00,000
Income from Other Sources	9,35,000

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

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

Note - The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

Clubbing of income

Question 18

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

- Mr. Mohan had a house in Delhi. During financial year 2021-22, he had transferred the said house to Ms. Veena, daughter of his brother without any consideration. House would go back to Mr. Mohan after the life time of Ms. Veena. The transfer was made with a condition that 15% of rental income from such house shall be paid to Mrs. Mohan. Rent received by Ms. Veena during the previous year 2024-25 from such house property is ₹ 6,50,000.
- Mr. and Mrs. Mohan forms a partnership firm with equal share in profits. Mr. Mohan transferred a fixed deposit of Rs 50 lakhs to such firm. Firm had no income or expense other than the interest of ₹6,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Mohan at the end of the year.
- Mr. Mohan holds preference shares in M/s X Pvt. Ltd. He instructed the company to pay dividends to Ms. Roshni, daughter of his servant. The transfer is irrevocable for the life time of Roshni. Dividend received by Ms. Roshni during the previous year 2024-25 is ₹ 10,00,000.
- Mr. Mohan has a short term capital loss of Rs 16,000 from sale of property and long term capital gain of Rs 15,000 from sale of property.
- Other income of Mr. Mohan includes
 - Interest from saving bank account of ₹ 2,00,000
 - Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.
 - Income from betting of ₹ 34,000
 - Income from card games of ₹ 46,000
 - Loss on maintenance of race horses of ₹ 14,600

Compute the total income of Mr. Mohan for the Assessment Year 2025-26 and the losses to be carried forward if he pays tax under normal provisions of the Act.

Answer

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

Particulars	Amount (₹)	Amount (₹)
Income from house property		
House in Delhi [Since Mr. Mohan receives direct or Indirect benefit from income arising to his brother's daughter, Ms. Veena, from the transfer of house to her without consideration, such Income is to be included in the total income of Mr. Mohan as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Veena]		
Gross Annual Value	6,50,000	
Less: Municipal taxes	-----	
Net Annual Value	6,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,95,000	
(b) Interest on loan		4,55,000

Profits and gains from business or profession		
Share of profit from firm [Exempt u/s 10(2A)] Exempt income cannot be clubbed	-	
Capital Gains		
Long term capital gain from sale of property	15,000	
Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains ² . Short term capital loss of ₹ 16,000 set off against long term capital gains to the extent of ₹ 15,000 ³ .	15,000	-
Income from other sources		
Dividend on preference shares [Taxable in the hands of Mr. Mohan as per section 60, since he transferred the Income, i.e., dividend, without transferring the asset, i.e., preference shares]	10,00,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding ₹50,000 is received from his niece, who is not a relative)	75,000	
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	13,55,000
Gross Total Income		18,10,000
Less: Deduction under Chaptcr VI-A		
Deduction under section 80TTA [Interest from savings bank account]	10,000	10,000
Total Income		18,00,000

Question 19

Mr. Karan gifted a sum of Rs 9 lakhs to his brother's minor son on 1-5-2024. On the same date, his brother gifted debentures worth ₹ 10 lakhs to Mrs. Karan. Son of Mr. Karan's brother invested the amount in fixed deposit with Canara Bank @ 9% p.a. interest and Mrs. Karan received interest of ₹ 81,000 on these debentures during the previous year 2024-25. Discuss the tax implications under the provisions of the Income- tax Act, 1961.

Answer

In the given case, Mr. Karan gifted a sum of ₹9 lakhs to his brother's minor son on 1.5.2024 and simultaneously, his brother gifted debentures worth ₹ 10 lakhs to Mr. Karan's wife on the same date. Mr. Karan's brother's minor son invested the gifted amount of ₹ 9 lakhs in fixed deposit with Canara Bank.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise. If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted.

As per section 64(1A), all income of a minor child is includable in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Karan's brother's son from fixed deposits would be included in the total income of Mr. Karan's brother, assuming that Mr. Karan's brother's total income is higher than his wife's total income, before including minor's income. Mr. Karan's brother can claim exemption of ₹ 1,500 u/s 10(32).

Interest on debentures arising in the hands of Mrs. Karan would be taxable in the hands of Mr. Karan as per section 64(1)(iv).

This is because both Mr. Karan and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation.

In the hands of Mr. Karan, interest received by his spouse on debentures of ₹ 9 lakhs alone would be included and not the entire interest income on the debentures of ₹ 10 lakhs, since the cross transfer is only to the extent of ₹ 9 lakhs.

Hence, only proportional interest (i.e., 9/10th of interest on debentures received) ₹ 72,900 would be includable in the hands of Mr. Karan.

The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.

Question 20

Mr. Vaibhav started a proprietary business on 01.04.2022 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2022–23. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2023, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2023–24. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2024–25. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

Answer

Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case, Mr. Vaibhav received a gift of ₹ 5,00,000 on 1.4.2023 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2024–25 is computed as under:

Particulars	Mr. Vaibhav's capital contribution (₹)	Capital contribution out of gift from Mrs. Vaishaly (₹)	Total (₹)
Capital as on 1.4.2022	3,00,000 (5,00,000 – 2,00,000)	5,00,000	8,00,000

Profit for P.Y.2022-23 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2021 (3:5)	1,50,000 3 $4,00,000 \times 8$	2,50,000 5 $4,00,000 \times 8$	4,00,000
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Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2024-25 is ₹ 2,50,000. In case Mrs. Vaishaly gave the said amount of ₹ 5,00,000 as a bona fide loan, then, clubbing provisions would not be attracted. Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mr. Vaibhav, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his wife.

Question 21

Nishant gifted ₹10 lakhs to his wife, Nisha on her birthday on, 1st January, 2023. Nisha lent Rs 5,00,000 out of the gifted amount to Krish on 1st April, 2023 for six months on which she received interest of ₹50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2023, which were sold for ₹ 75,000 on 30th December, 2023. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital by Nisha in a newly business started on 1.4.2023. She suffered loss of ₹ 15,000 in the business in Financial Year 2023-24. In whose hands the above income and loss shall be included in Assessment Year 2024 -25? Support your answer with brief reasons.

Answer

Interest on loan

As per section 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Accordingly, ₹ 50,000, being the amount of interest on loan received by Ms. Nisha, wife of Mr. Nishant, would be includable in the total income of Mr. Nishant, since such loan was given by her out of the sum of money received by her as gift from her husband.

Loss from business

Since the capital was invested in business by Ms. Nisha on 1st April, 2023, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹ 15,000 from the business carried on by Ms. Nisha would also be includable in the total income of Mr. Nishant.

Since income includes loss as per Explanation 2 to section 64, clubbing provisions would be attracted even if there is loss and not income.

Capital Gain on sale of shares of listed company

The short-term capital gain of ₹ 25,000 (₹ 75,000, being the sale consideration less ₹ 50,000, being the cost of acquisition) arising in the hands of Ms. Nisha from sale of shares acquired by investing the interest income of ₹ 50,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Nishant.

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the hands of Ms. Nisha. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable @ 5% in the hands of Ms. Nisha.

Question 22

Mr. Shashank is an employee of KML (P) Ltd. drawing a monthly salary of Rs 30,000. He provides you the following information for the previous year 2023-24:

- He had a fixed deposit of ₹ 4,00,000 with State Bank of India with interest @10%. He instructed bank to credit such interest on deposit to the saving account of Mr. Ram, his sister's son, to help him in his higher education.
- He gifted a flat to Mrs. Kajal (wife of Mr. Shashank) on April 1, 2023. During the previous year 2023- 24, she received a rent of ₹ 20,000 p.m. from letting out the flat.
- He gifted ₹ 10,00,000 to Mrs Kajal on 1st April, 2023 which Mrs Kajal invested in her business on the same day. Capital in the business before such investment was ₹ 20,00,000. She earned profits from business for the financial year 2023-24 of ₹ 9,00,000.
- His minor son Sandeep earned income from company deposit of ₹ 1,50,000. Mr. Shashank and Mrs Kajal do not have any other income during the P.Y. 2023-24. Compute the total income of Mr. Shashank and Mrs. Kajal for A.Y. 2024-25.

Answer

Computation of Total income of Mr. Shashank and Mrs Kajal for the A.Y. 2024-25

Particulars	Mr. Shashank (₹)	Mrs. Kajal (₹)
Salary income (30,000 × 12) Less standard deduction ₹ 50,000	3,10,000	
Income from house property [₹2,40,000 (₹20,000 × 12) less standard deduction of 30%] (Note 1)	1,68,000	
Income from other sources		
Interest on fixed deposit with State bank of India (₹4,00,000 × 10%) (Note 2)	40,000	
Profits and gains from business or profession		
Profits earned by Mrs Kajal from her business (Note3)	3,00,000	6,00,000
Income before including income of minor child under section 64(1 A)	8,18,000	6,00,000
Income from other sources		
Minor son Sandeep – Income from company deposit (Note 4)	1,48,500	
Total income	9,66,500	6,00,000

Notes:

- According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. Shashank shall be deemed to be the owner of the flat gifted to Mrs Kajal and hence, the income arising from the same shall be computed in the hands of Mr. Shashank.

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

(2) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 40,000 transferred by Mr. Shashank to Mr. Ram shall be included in the total income of Mr. Shashank.

(3) Section 64(1)(iv) provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case Mrs Kajal received a gift of ₹ 10,00,000 on 1.4.2023 from her husband which she invested in her business on the same day. The income to be clubbed in the hands of Mr. Shashank for the A.Y. 2024–25 is computed as under:

Particulars	Ms Kajal's capital contribution (₹)	Capital contribution out of gift from Mr. Shashank (₹)	Total (₹)
Capital as on 1.4.2023	20,00,000	10,00,000	30,00,000
Profit for P.Y. 202324 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2023 (2:1)	6,00,000 (9,00,000 × 2/3)	3,00,000 (9,00,000 × 1/3)	9,00,000

Therefore, the income to be clubbed in the hands of Mr. Shashank for the A.Y.2024–25 is ₹ 3,00,000.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mrs Kajal, since she has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e, her husband.

(4) As per section 64(1 A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includable in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.

Therefore, the income of ₹ 1,50,000 received by minor son Sandeep from company deposit shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. Shashank, since Mr. Shashank's income of ₹ 8,68,000 (before including the income of the minor child) is greater than Mrs Kajal's income of ₹ 6,00,000. Therefore, ₹1,48,500 (i.e., ₹1,50,000 – ₹1,500) shall be included in Mr. Shashank's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Set off and Carry forward of losses

Question 23

Mr. Mohit submits the following information for the previous year 2024-25:

		(Amount in ₹)
(i)	Income from salary	6,50,000
(ii)	Income from House-1	55,000
(iii)	Loss from House-II (self-occupied property)	1,25,000
(iv)	Loss from House-III	190,000
(v)	Loss from leather business	68,000
(vi)	Profit from cloth business	1,70,000
(vii)	Short term capital loss in equity-oriented funds on which STT was paid	35,000
(viii)	Income from crossword puzzles	12,000
(ix)	Dividend from foreign company (Gross)	8,500
(x)	Loss on owning and maintenance of race horses	7,500
(xi)	Income from owning and maintenance of race bulls	9,000

Compute the gross total income and losses to be carried forward of Mr. Mohit for assessment year 2025-26 under regular provisions of the Act. Mr. Mohit has filed his return of income on 25.07.2025.

(6 Marks)

Answer

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

Particulars	₹	₹
Salaries		
Income from salary	6,50,000	
Less: Loss from house property of ₹ 2,60,000, restricted to	<u>2,00,000</u>	4,50,000
Income from house property		
Income from House I	55,000	
Less: Loss from House II (self-occupied)	1,25,000	
Loss from House III	1,90,000	3,15,000
		(2,60,000)
Set-off of loss from house property against salary income, restricted to	<u>2,00,000</u>	
Loss to be carried forward to A.Y. 2026-27	(60,000)	
Profits and gains of business or profession		
Profit from cloth business	1,70,000	
Less: Loss from leather business	<u>68,000</u>	1,02,000
Capital Gains		

Short term capital loss in equity-oriented funds on which STT is paid ₹ 35,000 to be carried forward to A.Y. 2026-27 since such loss can be set-off only against capital gains and not against income under any other head	-		
Income from other sources			
Income from owning and maintenance of race bulls	9,000		
Loss of ₹ 7,500 from the activity of owning and maintenance of race horses cannot be set-off against any source other than income from the activity of owning and maintaining race horses. Hence, such loss has to be carried forward to A.Y. 2026-27	Nil		
Income from crossword puzzles	12,000		
Dividend from foreign company	8,500	29,500	
Gross Total Income			5,81,500

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

Particulars	₹
Loss from house property	60,000
[to be carried forward for set-off against income from house property]	
Short-term capital loss in equity oriented funds on which STT was paid	35,000
[to be carried forward for set-off against capital gains, longterm or short-term]	
Loss from owning and maintaining race horses	7,500
[to be carried forward for set-off against income from the activity of owning and maintaining race horses]	

Note: Loss from house property can also be set-off to the extent of ₹ 1,02,000 from profits and gains from business or profession and balance i.e., ₹ 98,000 against Income under the head "Salaries".

Question 24

Compute the total income of Mr. Praveen (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2024. Also, show the items eligible for carry forward.

Particulars	₹
Income from salaries	2,20,000
Loss from house property	2,50,000
Loss from toy business	1,30,000
Income from speculation business	40,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,10,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	50,000

Answer
Computation of total income of Mr. Praveen for the A.Y.2024-25

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property set-off against salary as per section 71(1) & 71 (3A)	2,00,000	20,000
Profits and gains of business or profession		
Income from speculation business	40,000	
Less: Loss from toy business set off	40,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Long term capital loss on sale of listed shares on which STT is paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 11 2A	1,10,000	
	1,40,000	
Less: Loss from toy business set off	90,000	50,000
Income from other sources		
Income from betting		45,000
Gross total income		1,15,000
Less: Deduction under section 80C(life insurance premium paid)		20,000
Total income		95,000

Losses to be carried forward:

	Particulars	₹
(1)	Loss from house property ($\text{₹}2,50,000 - \text{₹}2,00,000$)	50,000
(2)	Loss from toy business ($\text{₹}1,30,000 - \text{₹}40,000 - \text{₹}90,000$)	Nil
(3)	Loss from specified business covered by section 35AD	20,000

Notes:

- As per section 71 (3A), loss from house property can be set-off against any other head of income to the extent of ₹2,00,000 only. As per section 71 B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y. 2032-33, in this case.
- Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. If loss cannot be so setoff, the same has to be carried forward to the subsequent year for set-off against profits and gains of any specified business, if any, in that year. As per section 73A (2), such loss can be carried forward indefinitely for setoff against profits of any specified business.
- Business loss cannot be set off against salary income. However, business loss of ₹90,000 ($\text{₹}1,30,000 - \text{₹}40,000$ set-off against income from speculation business) can be set-off against long-term capital gains from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 50,000.

(iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.

(v) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income.

Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to ₹ 20,000 [i.e., Gross Total Income of ₹ 1,15,000 – ₹ 50,000 (LTCG) – ₹ 45,000 (Casual income)].

(vi) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

Question 25

Compute the gross total income of Mr. Farhan and show the items eligible for carry forward and the assessment years up to which such losses can be carry forward from the following information furnished by him for the year ended 31-03-2024:

Particulars	Amount ₹
Loss from speculative business MNO	12,000
Income from speculative business BPO	25,000
Loss from specified business covered under section 35AD	45,000
Income from salary (computed)	4,18,000
Loss from house property	2,20,000
Income from trading business	2,80,000
Long-term capital gain from sale of urban land	2,05,000
Long-term capital loss on sale of equity shares (STT not paid)	85,000
Long-term capital loss on sale of listed equity shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,10,000
Short-term capital loss under section 111A	85,000

Following are the brought forward losses:

- Brought forward loss from speculative business MNO ₹ 18,000 relating to A.Y. 2020-21.
- Brought forward loss from trading business of ₹ 12,000 relating to A.Y. 2018-19. Unabsorbed depreciation ₹ 1,00,000 relating to A.Y. 2023-24. Assume Mr. Farhan has furnished his return of income on or before the due date specified under section 139(1) in all the above previous years.

Answer

Computation of Gross total income of Mr. Farhan for the A.Y.2024-25

Particulars	₹	₹
Salaries		
Income from Salary	4,18,000	
Less: Loss from house property set-off against salary	(2,00,000)	2,18,000
[As per section 71 (3A), loss from house property to the extent of ₹ 2,00,000 can be set-off against any other head of income.]		
Profits and gains of business or profession		
Income from trading business	2,80,000	

Less: Brought forward loss from trading business of A.Y. 2015–16 can be set off against current year income from trading business as per section 72(1), since the eight-year time limit as specified under section 72(3), within which setoff is permitted, has not expired.	(12,000)	
Less: Unabsorbed depreciation	(1,00,000)	1,68,000
Income from speculative business BPO	25,000	
Less: Loss from speculative business MNO setoff as per section 73(1)	(12,000)	
Loss from speculative business MNO brought forward from A.Y. 2020–21 as per section 73(2), can be set off to the extent of ₹ 13,000. Balance loss will be lapsed, since four years has expired	(13,000)	-
Capital Gains		
Long term capital gain on sale of urban land	2,05,000	
Less: Long term capital loss on sale of shares (STT not paid) set- off as per section 71 (3)	(85,000)	
Less: Long-term capital loss on sale of listed equity shares on which STT is paid can also be set-off as per section 71(3), since long-term capital arising on sale of such shares is taxable under section 112A	(1,10,000)	
Less: Short-term capital loss under section 111A as per section 71 (2)	(10,000)	-
Gross Total Income		3,86,000

Items eligible for carried forward to A.Y.2025–26

Particulars	₹
Loss from house property As per section 71 B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y. 2032–33, in this case.	20,000
Loss from specified business under section 35AD Loss from specified business under section 35AD can be setoff only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .	45,000
Short-term capital loss under section 111 A Short-term capital loss under section 111A can be set-off against long term or short term capital gains. If it cannot be so set-off, it has to be carried forward to the next year for set-off against capital gains, if any, in that year. It can be carried forward for a maximum of eight assessment years, i.e., up to A.Y.2032–33, in this case, as specified under section 74(1).	75,000

Question 26

Mr. Suresh is Lawyer by profession and his income from profession for the year 2023–24 is ₹ 10,00,000. From the information given by him, you are required to compute his total income for A.Y. 2024–25 and the losses to be carried forward assuming that he files his income tax returns every year before due date.

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

Assume that Mr. Suresh does not opt for the provisions of section 11 5BAC and his income before considering clubbing provisions is higher than that of his wife.

Answer

Computation of Total Income of Mr. Suresh for A.Y. 2024-25

Particulars	₹	₹	₹
Profits and gains from business and profession			
Income from profession		10,00,000	8,00,000
Less: Loss from house property (can be set-off to the extent of ₹ 2,00,000, as per section 71 (3A).)		2,00,000	
Capital gains			
Long term capital gains on sale of equity shares under section 112A		1,20,000	
Long term capital gain under section 112		3,00,000	
Less: Short term capital loss set off against long- term capital gain as per section 7A		(4,20,000)	Nil
Income from other sources			
Income of minor son Raj			
Income from company deposit includable in the hands of Mr. Suresh as per section 64(1 A)	1,60,000		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	1,58,500	
Income of minor daughter Rashmi			
Income of ₹ 15,00,000 of minor daughter Rashmi (professional dancer) not includable in the hands of parent, since such income is earned on account of her special skills	Nil		
Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includable as per section 64(1 A),	15,000		

Question 27

Mr. Akshay, a resident individual, provides the following details of his income/losses for the year ended 31.03.2025:

	Particulars	Amount (₹)
(i)	Income from salary (computed)	35,20,000
(ii)	Rent received from house property situated in Delhi	5,00,000
(iii)	Repayment of loan taken for purchase of above property. Loan was taken from a friend. This repayment includes payment of interest of ₹ 7,00,000	15,25,000
(iv)	Rent received from house property situated in Jaipur	3,20,000
(v)	Interest on loan taken for repair of house properties situated in Mumbai and Delhi. The property in Mumbai is self-occupied. Loan was taken on 01.04.17 and was utilized in 50:50 ratio for house properties situated in Mumbai and Delhi, respectively.	1,50,000
(vi)	Long-term capital gains on sale of equity shares on which STT has been paid	7,95,000
(vii)	Interest on fixed deposit	73,000
(viii)	Loss from textile business	7,50,000
(ix)	Speculation business profit	2,30,000
(x)	Lottery income (Gross)	75,000
(xi)	Loss incurred by the firm in which he is a partner	1,60,000
(xii)	Salary received as a partner from partnership firm. The same was allowed to firm	50,000
(xiii)	Life insurance premium paid for his son who is 30 years of age and is working in USA	15,000

He has the following brought forward losses of A.Y. 2024–25

Brought forward short-term capital loss on sale of gold	2,75,000
Brought forward loss on sale of equity shares u/s 111A	25,000

Compute total income of Mr. Akshay for the assessment year 2025–26 and the amount of loss that can be carried forward. Mr. Akshay has opted out of the default tax regime.

Answer

Computation of total income of Mr. Akshay for the A.Y.2025–26

Particulars	₹	₹	₹
<u>Income from salary (computed)</u>			35,20,000
<u>Income from house property</u>			
(i) House property at Delhi (Let out)			
Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value)	5,00,000		
Less: Deduction u/s 24			

(a) 30% of NAV	1,50,000			
(b) Interest on loan				
For purchase of property	7,00,000			
For repairs of property [1,50,000/2]	75,000	9,25,000	(4,25,000)	
(ii) House property at Jaipur (Let out)				
Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value)	3,20,000			
<i>Less: Deduction u/s 24</i>				
30% of NAV	<u>96,000</u>	2,24,000		
(iii) House property at Mumbai (Self-occupied)				
Annual Value of self-occupied property	Nil			
<i>Less: Deduction u/s 24(b)</i>				
Interest on loan for repairs (to be restricted to Rs 30,000)	<u>30,000</u>	(30,000)		
Loss from house property		<u>(2,31,000)</u>		
As per section 71 (3A), loss from house property to be set-off against salary income to the extent of				<u>(2,00,000)</u>
				33,20,000
Profits and gains of business or profession				
Speculation business profit	2,30,000			
Salary received as partner of firm is taxable in his hands since the entire salary was allowed as deduction in the hands of the firm	<u>50,000</u>			
	2,80,000			
<i>Less: Set-off of loss from textile business to the extent of</i>	<u>(2,80,000)</u>		Nil	
Share of loss incurred by the firm in which he is partner cannot be set-off against salary received as partner of firm or any other income, since loss from an exempt source cannot be set-off against profit from a taxable source.			Nil	
Capital Gains				
Long-term capital gains on sale of equity shares on which STT is paid		7,95,000		
<i>Less: Set-off of brought forward short-term capital loss</i>				
Brought forward short-term capital loss on sale of gold	2,75,000			
Brought forward short-term capital loss u/s 111A	25,000	<u>3,00,000</u>		
		4,95,000		
<i>Less: Set-off of balance loss of textile business [₹7,50,000 - ₹ 2,80,000 - ₹ 73,000]</i>		<u>(3,97,000)</u>	98,000	

Income from Other Sources			
Interest on fixed deposit	73,000		
Less: Set off of loss of textile business against this income would be more beneficial than against LTCG, since it is taxable @30%	(73,000)	Nil	
Lottery income	<u>75,000</u>	<u>75,000</u>	
Gross Total Income			34,93,000
Less: Deduction under Chapter VI-A			
Under section 80C			
Life insurance premium paid			
Life insurance premium paid to insure the life of her son allowable as deduction even if he is major, resides abroad and is not dependent on her	15,000		
Repayment of housing loan			
₹ 8,25,000 for house property in Delhi, not allowable since loan is taken from a friend	Nil		
Total Income			<u>15,000</u> 34,78,000

Loss to be carried forward to A.Y.2026-27:

Particulars	₹
Loss from house property (₹ 2,31,000 ₹ 2,00,000)	31,000

TDS TCS

Question 28

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

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

Answer

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

Question 29

Briefly discuss the provisions of tax deducted at source under the Income-tax Act, 1961 in respect of the following payments:

- Mr. Shamsher (a resident individual aged 65 years) has maintained two fixed deposits in two different branches of HFC Bank of India (working on core banking solution). During the year 2024–25, the bank paid ₹32,000 and ₹17,000 as interest on these fixed deposits.
- Mr. Chetan, a pensioner, pays ₹ 55,00,000 in November 2024 to Mr. Gopi, for contract payment for reconstruction of his residential house.

(4 Marks)

Answer

- HFC Bank is not required to deduct tax at source under section 194A, since the aggregate interest on fixed deposit with the two branches of the bank ₹49,000 does not exceed the threshold limit of ₹ 50,000, applicable in case of senior citizen. Since HFC Bank has adopted core banking solution (CBS), the aggregate interest paid by both branches has to be considered.
- TDS provisions under section 194C are not attracted in this case, since Mr. Chetan is a pensioner. However, Mr. Chetan has to deduct tax at source @2% u/s 194M, since the payment to contractor, Mr. Gopi, exceeds ₹50 lakhs.

Question 30

Briefly discuss the provisions of tax deduction at source under the Income-tax Act, 1961 and determine the amount, if any, of TDS in respect of the following payments:

- Mr. Vikas received a sum of ₹10,20,000 on 28.02.2025 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.
- Indian Bank sanctioned and disbursed a loan of ₹12 crores to B Ltd. on 31-12-2024. B Ltd. paid a sum of ₹1,20,000 as service fee to Indian Bank for processing the loan application. (4 Marks)

Answer

TDS implications

(i) On pre-mature withdrawal from EPF

No tax is deductible under section 192A even though the employee, Mr. Vikas, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.

(ii) On payment of service fee to bank

Even though service fee is included in the definition of "interest" under section 2(28A), no tax is deductible at source under section 194A, since the service fee is paid to a banking company, i.e., Indian Bank.

Question 31

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. 2024-25.

- ABC Ltd is a producer of natural gas. During the year it sold natural gas worth 26,50,000 to M/s Deep Co., a partnership firm. It also incurred 1,70,000 as freight for the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges.
- 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 2023-24 as under

BILL NO.	DATE	AMOUNT ₹
1	30-04-2023	27,000
57	30-06-2023	25,000
105	30-09-2023	28,000
151	30-12-2023	32,000

Answer

- 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 No. 9/2012 dated 17.10.2012, 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/-.

(ii) In this case, the individual contract payments (through the bills dated 30.4.2023, 30.6.2023 and 30.9.2023) made by ABC LLP to XYZ does not exceed '30,000. However, since the aggregate amount paid to XYZ during the P.Y. 2023-24 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 32,000, due on 30.12.2023, 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 30.12.2023. Hence, TD5 u/s 194C = ₹ 2,240.

Question 32

An amount of 50,000 was paid to Mr. Rakesh on 1.9.2022 towards fees. for professional services without deduction of tax at source. Subsequently, another payment of 60,000 was due to Mr. Rakesh on 31.1.2023, from which tax@10% (amounting to ₹ 11,000) on the entire amount of 1,10,000 was deducted. However, this tax of ₹ 11,000 was deposited only on 22.7.2023.

Compute the Interest chargeable under section 201 (1A).

Answer

Interest under section 201(1A) would be computed as follows-

Particulars	₹
1% on tax deductible but not deducted i.e., 1% on ₹ 5,000 for 5 months	250
12% on tax deducted but not deposited i.e. 12% on ₹ 11,000 for 6 months	990
	1,240

Deductions from GTI

Question 33

Mr. Rajkumar, a proprietor has set up a unit in Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2023-24.

Particulars	Rajkumar Proprietorship (₹)	Unit in DTA (₹)
Total Sales	7,50,00,000	3,00,00,000
Export Sales	4,50,00,000	1,50,00,000
Net Profit	90,00,000	15,00,000

Compute the quantum of eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2024-25, in the following situations:

- If both the units were set up and start manufacturing from 20-07-2015.
- If both the units were set up and start manufacturing from 04-10-2020.

Answer

Computation of deduction under section 10AA of the Income-tax Act, 1961 As per section 10AA, in computing the total income of Mr. Rajkumar from his unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 1st April 2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of first five consecutive assessment years beginning with the assessment year relevant to the previous year in which the undertaking begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years subject to fulfillment of other conditions specified in section 10AA.

Computation of eligible deduction under section 10AA [See Working Note below]:

- If unit in SEZ was set up and began manufacturing from 20-07-2015: Since A.Y. 2024-25 is the 9th assessment year from A.Y. 2016-17, relevant to the previous year 2015-16, in which the SEZ unit began manufacturing of articles or things, he shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\% \\
 &= 75 \text{ lakhs} \times \frac{300 \text{ lakhs}}{450 \text{ lakh}} \times 50\% \text{ } ₹ 25 \text{ lakhs}
 \end{aligned}$$

- If Unit in SEZ was set up and began manufacturing from 04-10-2020: Since A.Y. 2024-25 is the 4th assessment year from A.Y. 2021-22, relevant to the previous year 2020-21, in which the SEZ unit began manufacturing of articles or things, he shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}}$$

$$=75 \text{ lakhs} \times \frac{300 \text{ lakhs}}{450 \text{ lakhs}} \times 100\% \text{ Rs}50 \text{ lakhs}$$

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Rajkumar Proprietorship (Rs)	Unit in DTA (Rs)	Unit in SEZ (Rs.)
Total Soles	7,50,00,000	3,00,00,000	4,50,00,000
Export Sales	4,50,00,000	1,50,00,000	3,00,00,000
Net Profit	90,00,000	15,00,000	75,00,000

Question 34

Mr. Jain, a resident individual, aged 40 years, suffers from severe disability as certified by medical authority. He gives the following information for the previous year 2023-24 –

- He has paid life insurance premium by cheque ₹ 27,000 to insure his life. The insurance policy was taken on 27.8.2018 and the sum assured is ₹ 2,20,000.
- He had written a literary book for Rochak Publication. A lump sum amount of royalty income earned in the previous year 2022-23 amounted to ₹ 9,00,000, Expenses incurred for writing the book amounted to ₹ 40,000.
- His friends gifted a statue of Goddess Saraswati to his daughter Ms. Diya (aged 14 years) on the successful completion of her secondary school. Fair market value of the statue is ₹ 65,000.
- He received a gold chain worth Rs 68,000 from his in-laws on the occasion of his marriage anniversary
- He had deposited 70,000 in fixed deposit with SBI in the name of his minor son in September 2023. Interest earned on such deposit ₹ 5,500.
- He donated ₹ 5,000 in cash to a NGO (the NGO was registered under section 80G of the Income-tax Act, 1961).
- He had taken a loan of Rs 38,00,000 for the purchase of a house property valuing ₹45,00,000 for self- occupation from a financial institution on 1st May 2021. He repaid ₹1,80,000 during the P.Y. 2023- 24 out of which ₹1,05,000 is towards principal payment and the balance is for interest on loan.

Compute the total income of Mr. Jain for the A.Y. 2024-25 if he does not opt for the provisions of section 115BAC,

Answer
Computation of total income of Mr. Jain for the A.Y.2024-25

Particulars	Rs	Rs
Income from house property		(75,000)
NAV	Nil	
Less: Interest on loan	75,000	
Income from Other Sources		(75,000)
Royalty	9,00,000	
Less: Expenses incurred for writing book	40,000	8,60,000
Value of statue of Goddess Saraswati	65,000	

[The fair market value of the statue (sculpture) received by his minor daughter as gift (not on account of her skill) from his friends would be taxable, since its value exceeds Rs 50,000. It would be included in the hands of Mr. Jain, assuming his income before considering clubbing provisions is higher than his wife].	1,500	
Less: Exemption under section 10(32)		63,500
Value of Gold Chain [The Fair market value of Rs 68,000 of gold chain received on occasion of his marriage anniversary would be exempt, since it is received from a relative.]		-
Interest on fixed deposit in the name of his son [It would be included in the hands of Mr. Jain, assuming his income before considering clubbing provisions is higher than his wife]	5,500	
Less: Exemption under section 10(32)	1,500	4,000
Gross Total Income		8,52,500
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Life insurance premium [Since Mr. Jain suffers from severe disability, premium upto 15% of the sum assured Rs 2,20,000 would be allowed, as the policy is taken after 31.3.2012]	27,000	
Repayment of principal amount for housing loan	1,05,000	1,32,000
Deduction under section 80G		
Donation to an NGO registered under section 80G [Not allowable since the donation is made in cash of a sum exceeding ₹ 72,000]		-
Deduction under section 80QQB		
Royalty income of a resident from literary book		3,00,000
Deduction under section 80U [Since Mr. Jain suffers from severe disability]		1,25,000
Total income		2,95,500

Return of Income

Question 35

In the following cases relating to P.Y.2024–25, the total income of the assessee or the total income of any other person in respect of which he/she is assessable under Income-tax Act does not exceed the basic exemption limit. You are required to state with reasons, whether the assessee is still required to file the return of income or loss for A.Y.2025–26 in each of the following independent situations:

- (i) Manish & Sons (HUF) sold a residential house on which there arose a long term capital gain of ₹ 12 lakhs which was invested in Capital Gain Bonds u/s 54EC so that no long term capital gain was taxable.
- (ii) Samarth has incurred an expenditure of ₹ 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels. **(4 Marks)**

Answer

- (i) A HUF whose total income without giving effect to, inter alia, section 54EC, exceeds the basic exemption limit, is required to file a return of its income on or before the due date under section 139(1). In this case, since the total income without giving effect to exemption under section 54EC is Rs 12 lakhs, exceeds the basic exemption limit, the HUF is required to file its return of income for A.Y. 2025–26 on or before the due date under section 139(1).
- (ii) If an individual has incurred expenditure exceeding ₹ 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since Mr. Samarth has incurred expenditure of ₹1,20,000 in the P.Y.2024–25 towards consumption of electricity, he has to file his return of income for A.Y. 2025–26 on or before the due date under section 139(1).

Question 36

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 2023. He approached you on 1.9.2023 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?

Answer

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 Aadhar 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 –

- (i) refund of any amount of tax or part thereof, due under the provisions of the Act shall not be made;
- (ii) 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;
- (iii) 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;

(iv) 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 1.9.2023, 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.

Question 37

What are the consequences of failure to intimate Aadhar Number. Is there any fee for such default?

(4 Marks)

OR

(i) What is the fee for default in furnishing return of income u/s 234F?
(ii) To whom the provisions of section 139AA relating to quoting of Aadhar Number do not apply?

(4 Marks)

Answer

Part 1

If a person, who has been allotted PAN as on 1st July, 2017 and is required to intimate his Aadhaar number, has failed to intimate the same on or before 31st March, 2022, the PAN of such person would become inoperative and he would be liable for payment of fee in accordance with section 234H read with Rule 114(5A) i.e., ₹ 1,000.

A person, whose PAN has become inoperative, would be liable for following further consequences for the period commencing from the date notified by the CBDT i.e., from 1.7.2023 till the date it becomes operative-

(i) no refund of any amount of tax or part thereof, due under the provisions of the Act;
(ii) interest would not be payable on such refund for the period, beginning with the date notified by the CBDT and ending with the date on which it becomes operative;
(iii) 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;
(iv) 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.

Part 2

(i) Fee for default in furnishing return of income u/s 234F

Where a person who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, a sum of ₹ 5,000. However, if the total income of the person does not exceed ₹ 5 lakhs, the fees payable shall not exceed ₹ 1,000

(ii) Persons to whom provisions of section 139AA relating to quoting of Aadhar Number does not apply

The provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

(i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;
(ii) a non-resident as per Income-tax Act, 1961;
(iii) of the age of 80 years or more at any time during the previous year;
(iv) not a citizen of India.



Question 38

Mr. Naksh has undertaken certain transactions during the F.Y.2024-25, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents-

S. No.	Transaction
1.	Payment of life insurance premium of ₹ 40,000 in the F.Y.2024-25 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,10,000 to RBI for acquiring its bonds
3.	Applied for issue of credit card to SBI
4.	Payment of ₹ 1,00,000 by account payee cheque to travel agent for travel to Singapore for 3 days to visit

Answer

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 40,000 in the F.Y.2024-25 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed ₹ 50,000 in the F.Y.2024-25.
2.	Payment of ₹ 1,10,000 to RBI for acquiring its bonds	Yes, since the amount paid exceeds ₹ 50,000
3.	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.
4.	Payment of ₹ 1,00,000 by account payee cheque to travel agent for travel to Dubai for 3 days to visit	No, since the amount was paid by account payee cheque and not in cash, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000

Question 39

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.
- Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

Answer

- 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.

(ii) **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.

Question 40

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 2025-26:

- Mr. Aneesh aged 31 years, who pays tax under default tax regime u/s 115BAC(1A) had a total income of ₹ 2,90,000 for the previous year 2024-25.
- Smt. Patel, aged 65 years, has a TDS credit of ₹ 55,000 during the previous year 2024-25.
- The gross receipts of Mr. Ajit, aged 45 years, an architect for the previous year 2024-25 was ₹ 12,00,000, but his profit from profession was only ₹ 2,25,000 and he has no other income.

(4 Marks)

OR

State the persons who are required to file their return of income in pursuance of the notification issued by the CBDT has vide Notification No. 37/2022 dated 21.04.2022.

(4 Marks)

Answer

[First Alternative]

- In this case, Mr. Aneesh is not required to file return of income, since his total income does not exceed ₹ 3,00,000, 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.
- in the present case, since Smt. Patel, a senior citizen has a TDS credit of Rs 55,000, which exceeds the threshold limit of ₹ 50,000, she is required to file her return of income even if her total income does not exceed the basic exemption limit.
- in this case, since Mr. Ajit's gross receipts from the profession of architect was ₹ 12,00,000 for the P.Y. 2024-25, which is in excess of ₹ 10 lakhs, hence, he is required to file his return of income though his total income is ₹ 2,25,000 which does not exceed the basic exemption limit.

[Second Alternative]

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 –

- if his total sales, turnover or gross receipts, as the case may be, in the business > ₹ 60 lakhs during the previous year; or
- if his total gross receipts in profession > ₹ 10 lakhs during the previous year; or
- if the aggregate of TDS and TCS during the previous year, in the case of the person, is Rs 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

- the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year.

Total Income Questions

Question 41

Mr. Raman, a resident individual aged 62 years, is engaged in the business of manufacturing and sales of spare parts for motor bikes, as a proprietor. He prepares his accounts on mercantile basis. This business is carried out on the ground floor of a two storied commercial building owned by him, the written down value of which is ₹ 8 lakhs as on April 1, 2024. The Statement of Profit and Loss for the previous year ended on March 31, 2025 shows a net profit of ₹ 9.25 lakhs (before taxation and depreciation) after debiting/crediting the following items:

- Administrative expenses include ₹ 9,525 paid towards interest on delay in deposit of GST.
- General expenses include a sum of ₹ 3,88,000 paid to a non-resident as fee for technical services without deduction of tax at source.
- Fire insurance premium of ₹ 66,000 for the entire building remained unpaid till 31st March, 2025.
- Expenditure of ₹ 75,000, was paid to a scientific research association approved under section 35. Out of ₹ 75,000, ₹ 50,000 was utilised towards the purchase of land by the research association.
- He let out first floor of his commercial building to Mr. Aman on April 1, 2024 and received rent of ₹ 35,000 per month. Municipal taxes ₹ 20,000 relating to the building were paid equally by both Mr. Raman and Mr. Aman. Rent received was credited and municipal taxes of ₹ 10,000 (relating to ground floor) was debited to the statement of profit and loss.
- He sold a piece of land for ₹ 44 lakhs on 12th April, 2024. He had acquired the land for 40 lakhs on 1st January, 2023. The gain of ₹ 4,00,000 is credited to the statement of profit and loss.

(Oil for F.Y. 2021-22:317; F.Y. 2024-25:363)

Additional Information:

- Mr. Raman purchased raw material from M/s. Paul industries, a micro enterprise, for ₹ 49,000 on March 10, 2025. However, the payment to M/s. Paul industries was made on April 5, 2025 by cheque. No written agreement for payment existed between M/s. Paul Industries and Mr. Raman. Another supplier M/s. Kal Industries, a small enterprise, with whom also no written agreement existed for payment, was paid ₹ 1,34,000 in cash on April 5, 2025 for purchase of raw material on March 31, 2025. Both M/s. Paul Industries and M/s. Kal Industries follow mercantile system of accounting.
- Mr. Raman acquired a registered trademark on July 15, 2024 for ₹ 2,00,000. Mr. Raman started using this trademark for his business from January 15, 2025. Mr. Raman omitted to enter any transaction relating to this trademark in his books of accounts.
- Mr. Raman bought a car for personal use on 12th April, 2021 for ₹ 5,40,000. He started using this car for business purposes from 01.04.2024. As on that day, the market value of the car was ₹ 2,10,000. Assume the rate of depreciation to be 15%.
- He incurred ₹ 2,50,000 on the purchase of a new machinery to be used in the production of spare parts for motor bikes on May 15, 2024.
- He has paid tuition fees of ₹ 25,000 for the education of his daughter to a college.
- During the year, Mr. Raman has incurred ₹ 9,500 in cash for preventive health check-up where ₹ 5,000 was for himself and ₹ 4,500 was for his parents who are super senior citizens.
- Donation paid to a registered political party by way of cheque ₹ 20,000.

Compute the total income and tax liability of assessment year 2025-26 of Mr. Raman under both the regimes.

(15 Marks)

Answer

Computation of total income and tax liability of Mr. Raman for A.Y. 2025-26 under default tax regime

	Particulars	₹	₹
I	Income from house property Gross Annual Value of first floor (Rent received has been taken as gross annual value in the absence of other information) [₹ 35,000 x 12] Less: Municipal taxes (paid by tenant, Mr. Aman, hence not deductible) Net Annual Value Less: Deduction @30% of NAV	4,20,000 Nil 4,20,000 1,26,000	2,94,000
II	Profits and gains of business or profession Net Profit Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other heads of income <ul style="list-style-type: none"> - Interest on delay in deposit of GST [Interest on delay in deposit in GST is compensatory in nature and hence, allowable as expenditure] - Fee for technical services to non-resident [100% disallowed under section 40(a)(i) since the TDS was not deducted] - Fire insurance premium [Fire insurance premium for ground floor which is occupied for business purpose is allowed since Mr. Raman is following mercantile system of accounting. Remaining half for let out portion is disallowed] [₹ 66,000/2] - Contribution to scientific research association approved u/s 35 [Not allowable under section 35(1)(ii) as per default tax regime] - Municipal taxes for ground floor [Allowable since the ground floor is occupied for business purpose] - Sum payable for purchase of raw material from M/s Paul Industries, a micro enterprise [Not allowable as per section 43B(h) since payment was made to a micro enterprise on 5.4.2025 which is beyond the time limit specified u/s 15 of the MSME Act, 2006 i.e., within 15 days from 10.3.2025] - Sum payable for purchase of raw material from M/s Kal Industries, a small enterprise [Allowable as per section 43B(h) since payment was made to a small enterprise on 5.4.2025 i.e., within 15 days from 31.3.2025]. However, since the payment is made in cash on 5.4.2025, ₹ 1,34,000 for purchase of raw material would be the deemed income of P.Y. 2025-26 as per section 40A(3A)] Less: Incomes credited to profit and loss account but not taxable as business income <ul style="list-style-type: none"> - Rent received for let out portion - Gain on sale of land 	9,25,000 Nil 3,88,000 33,000 75,000 Nil 49,000 Nil 14,70,000 4,20,000 4,00,000	

III Capital Gains Full value of consideration Less: Cost of acquisition Short term capital gains on land [Since land is held for less than 24 months]	6,50,000
	25,000
	81,000
	37,500
	80,000
	Nil
	4,26,500
	44,00,000
	40,00,000
	4,00,000
	11,20,500
	Nil
	11,20,500
	Nil
	68.075
	2,723
	70,798
	70,800

**Computation of total income and tax liability of Mr. Raman for
A.Y. 2025-26 under normal provisions of the Act**

Particulars	₹
Gross Total Income as per default tax regime	11,20,500
Less: Additional depreciation on new Plant & machinery [₹2,50,000 x 20%]	50,000
Less: Contribution to scientific research association approved u/s 35	75,000
Gross Total Income as per normal provisions of the Act	9,95,500
Less: Deduction under Chapter VI-A	
Deduction under section 80C	
Tuition fees to a college for daughter's education	25,000
Deduction under section 80D	

Preventive health check-up for self and parents restricted to Deduction under section 80GGC	5,000	
Donation to a registered political party since the payment is made otherwise than by cash	20,000	
		50,000
		9,45,500
Total Income as per normal provisions of the Act		
Tax Liability	Nil	
Up to ₹ 3,00,000		
From ₹ 3,00,001 to ₹ 5,00,000 @5%	10,000	
From ₹ 5,00,001 to ₹ 9,45,500 @20%	89,100	
		99,100
Add: Health and education cess @4%		3,964
Tax Liability		1,03,064
Tax Liability (Rounded off)		1,03,060

Question 42

Mr. Amit, aged 45 years, a resident Indian has provided you the following information for the previous year ended 31.03.2025

- He received royalty of ₹ 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2025 is ₹ 2,30,000.
- He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2021-22. Total turnover of the undertaking was ₹ 200 lakhs, which includes ₹ 140 lakhs from export turnover which have been received in India in convertible foreign exchange on or before 30.9.2025. Profit from this industry is ₹ 20 lakhs.
- He was holding 30% equity shares in TSP (P) Ltd., an Indian company. Company allotted shares to shareholders on 1st October, 2020. The paid up share capital of company is ₹ 20 lakh divided into ₹ 2 lakh shares of ₹ 10 each which were issued at a premium of ₹ 30 each. He sold all these shares on 30th April, 2024 for ₹ 60 per share. Equity shares of TSP (P) Ltd. are listed on National Stock Exchange and Mr. Amit has paid STT both at the time of acquisition and transfer of such shares. FMV on 31.1.2018 was ₹ 50 per share.
- Received ₹ 30,000 as savings bank deposits.
- He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,28,000. He has paid municipal taxes of ₹ 60,000 for the current financial year. Both floor are of equal size.
- He paid insurance premium of ₹ 39,000 on life insurance policy of son, who is not dependent on him and ₹ 48,000 on life insurance policy of his dependent father
- He paid tuition fees of ₹ 42,000 for his three children to a school. The fees being ₹ 14,000 p.a. per child.

You are required to compute the total income and tax liability of Mr. Amit under normal provisions for the A.Y. 2025-26. **(15 Marks)**

Answer

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

	Particulars	₹	₹	₹
I	Income from house property Let out portion [First floor] Gross Annual Value [Rent received is taken as GAV, in the absence of other information] Less: Municipal taxes paid by him in the P.Y. 2024-25 pertaining to let out portion [₹ 60,000/2] Net Annual Value (NAV) Less: Deduction u/s 24 (a) 30% of ₹ 1,98,000		2,28,000 30,000 1,98,000 59,400 1,38,600 Nil	
	Self-occupied portion [Ground Floor] Annual Value [No deduction is allowable in respect of municipal taxes paid]			1,38,600
II	Profits and gains of business or profession Income from SEZ unit			20,00,000
III	Capital Gains On transfer of 60,000 shares (2,00,000 × 30%) Sales consideration [60,000 × ₹ 60 per share] Less: Cost of acquisition [60,000 × 40] Long-term capital gains u/s 112A (since shares are held for a period of more than 12 months before transfer)		36,00,000 24,00,000	12,00,000
IV	Income from Other Sources Royalty from artistic book Less: Expenses incurred for earning royalty Interest on savings bank deposits		2,88,000 40,000 2,48,000 30,000	2,78,000
	Gross Total Income Less: Deduction u/s 10AA [Not available, since he commenced operation in P.Y. 2021-22] Less: Deduction under Chapter VI-A Deduction under section 80C Tuition fee paid for maximum of two children is allowable (₹ 14,000 × 2) Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Amit	28,000 39,000	36,16,600 -	

Insurance premium paid on life insurance policy of father not allowable, even though father is dependent on Mr. Amit	-	67,000	
Deduction under section 80QQB Royalty [$2,88,000 \times 15/18 = ₹ 2,40,000$. restricted to amount brought into India in convertible foreign exchange ₹ 2,30,000 minus ₹ 40,000 expenses already allowed as deduction while computing royalty income]		1,90,000	
Deduction under section 80TTA Interest on savings bank account, restricted to ₹ 10,000		10,000	
Total Income			2,67,000
			33,49,600

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

Particulars	₹	₹
Tax on total income of ₹ 33,49,600		
Tax on LTCG of ₹ 10,75,000, being the sum exceeding ₹ 1.25 lakh @10% u/s 112A		1,07,500
Tax on remaining total income of ₹ 21,49,600		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001 – ₹ 21,49,600 [@30% of ₹ 11,49,600]	3,44,880	4,57,380
		5,64,880
Add: Health and education cess@4%		22,595
Total tax liability		5,87,475
Tax liability (rounded off)		5,87,480

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

Particulars	₹
Computation of adjusted total income	
Total income as per the normal provisions of the Act	33,49,600
Add: Deduction u/s 80QQB	1,90,000
Adjusted Total Income	35,39,600
Alternative Minimum Tax@18.5%	6,54,826
Add: Health and education cess@4%	26,193
AMT liability	6,81,019
AMT liability (Rounded off)	6,81,020

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus cess@4%.

Therefore, liability as per section 115JC is ₹ 6,81,020.

AMT credit to be carried forward under section 115JEE

Particulars	₹
Tax liability under section 115JC	6,81,020
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	5,87,480
	93,540

Question 43

Ms. Farah, aged 40 years, is an advocate (Taxation). She keeps her books of accounts on accrual basis. Her profit & loss account for the year ended on March 31, 2025 is as follows:

Profit & Loss Account for the year ending March 31, 2025

	Amount (₹)		Amount (₹)
Staff salary	40,10,000	Fees Earned from:	
Rent	9,00,000	Taxation services	50,00,000
Administrative	6,50,000	Appeals	16,00,000
Incentives to office staff	2,00,000	Consultancy	<u>15,00,000</u>
Meetings, Seminars and conferences	1.70,000	Dividend from an Indian company (gross)	81,00,000
Purchase of car (for official use) on 01.07.2024	3,00,000	Interest on deposit certificates issued under gold monetization scheme, 2015	25,000
Repairs and Maintenance of car	35,000	Honorarium received for valuation of answer papers	50,000
Travelling Expenses	5,00,000	Rent received in respect of house property	90,000
Municipal tax paid in respect of house property	9,000		
Net profit	<u>25,91,000</u>		
	93,65,000		93,65,000

Other information

- Administrative expenses include ₹ 50,000 paid to a tax consultant in cash for assisting Ms. Farah in one of the professional assignments.
- The traveling expenses include expenditure incurred on foreign professional tour of ₹ 50,000 which was within the RBI norms.
- Ms. Farah paid medical insurance premium for her parents (senior citizens and not dependent on her) online amounting ₹ 47,000. She also paid ₹ 8,500 by cash towards preventive health check-up for herself and her spouse.
- Repairs and maintenance of car is for the period from 1-10-2024 to 30-09-2025.
- She has paid ₹ 1,00,000 towards advance tax during the P.Y. 2024-25.

Compute Total Income and Net tax payable as per the most beneficial taxation scheme for Ms. Farah for the A.Y. 2025-26. **(15 Marks)**

Answer

 Computation of Total Income of Ms. Farah for the A.Y.2025-26
under default tax regime under section 115BAC

Particulars	₹	₹	₹
Income from house property			
Gross Annual Value		90,000	
Less: Municipal taxes paid		9,000	
Net Annual Value (NAV)		81,000	
Less: Deduction under section 24(a) – 30% of NAV = 30% of ₹ 81,000		24,300	56,700
Profits and gains of business or profession			
Net profit as per Profit and loss account		25,91,000	
Add: Expenses debited but not allowable			
(i) Purchase of car [Amount paid for purchase of car is not allowable since it is a capital expenditure]	3,00,000		
(ii) Municipal tax paid in respect of house property [allowable as deduction under the head "Income from house property"]	9,000		
(iii) Payment made to tax consultant in cash [disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000]	50,000		
(iv) Travel expenditure on foreign professional tour (Since it is incurred in connection with professional work, the same is allowable as deduction. As it has already been debited to profit and loss account, no further adjustment is required)	-		
(v) Repair and maintenance of car [Repairs and maintenance paid in advance for the period 1.4.2025 to 30.9.2025 i.e. for 6 months amounting to ₹ 17,500 is not allowable as deduction, since Ms. Farah is following the accrual system of accounting]	17,500	3,76,500	
Less: Income credited but not taxable under this head:		29,67,500	
(i) Dividend from an Indian company (taxable under the head "Income from Other Sources")	11,00,000		
(ii) Interest on deposit certificates issued under gold monetization scheme, 2015 (taxability or otherwise to be considered under the head "Income from Other Sources")	25,000		
(iii) Honorarium for valuation of answer papers	50,000		
(iv) Rent received in respect of house property	90,000	12,65,000	
Less: Depreciation on car @15%		17,02,500	
		45,000	
			16,57,500

Income from Other Sources			
Dividend from an Indian company		11,00,000	-
Interest on deposit certificates issued under gold monetization scheme, 2015 [Exempt under section 10(15)]		-	
Honorarium for valuation of answer papers	50,000	11,50,000	
Gross Total Income			28,64,200
Less: Deduction under Chapter VI-A [Deduction under section 80D would not be allowable]			-
Total Income			28,64,200

Computation of tax payable under default tax regime under section 115BAC

Particulars	₹
Tax on total income of ₹ 28,64,200	
Upto : 3,00,000	Nil
₹ 3,00,001 – ₹ 7,00,000 [i.e., ₹ 4,00,000@5%]	20,000
₹ 7,00,001 – ₹ 10,00,000 [i.e., ₹ 3,00,000@10%]	30,000
₹ 10,00,001 – ₹ 12,00,000 [i.e., ₹ 2,00,000@15%]	30,000
₹ 12,00,001 – ₹ 15,00,000 [i.e., ₹ 3,00,000@20%]	60,000
₹ 15,00,001 – ₹ 28,64,200 [i.e., ₹ 13,64,200 @30%]	<u>409.260</u>
	5,49,260
Add: Health and Education cess@4%	21,970
Tax Liability	5,71,230
Less: Advance Tax paid	1,00,000
Less: Tax deducted at source on dividend Income from an Indian company under section 194 [11,00,000 × 10%]	<u>1,10,000</u>
Tax payable	3,61,230

Computation of total income and tax payable by Ms. Farah for the A.Y.2025-26 under regular provisions of the Act

Particulars	₹
Gross Total Income	28,64,200
[Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources" would remain the same under regular provisions of the Act]	
Less: Deductions under Chapter VI-A	
Section 800	
Medical insurance premium paid online for parents, being senior citizens	47,000
Payment made in cash of ₹ 8,500 for preventive health check-up for self and spouse restricted to	5,000
	52,000
Total Income	28,12,200
Tax on total income of ₹ 28,12,200	
Upto ₹ 2,50,000	Nil

₹ 2,50,001 – ₹ 5,00,000 [i.e. ₹ 2,50,000@5%]	12,500
₹ 5,00,001 – ₹ 10,00,000 [i.e. ₹ 5,00,000@20%]	1,00,000
₹ 10,00,001 – ₹ 28,12,200 [i.e., ₹ 18,12,200 @30%]	<u>5,43,660</u>
	6,56,160
Add: Health and Education cess@4%	<u>26,246</u>
Tax Liability	6,82,406
Less. Advance Tax paid	1,00,000
Less. Tax deducted at source on dividend income from an Indian company under section 194 [₹ 11,00,000 × 10%]	<u>1,10,000</u>
Tax payable	4,72,406
Tax payable (Rounded off)	4,72,410

Note – Since the tax payable under default tax regime under section 115BAC is lower than the tax payable under the regular provisions of the Act. it would be beneficial for Ms. Farah to pay tax under default tax regime under section 115BAC for A.Y. 2025-26.

Question 44

Mr. Ayush, a resident individual, aged 54 years, is engaged in the business of manufacturing textiles. He earned profit of ₹ 82,45,000 as per profit and loss account after debiting and crediting the following items:

- (i) Depreciation ₹ 15,40,000
- (ii) Short term capital gains on 01.05.2024 on transfer of listed equity shares in a company on which STT is paid ₹ 10,00,000
- (iii) He received income-tax refund of ₹ 15,550 which includes interest on refund of ₹ 4,550.
- (iv) Dividend income from Indian companies ₹ 15,00,000. Dividend received from each company is less than ₹ 5,000.

Additional information -

- (i) Mr. Ayush installed new plant and machinery for ₹ 65 lakhs on 1.10.2024 which was put to use on 1.1.2025. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 1962.
- (ii) Mr. Ayush took a loan from SBI of ₹ 50 lakhs on 1.9.2024 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2025 has been paid on 31.3.2025 and the same has been debited to profit and loss account.
- (iii) Advance tax paid during the year is ₹ 17,50,000
- (iv) Ayush purchased goods for ₹ 40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹ 35 lakhs.
- (v) He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 14.2017.
- (vi) He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.
- (vii) On 1.7.2024, Mr. Ayush withdrew ₹ 1.5 crores in cash from three current accounts maintained by him with SBI. There are no other withdrawals during the year. He regularly files his return of income.

You are required to compute the total income and tax payable by Mr. Ayush for the A.Y. 2025-26 assuming that he has shifted out of the default taxregime under section 115BAC. **(15 Marks)**

Answer

Computation of total Income of Mr. Ayush for A.Y. 2025-26 under the regular provisions of the Act

	Particulars	₹	₹	₹
1	Income from business or profession Net profit as per profit and loss account Add: Items of expenditure not allowable while computing business income (i) Interest on loan taken for purchase of plant & machinery [Interest from the date on which capital was borrowed till the date on which asset was first put to use. not allowable as deduction under section 36(1)(iii). Accordingly, interest of ₹ 1,75,000 [$\text{₹ } 50,00,000 \times 10.5\% \times 4/12$] has to be added back, since the same is debited to the profit and loss account] (ii) Purchase of goods at a price higher than the fair market value [The difference between the purchase price (₹ 40 lakhs) and the fair market value (₹ 35 lakhs) has to be added back as per section 40A(2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value]	82,45,000 1,75,000 5,00,000 6,75,000 89,20,000		
	Less: Items of income to be treated separately under the respective head of income (i) Income-tax refund including interest on refund of ₹ 4,550 (ii) Dividend from Indian companies (iii) Short term capital gains on transfer of listed equity shares	15,550 15,00,000 10,00,000 25,15,550 64,04,450		
	Less: Depreciation on interest on loan capitalised to plant and machinery ₹ 1,75,000, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized Normal depreciation @15% x 50% on such interest Additional depreciation @20% x 50% on such interest [Since plant & machinery was put to use for less than 180 days in P Y 2024-25, it is eligible for 50% of the rate of depreciation]	13,125 17,500 30,625		
II	Capital Gains Short term capital gains on transfer of listed equity shares		63,73,825 10,00,000	

III	Income from Other Sources Interest on income-tax refund Dividend from Indian companies Gross Total Income Less: Deductions under Chapter VI-A - Deduction under section 80C Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether dependent or not falls within the meaning of term "Person". Accordingly, whole of the amount of ₹ 40,000 is allowable as it does not exceed 10% of the ₹ 5,00,000. being the sum assured] - Deduction under section 80D Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to ₹ 25,000 Total Income Total Income (Rounded off)	4,550 <u>15,00,000</u> 88,78,375 40,000 <u>25,000</u> 65,000 88,13,375 88,13,380
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**Computation of tax payable by Mr. Ayush for A.Y. 2025-26
under the regular provisions of the Act**

Particulars	₹	₹
Tax on total income of ₹ 88,13,380		
Tax on short term capital gains on transfer of listed equity shares @15% u/s 111A [₹ 10,00,000 × 15%]		1,50,000
Tax on other Income of ₹ 78,13,380		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 78,13,380 [@30% of ₹ 68,13,380]	<u>20,44,014</u>	<u>21,56,514</u>
		23,06,514
Add. Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		<u>2,30,651</u>
		25,37,165
Add. Health and education cess@4%		<u>1,01,487</u>
Total tax liability		26,38,652
Less. TDS u/s 194N @ 2% on ₹ 50 lakhs. being the cash withdrawals exceeding ₹ 1 crore	1,00,000	
Less. Advance tax paid	<u>17,50,000</u>	<u>18,50,000</u>
Tax payable		7,88,652
Tax payable (Rounded off)		7,88,650

Question 45

Mr Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2025:

- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,95,000. He has paid municipal taxes of ₹ 25,000 for the current financial year. Both these floors are of equal size.
- (ii) As per interest certificate from HDFC bank, he paid ₹ 1,50,000 as interest and ₹ 80,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2018.
- (iii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019–20. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 150 lakhs from export turnover. Out of ₹ 150 lakhs, only ₹ 120 lakhs have been received in India in convertible foreign exchange on or before 30.9.2025. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 40 lakhs.
- (iv) He employed 20 new employees for the said industrial undertaking during the previous year 2024–25. Out of 20 employees, 12 were employed on 1st May 2024 for monthly emoluments of ₹ 18,000 and remaining were employed on 1st September 2024 on monthly emoluments of ₹ 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.
- (v) He earned ₹ 30,000 and ₹ 40,000 as interest on saving bank deposits and fixed deposits, respectively.
- (vi) He also sold his vacant land on 01.12.2024 for ₹ 15 lakhs. The stamp duty value of land at the time of transfer was ₹ 16 lakhs. This land was acquired by him on 15.10.1998 for ₹ 2.80 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4.8 lakhs and Stamp duty value on the said date was ₹ 4 lakhs. He had incurred registration expenses of ₹ 12,000 at that time.

The cost of inflation index for the financial year 2024–25 and 2001–02 are 363 and 100, respectively.

- (vii) He paid insurance premium of ₹ 40,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute total income and tax liability of Mr. Sunil for the Assessment Year 2025–26 under default tax regime. **(15 Marks)**

Answer

Computation of total Income of Mr. Sunil for A.Y. 2025–26 under default tax regime under section 115BAC

	Particulars	₹	₹	₹
1	Income from house property Let out portion [First floor] Gross Annual Value [Rent received is taken as GAV, in the absence of other information] Less: Municipal taxes paid by him in the P.Y. 2024–25 pertaining to let out portion [₹ 25,000/2] Net Annual Value (NAV) Less: Deduction u/s 24 (a) 30% of ₹ 2,82,500 (b) Interest on housing loan [₹ 1,50,000/2]		2,95,000 12,500 2,82,500 84,750 75,000	
				1,59,750

	Self-occupied portion [Ground Floor]	1,22,750	
	Annual Value	Nil	
	[No deduction is allowable in respect of municipal taxes paid]		
	Less: Interest on housing loan [Not allowable under section 115BAC]	Nil	
	Income from house property	Nil	1,22,750
II	Profits and gains of business or profession		
	income from SEZ unit		40,00,000
III	Capital Gains		
	Long-term capital gains on sale of land (since held for more than 24 months)		
	Full Value of Consideration [Actual consideration of ₹ 15 lakhs, since stamp duty value of ₹ 16 lakhs does not exceed 110% of actual consideration of ₹ 15 lakhs]	15,00,000	
	Less: Cost of acquisition [₹ 4,00,000] (As transfer is on or after 23.07.2024, the indexation benefit would not be available)	4,00,000	
	Cost of acquisition		11,00,000
	Higher of -		
	- Actual cost ₹ 2.80 lakhs + ₹ 0.12 lakhs = ₹2.92 lakhs and		
	- Fair Market Value (FMV) as on 1.4.2001 = ₹ 4.8 lakhs but cannot exceed stamp duty value of ₹ 4 lakhs.		
IV	Income from Other Sources		
	Income from Other Sources	30,000	
	Interest on fixed deposits	40,000	70,000
	Gross Total Income		52,92,750
	Less: Deduction under Chapter VI-A		
	Deduction under section 80JJAA		7,12,800
	30% of the employee cost of the new employees employed during the P.Y. 2024-25 for 240 days or more during the P.Y. 2024-25 allowable as deduction [30% of ₹ 23,76,000 (12 × 18,000 × 11)]		
	As per section 115BAC, no deduction under section 10AA or under Chapter VI-A is allowable except u/s 80JJAA		
	Total Income		45,79,950

Computation of tax liability of Mr. Sunil under section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 45,79,950		
Tax on LTCG on sale of vacant land		

As the asset is a long term capital asset, being land acquired before 23.07.2024 and transferred on or after 23.07.2024 by a resident individual, the tax shall be computed @20% with indexation benefit or @12.5% without indexation benefit, whichever is more beneficial to the assessee.

Tax @20% with indexation

Sale consideration = 15,00,000

Cost of acquisition = $4,00,000 \times 363/100 = 14,52,000$

Gain = 48,000

Tax @20% = $48,000 \times 20\% = 9,600$

Tax @12.5% without indexation

Tax @12.5% = $11,00,000 \times 12.5\% = 1,37,500$

Tax on LTCG on sale of vacant land @20% with indexation

9,600

Tax on remaining total Income of ₹ 34,79,950

Upto ₹ 3,00,000

Nil

₹ 3,00,001 – ₹ 7,00,000 [@5% of ₹ 4 lakhs]

20,000

₹ 7,00,001 – ₹ 10,00,000 [@10% of ₹ 3 lakhs]

30,000

₹ 10,00,001 – ₹ 12,00,000 [@15% of ₹ 2 lakhs]

30,000

₹ 12,00,001 – ₹ 15,00,000 [@20% of ₹ 3 lakhs]

60,000

₹ 15,00,001 – ₹ 34,79,950 [@30% of ₹ 19,79,950]

5,93,985

7,33,985

7,43,585

Add: Health and education cess@4%

29,743

Total tax liability

7,73,328

Tax liability (Rounded off)

7,73,330

Note - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

Question 46

Mr. Amit, having business of manufacturing of furniture, gives the following Trading and Profit & Loss Account for the year ended 31.03.2025:

Trading and Profit & Loss Account

Particulars	₹	Particulars	₹
Opening Stock	5,62,500	Sales	2,33,25,000
Purchases	1,88,62,500	Closing Stock	6,75,000
Freight & Cartage	1,89,000		
Gross profit	43,86,000		
	2,40,00,000		2,40,00,000
Bonus to staff	71,250	Gross profit	43,86,000
Rent of premises	80,250	Income-tax refund	30,000
Advertisement	7,500	Warehousing charges	22,50,000
Bad Debts	1,12,500		
Interest on loans	2,51,250		

Depreciation	1,07,250		
Goods and Services tax demand paid	1,62,525		
Salary	5,50,000		
Miscellaneous expenses	2,38,475		
Net profit	50,85,000		
	66,66,000		66,66,000

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

- Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.
- Salary includes ₹ 30,000 paid to his brother which is unreasonable to the extent of ₹ 5,000.
- Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- Miscellaneous expenses include an amount of ₹ 1,00,000 paid to Political Party by cheque
- Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and ₹ 12,750 towards interest for delay in deposit of tax.
- Mr. Amit had purchased a warehouse building of ₹ 20 lakhs in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.07.2024 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
- Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000 excluding depreciation on warehouse building.
- Interest on loans includes an amount of ₹ 80,000 paid to Mr. Mohit, a resident, on which tax was not deducted.

Compute the total income and tax liability of Mr. Amit for the A.Y. 2025-26 in a most beneficial manner. (15 Marks)

Answer

Computation of total income of Mr. Amit as per section 115BAC for A.Y. 2025-26

Particulars	₹
Net profit as per profit and loss account	50,85,000
Less: Income-tax refund credited in the profit and loss account, out of which interest on such refund is only taxable, which is to be considered separately under the head "income from other sources"	<u>30,000</u>
	50,55,000
Add: Expenses either not allowable or to be considered separately but charged in the profit & loss account	
- Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	5,000
- Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 1)	2,500
- Payment made to political party by cheque (See Note 2)	1,00,000
- Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 3)	5,300
- Depreciation as per books	1,07,250
- 30% of interest paid on loan paid to Mr. Mohit, a resident, without deduction of tax at source not allowable as per section 40(a)(a)	24,000
	52,99,050

Less: Depreciation allowable as per Income-tax Act, 1961	65,000	
Depreciation on building [3 20 lakhs x 10%]	2,00,000	2,65,000
Profits and gains from business or profession		50,34,050
Income from Other Sources		
Interest on income-tax refund		4,570
Gross Total Income		50,38,620
Less: Deduction under section 80GGC [Contribution to Political Party) [Not allowable]		Nil
Total Income		50,38,620

Notes –

- (1) The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).
- (2) Payment to political party is not an expenditure incurred wholly and exclusively for business purpose and hence not allowance under section 37(1). Since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (3) The interest of ₹ 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (4) Deduction under section 35AD is not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 50,38,620		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 7,00,001 – ₹ 10,00,000 [@10% of ₹ 3 lakhs]	30,000	
₹ 10,00,001 – ₹ 12,00,000 [@15% of ₹ 2 lakhs]	30,000	
₹ 12,00,001 – ₹ 15,00,000 [@20% of ₹ 3 lakhs]	60,000	
₹ 15,00,001 – ₹ 50,38,620 [@30% of ₹ 35,38,620]	10,61,586	
		12,01,586
Add: Surcharge @10% [Since, the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		1,20,159
		13,21,745
Less: Marginal relief (See computation below)		93,125
		12,28,620
Add: Health and education cess@4%		49,145
Total tax liability		12,77,765
Total tax liability (Rounded off)		12,77,770

Computation of marginal relief

	Particulars	₹
(A)	Tax payable including surcharge on total income of ₹ 50,38,620 as per section 115BAC	13,21,745
(B)	Tax payable on total income of ₹ 50 lakhs as per section 115BAC	11,90,000

(C)	Excess tax payable (A-B)	1,31,745
(D)	Marginal relief ($\text{₹}1,31,745 - \text{₹} 38,620$, being the amount of income in excess of $\text{₹} 50$ lakhs)	
		93,125

Note – An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

Computation of total income of Mr. Amit for A.Y. 2025–26 under normal provisions of the Act

Particulars	₹	₹
Gross Total Income as per default tax regime under section 115BAC		50,38,620
Add: Depreciation on building [$\text{₹} 20$ lakhs $\times 10\%$]		2,00,000
		52,38,620
Less. Warehousing charges		22,50,000
Gross Total Income excluding profits and gains from specified business under section 35AD		29,88,620
Profits and gains from specified business under section 35AD		
Warehousing charges	22,50,000	
Less: Deduction under section 35AD (See Note 1)	20,00,000	2,50,000
Gross Total Income as per normal provisions of the Act		32,38,620
Less: Deduction under section 80GGC for contribution to Political Party (See Note 2)		1,00,000
Total Income as per regular provisions of the Act		31,38,620

Notes -

- (1) Deduction @100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009.
- (2) Payment to political party qualifies for deduction under section 80GGC since the payment is made by way of a cheque.

Computation of tax liability of Mr. Amit for A.Y. 2025–26 under the regular provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 31,38,620		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [$@5\%$ of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [$@20\%$ of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 31,38,620 [$@30\%$ of ₹ 21,38,620]	6,41,586	7,54,086
Add: Health and education cess@4%		30,163
Total tax liability		7,84,249
Total tax liability (rounded off)		7,84,250

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

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		31,38,620
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation under section 32 on building [₹20 lakhs x 10%]	(2,00,000)	18,00,000
Adjusted Total Income		49,38,620
Alternative Minimum Tax@18.5%		9,13,645
Add: Health and education cess@4%		36.546
Total tax liability		9,50,191
Total tax liability (rounded off)		9,50,190

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus cess@4%. Therefore, liability as per section 115JC is ₹ 9,50,190.

Since the tax liability of Mr. Amit under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him to opt out of the default tax regime under section 115BAC for A.Y. 2025-26 and pays tax under regular provisions of the Act. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess of regular tax.

AMT credit to be carried forward under section 115JEE

Particulars	₹
Tax liability under section 115JC	9,50,190
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	7,84,250
	1,65,940