CA | CMA INTER

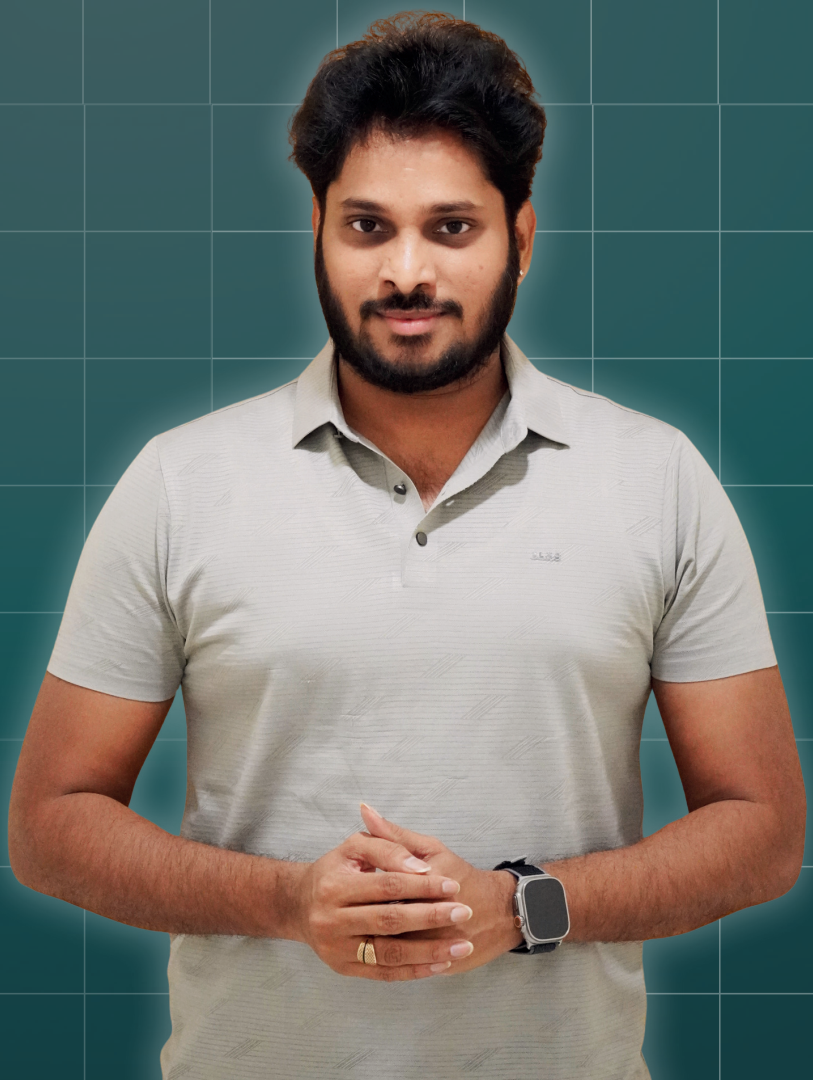
INCOME TAX

Question Bank

May 26 | Sept 26 | Jan 27

Updated by Finance Act 2025

Application of Provisions



Preface

This Question Bank is prepared and updated for the Income Tax syllabus applicable to the May 2026, September 2026, and January 2027 of CA Inter and June 2026 and Dec 2026 of CMA Inter examinations.

Key Highlights

Complete ICAI Coverage:
All questions from the ICAI Study Material — Illustrations and Test Your Knowledge — are fully included.

Full MRP Coverage (MTP + RTP + Past Exams):
May 2023, Nov 2023, May 2024, Sep 2024, Jan 2025, May 2025, Sep 2025, and Jan 2026. [Only Unique Questions are Covered]

Updated for Finance Act, 2025:
Every MRP question (MTP/RTP/past exam) is reworked and aligned to the latest Finance Act 2025.

This Question Bank provides a clean, current, and reliable practice resource **fully aligned with ICAI's latest pattern and the Finance Act, 2025.**

Let's Conquer 50/50

A Small Note for CMA Inter students

Page Turn Over

A Small Note for CMA Inter students

- This question bank is prepared from CA Inter Study Material, MTPs, RTPs, and past exam questions.
- For Income Tax, CA and CMA provisions are identical — the law, logic, and application do not change.
- The only difference is in the numerical values used in the problems; the concepts remain the same.
- Thoroughly solving this question bank will directly improve your ability to solve CMA Study Material problems without any difficulty.
- This is not a substitute, but a core resource you must use for exam-level practice.
- All CMA-specific Study Material problem solutions will also be uploaded free on YouTube, giving you complete support.

Dear Students,

We've worked really hard to make this book as accurate and error-free as possible. We even went through multiple rounds of proofreading to ensure everything is clear and correct. But, being human, there's always a chance that some small errors might have slipped through.

If you do come across any, let us know and help us improve future editions of the book!

Thank you for your trust and support and wishing you all clarity, confidence and success

Warm regards,



INCOME TAX - INDEX - QUESTION BANK

1	Basics of Income tax	1
2	Residential Status	15
3	Salaries	55
4	Income from House Property	101
5	PGBP	128
6	Capital Gains	165
7	Income from Other Sources	185
8	Clubbing of Income	197
9	Set off & Carry Forward of losses	216
10	Chapter VIA Deductions and 10AA	255
11	TDS, TCS & Advance Tax	283
12	Return of Income	309
13	Total Income and AMT	323

Applicable for the following Exams

CA Inter - May 2026, Sept 2026 and Jan 2027

CMA Inter - June 2026 and December 2026



- Remember this book is applicable Till
  - Jan 2027 Exams [CA Inter]
  - Dec 2026 Exams [CMA Inter]
- Scan the above QR Code - For Revision Videos, Corrections and Amendments, If any, released by CA / CMA Institutes.

No. of Questions

*ICAI SM Includes Illustrations, Test Your Knowledge

	ICAI SM Resources	MRP Questions	Total
1. Basics of Income tax	23	-	23
2. Residential Status	15	22	37
3. Salaries	33	11	44
4. Income from House Property	18	7	25
5. PGBP	31	5	36
6. Capital Gains	21	-	21
7. Income from Other Sources	11	5	16
8. Clubbing of Income	17	4	21
9. Set off & Carry Forward of losses	17	13	30
10. Chapter VIA Deductions and 10AA	29	4	33
11. TDS, TCS & Advance Tax	20	13	33
12. Return of Income	9	14	23
13. Total Income and AMT	16	17	33
Total	**260**	**115**	**375**

Identification of Difficult / Exceptional Questions during practice in Class

Chapter No.	Chapter Name	Illustrations	TYK	Questions from MRP
1	Basic Concepts			
2	Residential status			
3	Salaries			
4	House Property			
5	PGBP			
6	Capital Gains			
7	Other Sources			
8	Clubbing Provisions			
9	Setoff and Carryforward			
10	Deductions Chapter VIA			
11	TDS Adv Tax			
12	ROI			
13	Total Income & AMT			

1. Basic Concepts

Illustrations

ILLUSTRATION 1

Mr. B grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lakhs, and the cost of cultivation of such sugarcane is ₹ 5 lakhs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lakhs and the market value of the same is ₹ 22 lakhs. After incurring ₹ 1.5 lakhs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lakhs. Compute B's business income and agricultural income.

Computation of Business Income and Agriculture Income of Mr. B

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

ILLUSTRATION 2

Mr. C manufactures latex from the rubber plants grown by him in India. These are then sold in the market for ₹ 30 lakhs. The cost of growing rubber plants is ₹ 10 lakhs and that of manufacturing latex is ₹ 8 lakhs. Compute his total income.

The total income of Mr. C comprises of agricultural income and business income.

Total profits from the sale of latex = ₹ 30 lakhs – ₹ 10 lakhs – ₹ 8 lakhs = ₹ 12 lakhs.

Agricultural income = 65% of ₹ 12 lakhs = ₹ 7.8 lakhs

Business income = 35% of ₹ 12 lakhs = ₹ 4.2 lakhs

ILLUSTRATION 3

Mr. X has a total income of ₹ 25,00,000 for P.Y.2025-26, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2026-27 under the default tax regime under section 115BAC.

Computation of tax liability of Mr. X for A.Y. 2026-27 Tax liability

First ₹ 4,00,000	- Nil		
Next ₹ 4,00,001 – ₹ 8,00,000	- @5% of ₹ 4,00,000	=	₹ 20,000
Next ₹ 8,00,001 – ₹ 12,00,000	- @10% of ₹ 4,00,000	=	₹ 40,000
Next ₹ 12,00,001 – ₹ 16,00,000	- @15% of ₹ 4,00,000	=	₹ 60,000
Next ₹ 16,00,001 – ₹ 20,00,000	- @20% of ₹ 4,00,000	=	₹ 80,000
Next ₹ 20,00,001 – ₹ 24,00,000	- @25% of ₹ 4,00,000	=	₹ 1,00,000
Balance i.e., ₹ 25,00,000 minus ₹ 24,00,000	- @30% of ₹ 1,00,000	=	₹ 30,000
		=	₹ 3,30,000
Add: Health and Education cess@4%		=	₹ 13,200
Gross Tax Liability		=	₹ 3,43,200

ILLUSTRATION 4

Mr. X has a total income of ₹ 16,00,000 for P.Y.2025-26, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2026-27 assuming his age is –

(a) 45 years

(b) 63 years

(c) 82 years

Assume that Mr. X has exercised the option to shift out/ opt out of the default tax regime.

(a) Computation of tax liability of Mr. X (aged 45 years)

Tax liability:				
First	₹ 2,50,000	- Nil		
Next	₹ 2,50,001 – ₹ 5,00,000	- @5% of ₹ 2,50,000	=	₹ 12,500
Next	₹ 5,00,001 – ₹ 10,00,000	- @20% of ₹ 5,00,000	=	₹ 1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000- @30% of ₹ 6,00,000			=	₹ 1,80,000
			=	₹ 2,92,500
Add: Health and Education cess@4%			=	₹ 11,700
Gross Tax Liability				₹ 3,04,200

(b) Computation of tax liability of Mr. X (aged 63 years) Tax liability:

First	₹ 3,00,000	- Nil		
Next	₹ 3,00,001 – ₹ 5,00,000	- @5% of ₹ 2,00,000	=	₹ 10,000
Next	₹ 5,00,001 – ₹ 10,00,000	- @20% of ₹ 5,00,000	=	₹ 1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000- @30% of ₹ 6,00,000			=	₹ 1,80,000
			=	₹ 2,90,000
Add: Health and Education cess@4%			=	₹ 11,600
Gross Tax Liability				₹ 3,01,600

(c) Computation of tax liability of Mr. X (aged 82 years) Tax liability:

First	₹ 5,00,000	- Nil		- Nil
Next	₹ 5,00,001 – ₹ 10,00,000	- @ 20% of ₹ 5,00,000	=	₹ 1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000- @ 30% of ₹ 6,00,000			=	₹ 1,80,000
				₹ 2,80,000

Add: Health and Education cess@4%			=	₹ 11,200
Gross Tax Liability			=	₹ 2,91,200

ILLUSTRATION 5

Compute the tax liability of Mr. A (aged 42), having total income of ₹ 51 lakhs for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A has exercised the option to shift out of section 115BAC.

Computation of tax liability of Mr. A for the A.Y.2026-27

(A) Income-tax (including surcharge) computed on total income of ₹ 51,00,000			
₹ 2,50,000 – ₹ 5,00,000 @5%		₹ 12,500	
₹ 5,00,001 – ₹ 10,00,000 @20%		₹ 1,00,000	
₹ 10,00,001 – ₹ 51,00,000 @30%		₹ 12,30,000	
Total		₹ 13,42,500	
Add: Surcharge @ 10%		₹ 1,34,250	₹ 14,76,750
(B) Income-tax computed on total income of ₹ 50 lakhs (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000)			₹ 13,12,500
(C) Total Income Less ₹ 50 lakhs			₹ 1,00,000
(D) Income-tax computed on total income of ₹ 50 lakhs plus the excess of total income over ₹ 50 lakhs (B +C)			₹ 14,12,500
(E) Tax liability: lower of (A) and (D)			₹ 14,12,500
Add: Health and education cess @4%			₹ 56,500
Tax liability (including cess)			**₹ 14,69,000**
(F) Marginal Relief (A – D)			**₹ 64,250**

Alternative method -

(A)	Income-tax (including surcharge) computed on total income of ₹ 51,00,000		
	₹ 2,50,000 – ₹ 5,00,000@5%	₹ 12,500	
	₹ 5,00,001 – ₹ 10,00,000@20%	₹ 1,00,000	
	₹ 10,00,001 – ₹ 51,00,000@30%	₹ 12,30,000	
	Total	₹ 13,42,500	
	Add: Surcharge@10%	₹ 1,34,250	₹ 14,76,750
(B)	Income-tax computed on total income of ₹ 50 lakhs (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000)		₹ 13,12,500
(C)	Excess tax payable (A)-(B)		₹ 1,64,250
(D)	**Marginal Relief** (₹ 1,64,250 – ₹ 1,00,000, being the amount of income in excess of ₹ 50,00,000)		₹ 64,250
(E)	Tax liability (A)-(D)		₹ 14,12,500
	Add: Health and education cess @4%		₹ 56,500
	Tax liability (including cess)		₹ 14,69,000

ILLUSTRATION 6

Compute the tax liability of Mr. B (aged 51) under the default tax regime, having total income of ₹ 1,01,00,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit.

Computation of tax liability of Mr. B for the A.Y. 2026-27

(A)	Income-tax (including surcharge) computed on total income of ₹ 1,01,00,000	
	₹ 4,00,000 – ₹ 8,00,000@5%	₹ 20,000
	₹ 8,00,001 – ₹ 12,00,000@10%	₹ 40,000
	₹ 12,00,001 – ₹ 16,00,000@15%	₹ 60,000
	₹ 16,00,001 – ₹ 20,00,000@20%	₹ 80,000
	₹ 20,00,001 – ₹ 24,00,000@25%	₹ 1,00,000
	₹ 24,00,001 – ₹ 1,01,00,000@30%	₹ 23,10,000
	Total	₹ 26,10,000
	Add: Surcharge@15%	₹ 3,91,500
	Tax liability without marginal relief	₹ 30,01,500
(B)	Income-tax computed on total income of ₹ 1 crore (₹ 3,00,000 plus ₹ 22,80,000)	₹ 25,80,000
	Add: Surcharge@10%	₹ 2,58,000
		₹ 28,38,000
(C)	Total Income Less ₹ 1 crore	₹ 1,00,000
(D)	Income-tax computed on total income of ₹ 1 crore plus the excess of total income over ₹ 1 crore **(B +C)**	₹ 29,38,000
(E)	**Tax liability: lower of (A) & (D)**	₹ 29,38,000
	Add: Health and education cess @4%	₹ 1,17,520
	Tax liability (including cess)	₹ 30,55,520
(F)	Marginal relief (A-D)	₹ 63,500

Alternative method:

(A)	Income-tax (including surcharge) computed on total income of ₹ 1,01,00,000	
	₹ 4,00,000 – ₹ 8,00,000@5%	₹ 20,000
	₹ 8,00,001 – ₹ 12,00,000@10%	₹ 40,000
	₹ 12,00,001 – ₹ 16,00,000@15%	₹ 60,000
	₹ 16,00,001 – ₹ 20,00,000@20%	₹ 80,000
	₹ 20,00,001 – ₹ 24,00,000@25%	₹ 1,00,000
	₹ 24,00,001 – ₹ 1,01,00,000@30%	₹ 23,10,000
	Total	₹ 26,10,000
	Add: Surcharge @ 15%	₹ 3,91,500
	Tax liability without marginal relief	₹ 30,01,500
(B)	Income-tax computed on total income of ₹ 1 crore [(₹ 3,00,000 plus ₹ 22,80,000) plus surcharge@10%]	₹ 28,38,000
(C)	Excess tax payable (A)-(B)	₹ 1,63,500
(D)	Marginal Relief (₹ 1,63,500 – ₹ 1,00,000, being the amount of income in excess of ₹ 1,00,00,000)	₹ 63,500
(E)	Tax liability (A) - (D)	₹ 29,38,000

	Add: Health and education cess @4%	₹ 1,17,520
	Tax liability (including cess)	₹ 30,55,520

ILLUSTRATION 7

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

Computation of tax liability of Mr. C for the A.Y. 2026-27

(A) Income-tax (including surcharge) computed on total income of ₹ 2,01,00,000		
₹ 2,50,000 – ₹ 5,00,000 @ 5%	₹ 12,500	
₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000	
₹ 10,00,001 – ₹ 2,01,00,000@30%	₹ 57,30,000	
Total	₹ 58,42,500	
Add: Surcharge @ 25%	₹ 14,60,625	₹ 73,03,125
(B) Income-tax computed on total income of ₹ 2 crore		
(₹ 12,500 plus ₹ 1,00,000 plus ₹ 57,00,000)		₹ 58,12,500
Add: Surcharge@15%		₹ 8,71,875
		₹ 66,84,375
(C) Total Income Less ₹ 2 crore		₹ 1,00,000
(D) Income-tax computed on total income of ₹ 2 crore plus the		
excess of total income over ₹ 2 crore (B +C)		₹ 67,84,375
(E) Tax liability (A) or (D), whichever is lower		₹ 67,84,375
Add: Health and education cess @4%		₹ 2,71,375
Tax liability (including cess)		**₹ 70,55,750**
(F) Marginal relief (A-D)		**₹ 5,18,750**

Alternative method

(A) Income-tax (including surcharge) computed on total income of ₹ 2,01,00,000		
₹ 2,50,000 – ₹ 5,00,000 @ 5%	₹ 12,500	
₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000	
₹ 10,00,001 – ₹ 2,01,00,000@30%	₹ 57,30,000	
Total	₹ 58,42,500	
Add: Surcharge@25%	₹ 14,60,625	₹ 73,03,125
(B) Income-tax computed on total income of ₹ 2 crore [(₹ 12,500 plus ₹ 1,00,000 plus ₹ 57,00,000) plus surcharge@15%]		₹ 66,84,375
(C) Excess tax payable (A)-(B)		₹ 6,18,750
(D) Marginal Relief (₹ 6,18,750 – ₹ 1,00,000, being the amount		
of income in excess of ₹ 2,00,00,000)		**₹ 5,18,750**
(E) Tax liability (A) - (D)		₹ 67,84,375
Add: Health and education cess@4%		₹ 2,71,375
Tax liability (including cess)		**₹ 70,55,750**

ILLUSTRATION 8

Compute the tax liability of Mr. D (aged 65) in a most beneficial manner. He is having total income of ₹ 5,01,00,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit and is the same under both tax regimes.

Computation of tax liability of Mr. D under default tax regime for the A.Y. 2026-27

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

₹ 4,00,000 – ₹ 8,00,000@5%	₹ 20,000
₹ 8,00,001 – ₹ 12,00,000@10%	₹ 40,000
₹ 12,00,001 – ₹ 16,00,000@15%	₹ 60,000
₹ 16,00,001 – ₹ 20,00,000@20%	₹ 80,000
₹ 20,00,001 – ₹ 24,00,000@25%	₹ 1,00,000
₹ 24,00,001 – ₹ 5,01,00,000@30%	₹ 1,43,10,000
Total	₹ 1,46,10,000
Add: Surcharge@25%	₹ 36,52,500
	₹ 1,82,62,500
Add: Health and education cess @4%	₹ 7,30,500
Tax liability	₹ 1,89,93,000

Computation of tax liability of Mr. D under optional tax regime for the A.Y. 2026-27

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

Alternative method

(A) Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000		
₹ 3,00,000 – ₹ 5,00,000@5%	₹ 10,000	
₹ 5,00,001 – ₹ 10,00,000@20%	₹ 1,00,000	
₹ 10,00,001 – ₹ 5,01,00,000@30% ₹ 1,47,30,000		
Total	₹ 1,48,40,000	
Add: Surcharge @ 37%	₹ 54,90,800	₹ 2,03,30,800

(B) Income-tax computed on total income of ₹ 5 crore		
[(₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000)		
plus surcharge@25%]		₹ 1,85,12,500
(C) Excess tax payable (A)-(B)		₹ 18,18,300
(D) Marginal Relief (₹ 18,18,300 – ₹ 1,00,000, being the amount of income in excess of ₹ 5,00,00,000)		₹ 17,18,300
(E) Tax liability (A) - (D)		₹ 1,86,12,500
Add: Health and education cess @4%		₹ 7,44,500
Tax liability (including cess)		₹ 1,93,57,000

It is beneficial for Mr. D to pay tax under default tax regime under section 115BAC, since his tax liability would be lower by ₹ 3,64,000 (₹ 1,93,57,000 - ₹ 1,89,93,000).

ILLUSTRATION 9

Mr. Raghav aged 26 years and a resident in India, has a total income of ₹ 10,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 under default tax regime under section 115BAC.

Computation of tax liability of Mr. Raghav for A.Y. 2026-27

Particulars	₹
Tax on total income of ₹ 10,50,000	
Tax@10% of ₹ 2,50,000 plus ₹ 20,000	45,000
Less: Rebate u/s 87A (Lower of tax payable or ₹ 60,000)	(45,000)
Tax Liability	Nil

ILLUSTRATION 10

Mr. Pawan aged 35 years and a resident in India, has a total income of ₹ 12,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 under default tax regime under section 115BAC.

Computation of tax liability of Mr. Pawan for A.Y. 2026-27

Particulars	₹	
Step 1: Total Income of ₹ 12,15,000 - ₹ 12,00,000	15,000	(A)
Step 2: Tax on total income of ₹ 12,15,000		
Tax@15% of ₹ 15,000 + ₹ 60,000	62,250	(B)
Step 3: Since B>A, rebate u/s 87A would be Step 2-Step 1 [₹ 62,250 - ₹ 15,000]	47,250	
Balance Tax after Rebate	**15,000**	
Add: HEC@4%	600	
Tax Liability	15,600	

ILLUSTRATION 11

Mr. Piyush, aged 35 years and a resident in India, has a total income of ₹ 4,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 if

he exercises the option to shift out of the default tax regime.

Computation of tax liability of Mr. Piyush for A.Y. 2026-27

Particulars	₹
Tax on total income of ₹ 4,15,000	
Tax@5%of ₹ 1,65,000	8,250
Less: Rebate u/s 87A (Lower of tax payable or ₹ 12,500)	(8,250)
Tax Liability	Nil

ILLUSTRATION 12

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

i. Income from salary (computed)	**- ₹ 15,80,000**
ii. Income from house property (computed)	**- ₹ 2,50,000**
iii. Agricultural income from a land in Jaipur	**- ₹ 4,80,000**
iv. Expenses incurred for earning agricultural income	**- ₹ 1,70,000**

Compute his tax liability for A.Y. 2026-27 assuming his age is -

(a) 45 years

(b) 70 years

(a) Computation of tax liability (age 45 years)

Computation of total income of Mr. X for the A.Y. 2026-27 under default tax regime under section 115BAC

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

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 4,00,000. His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		15,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000 - ₹ 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	-
Gross Total Income		18,30,000
Less: Deductions under Chapter VI-A		-
Total Income		18,30,000

Step 1 : ₹ 18,30,000 + ₹ 3,10,000 = ₹ 21,40,000
Tax on ₹ 21,40,000 = ₹ 2,35,000
(i.e., 5% of ₹ 4,00,000 plus 10% of ₹ 4,00,000 plus 15% of ₹ 4,00,000 plus 20% of ₹ 4,00,000 plus 25% of ₹ 1,40,000)

Step 2 : ₹ 3,10,000 + ₹ 4,00,000 = ₹ 7,10,000
Tax on ₹ 7,10,000 = ₹ 15,500
(i.e. 5% of ₹ 3,10,000)

Step 3 : ₹ 2,35,000 – ₹ 15,500 = ₹ 2,19,500

Step 4 & 5: Total tax payable = ₹ 2,19,500
= ₹ 2,19,500 + 4% of ₹ 2,19,500 = ₹ 2,28,280.

Computation of total income of Mr. X for the A.Y. 2026-27 under normal provisions of the Act

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

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 2,50,000. His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		15,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000 – ₹ 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	-
Gross Total Income		18,30,000
Less: Deductions under Chapter VI-A		-
Total Income		18,30,000

Step 1 : ₹ 18,30,000 + ₹ 3,10,000 = ₹ 21,40,000
Tax on ₹ 21,40,000 = ₹ 4,54,500
(i.e., 5% of ₹ 2,50,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 11,40,000)

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

Step 3 : ₹ 4,54,500 – ₹ 24,500 = ₹ 4,30,000

Step 4 & 5: Total tax payable = ₹ 4,30,000
= ₹ 4,30,000 + 4% of ₹ 4,30,000 = ₹ 4,47,200.

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

Computation of total income of Mr. X for the A.Y. 2026-27 under default tax regime under section 115BAC

Tax liability of Mr. X would be same under default tax regime whether he is of age of 45 years or 70 years i.e., ₹ 2,28,280.

Computation of total income of Mr. X for the A.Y. 2026-27 under normal provisions of the Act

His tax liability is computed in the following manner:

Step 1 : ₹ 18,30,000 + ₹ 3,10,000 = ₹ 21,40,000 Tax on ₹ 21,40,000 = ₹ 4,52,000
(i.e., 5% of ₹ 2,00,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 11,40,000)

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

Step 3 : ₹ 4,52,000 – ₹ 32,000 = ₹ 4,20,000

Step 4 & 5 : Total tax payable = ₹ 4,20,000
= ₹ 4,20,000 + 4% of ₹ 4,20,000 = ₹ 4,36,800.

Test Your Knowledge

Question 1: Who is an "Assessee"? Explain

Any Person who is liable to pay tax or any other sum payable under this act and Includes:

- ✓ Every Person on whom proceedings for assessment has been taken for:
  - their own income,
  - another's income,
  - losses, or
  - refunds
- ✓ Deemed Assessees: Persons treated as Assessees under specific provisions of the Act.
- ✓ Assessee in Default: Those failing to meet tax obligations, like not deducting or depositing tax as required.

Note: Every assessee is a "person," but not all persons are assessees.

Question 2: State any four instances where the income of the previous year is assessable in the previous year itself instead of the assessment year.

The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few cases, Income is taxed in the previous year in which it is earned. This is done to protect the interests of revenue.

The exceptions are as follows:

1. **Shipping Business of Non-Residents:**
   - ✓ For non-resident shipping companies, income is taxed immediately to ensure compliance before the ship leaves the port.
   - ✓ 7.5% of Freight charges for delivery at India is Treated as Income Chargeable to tax.
2. **Individuals Leaving India [Section 174]:** When an individual plans to leave India without intention to return, the income earned is assessed in the respective previous year itself. [This Section applies only If A.O. Decided]
3. **Associations or Bodies Formed for Specific Events [Section 174A]:** If an AOP or BOI is established for a specific event or purpose and likely to dissolve within the same or next year, income **up to date of dissolution** is taxed immediately. [At the inception of A.O.]
4. **Likely Property Transfers to Avoid Tax [Section 175]:** If it appears to A.O. that a person may transfer property to avoid taxes, Income from Beginning of the year till A.O. commences proceedings is taxed in the current year.
5. **Discontinued Business [Section 176]:** When a business discontinues operations within the relevant previous year, the income up to the date of closure may be assessed at the discretion of A.O.

Question 3: Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961? Examine.

Yes, Income from nurseries is considered agricultural income. As per Explanation 3 to Section 2(1A) of the Income Tax Act, income earned from growing saplings or seedlings in a nursery qualifies as agricultural income, even if the basic operations are not carried out on land.

Question 4: What are the two schools of Hindu law and where are they prevalent? Explain. Also, mention the difference between the two schools of Hindu Law.

- ✓ A Hindu Undivided Family (HUF) is regarded as a distinct entity for tax assessment. However, HUF is not defined in the Act.

- ✓ It consists of all male descendants of a common ancestor, their wives, and unmarried daughters.
- ✓ The family is managed by the "Karta", the eldest male member, while "coparceners" (members within 4 generations) hold rights to family property and can demand partition.
- ✓ **Key Aspects of HUF:**
  - Coparcenary Rights for Daughters: Since 2005, daughters are also coparceners by birth, allowing them equal rights with sons to the family assets. However, other female family members, such as the wife or daughter-in-law, do not hold coparcenary rights.
  - Formation by Status: An HUF forms naturally based on family status rather than a specific agreement. With the 2005 amendment, even a single male or female coparcener can form an HUF.
  - Schools of Hindu Law: 2 schools govern inheritance rules for HUFs
    - ➢ Dayabhaga School (West Bengal, Assam): Members acquire rights to family property only upon the death of the family head.

Mitakshara School (rest of India): Members acquire rights by birth, giving each member a share even while ancestors are alive.

Question 5: What is the difference between an Association of Persons and Body of Individuals?

Association of Persons [AOP]	✓ Represents groups formed for a shared goal or business, where individuals work together for joint income.
Body of Individuals [BOI]	✓ Refers to individuals, such as trustees or executors, who receive income jointly for a common benefit. ✓ A BOI generally lacks the voluntary association typical of AOPs.

Question 6: Mr. Sumit, a resident Indian, earns income of ₹ 15 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in India and ₹ 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia during the A.Y.2026-27. What would be his business income, assuming he has no other business?

- ✓ Since Mr. Sumit is a resident, his global income would be taxable in India.
- ✓ Income of ₹ 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia would be his business income since it is from rubber plants grown outside India.
- ✓ 35% income from sale of rubber manufactured from latex obtained from rubber plants grown by him in India would be taxable as business income and balance 65% would be exempt as agricultural income.
- ✓ Business income = 35% of ₹ 15 lakhs + ₹ 20 lakhs = ₹ 25.25 lakhs

Question 7: Mr. Raja, a resident Indian, earns income of ₹ 10 lakhs from sale of coffee grown and cured in India during the A.Y.2026-27. His friend, Mr. Shyam, a resident Indian, earns income of ₹ 20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the A.Y.2026-27. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam?

- ✓ In case of income derived from the sale of coffee grown and cured by the seller in India, 25% income on such sale is taxable as business income.
- ✓ In case of income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, 40% income on such sale is taxable as business income.
  - a. Business income of Mr. Raja = 25% of ₹ 10 lakhs = ₹ 2.5 lakhs
  - b. Business income of Mr. Shyam = 40% of ₹ 20 lakhs = ₹ 8 lakhs

Question 8: The Jain HUF in Assam comprises of Mr. Suresh Jain, his wife Mrs. Sapna Jain, his son Mr. Sarthak Jain, his daughter-in-law Mrs. Preeti Jain, his daughter Miss Seema Jain and his unmarried brother Mr. Pritam Jain. Which of the members of the HUF are eligible for coparcenary rights?

- ✓ Dayabaga school of Hindu law is prevalent in Assam.
- ✓ In Dayabaga school of Hindu law, nobody acquires the right, share in the property by birth as long as the head of family is living.
- ✓ Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property.
- ✓ Hence, Mr. Suresh Jain and his brother eligible for coparcenary rights., Mr. Pritam Jain would be the coparceners of the Jain HUF and are

Question 9: Compute the tax liability under default tax regime of Mr. Kashyap (aged 35), having total income of ₹ 51,25,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.

Computation of tax liability of Mr. Kashyap for the A.Y.2026-27 under default tax regime

(A) Tax payable including surcharge on total income of ₹ 51,25,000

₹ 4,00,000 - ₹ 8,00,000 @5%	₹ 20,000	
₹ 8,00,001 - ₹ 12,00,000 @10%	₹ 40,000	
₹ 12,00,001 - ₹ 16,00,000 @15%	₹ 60,000	
₹ 16,00,001 - ₹ 20,00,000 @20%	₹ 80,000	
₹ 20,00,001 - ₹ 24,00,000 @25%	₹ 1,00,000	
₹ 24,00,001 - ₹ 51,25,000 @30%	₹ 8,17,500	
Total	₹ 11,17,500	
Add: Surcharge @ 10%	₹ 1,11,750	₹ 12,29,250

(B) Tax Payable on total income of ₹ 50 lakhs (₹ 3,00,000 plus ₹ 7,80,000) ₹ 10,80,000

(C) Total Income Less ₹ 50 lakhs ₹ 1,25,000

(D) Tax payable on total income of ₹ 50 lakhs plus the excess of total income over ₹ 50 lakhs **(B +C)** ₹ 12,05,000

(E) Tax payable: lower of (A) and (D) ₹ 12,05,000

Add: Health and education cess @4% ₹ 48,200

Tax liability **₹ 12,53,200**

(F) Marginal Relief **(A - D)** ₹ 24,250

Alternative method -

(A) Tax payable including surcharge on total income of ₹ 51,25,000

₹ 4,00,000 - ₹ 8,00,000 @5%	₹ 20,000	
₹ 8,00,001 - ₹ 12,00,000 @10%	₹ 40,000	
₹ 12,00,001 - ₹ 16,00,000 @15%	₹ 60,000	
₹ 16,00,001 - ₹ 20,00,000 @20%	₹ 80,000	
₹ 20,00,001 - ₹ 24,00,000 @20%	₹ 1,00,000	
₹ 24,00,001 - ₹ 51,25,000 @30%	₹ 8,17,500	
Total	₹ 11,17,500	
Add: Surcharge@10%	₹ 1,11,750	₹ 12,29,250

(B) Tax Payable on total income of ₹ 50 lakhs (₹ 3,00,000 plus ₹ 7,80,000)	₹ 10,80,000
(C) Excess tax payable (A)-(B)	₹ 1,49,250
(D) Marginal Relief (₹ 1,49,250 – ₹ 1,25,000, being the amount of income in excess of ₹ 50,00,000)	**₹ 24,250**
(E) Tax payable (A)-(D)	₹ 12,05,000
Add: Health and education cess @4%	₹ 48,200
Tax liability	**₹ 12,53,200**

Question 10: Mr. Agarwal, aged 40 years and a resident in India, has a total income of ₹ 6,50,00,000, comprising long term capital gain taxable under section 112 of ₹ 55,00,000, short term capital gain taxable under section 111A of ₹ 65,00,000 and other income of ₹ 5,30,00,000. Compute his tax liability for A.Y.2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

Computation of tax liability of Mr. Agarwal for the A.Y.2026-27 under default tax regime

Particulars		₹
Tax on total income of ₹ 6,50,00,000		
Tax@12.50% of ₹ 55,00,000		6,87,500
Tax@20% of ₹ 65,00,000		13,00,000
Tax on other income of ₹ 5,30,00,000		
₹ 4,00,000 – ₹ 8,00,000 @5%	20,000	
₹ 8,00,000 – ₹ 12,00,000 @10%	40,000	
₹ 12,00,000 – ₹ 16,00,000 @15%	60,000	
₹ 16,00,000 – ₹ 20,00,000 @20%	80,000	
₹ 20,00,000 – ₹ 24,00,000 @25%	1,00,000	
₹ 24,00,000 – ₹ 5,30,00,000 @30%	1,51,80,000	1,54,80,000
		1,74,67,500
Add: Surcharge @15% on ₹ 19,87,500	2,98,125	
@25% on ₹ 1,54,80,000	38,70,000	41,68,125
		2,16,35,625
Add: Health and education cess @4%		8,65,425
Tax Liability		2,25,01,050

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

Particulars		₹
Tax on total income of ₹ 6,50,00,000		
Tax@12.50% of ₹ 55,00,000		6,87,500
Tax@20% of ₹ 65,00,000		13,00,000
Tax on other income of ₹ 5,30,00,000		
₹ 2,50,000 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 5,30,00,000 @30%	1,56,00,000	1,57,12,500
		1,77,00,000
Add: Surcharge @15% on ₹ 19,87,500	2,98,125	

@37% on ₹ 1,57,12,500	58,13,625	61,11,750
		2,38,11,750
Add: Health and education cess @4%		9,52,470
Tax Liability		2,47,64,220

Question 11: Mr. Sharma aged 62 years and a resident in India, has a total income of ₹ 2,30,00,000, comprising long term capital gain taxable under section 112 of ₹ 52,00,000, short term capital gain taxable under section 111A of ₹ 64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for A.Y.2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

Computation of tax liability of Mr. Sharma for the A.Y.2026-27 under default tax regime

Particulars		₹
Tax@12.5% of ₹ 52,00,000		6,50,000
Tax@20% of ₹ 64,00,000		12,80,000
Tax on other income of ₹ 1,14,00,000		
₹ 4,00,000 - ₹ 8,00,000 @5%	20,000	
₹ 8,00,000 - ₹ 12,00,000 @10%	40,000	
₹ 12,00,000 - ₹ 16,00,000 @15%	60,000	
₹ 16,00,000 - ₹ 20,00,000 @20%	80,000	
₹ 20,00,000 - ₹ 24,00,000 @25%	1,00,000	
₹ 24,00,000 - ₹ 1,14,00,000 @30%	27,00,000	30,00,000
		49,30,000
Add: Surcharge @15%		7,39,500
		56,69,500
Add: Health and education cess @4%		2,26,780
Tax Liability		58,96,280

Computation of tax liability of Mr. Sharma for the A.Y.2026-27 under normal provisions

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

2. Residence and Scope of Total Income

Illustrations

ILLUSTRATION 1

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

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

- ✓ In this case, since Mr. Anand is an Indian citizen and leaving India during P.Y. 2025-26 as a member of the crew of the Indian ship, he would be resident in India if he stayed in India for 182 days or more.
- ✓ The voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).
- ✓ Therefore, the period commencing from 6th June, 2025 and ending on 9th December, 2025, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India.
- ✓ Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the
- ✓ P.Y. 2025-26 would be 178 days [i.e., 365 days – 187 days]. Since his period of stay in India during the P.Y. 2025-26 is less than 182 days, he is a non- resident for A.Y. 2026-27.

ILLUSTRATION 2

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

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

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

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

(a) Determination of Residential Status of Mr. Brett Lee for the A.Y. 2026-27:-

Period of stay during previous year 2025-26 = 100 days

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

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

Mr. Brett Lee has been in India for a period more than 60 days during previous year 2025-26 and for a period of more than 365 days during the 4 immediately preceding previous years. Therefore, since he satisfies one of the basic conditions under section 6(1), he is a resident for the A.Y. 2026-27.

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

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

Since his period of stay in India during the past 7 previous years is less than 730 days, he is a not-ordinarily resident during the A.Y. 2026-27.

Therefore, Mr. Brett Lee is a resident but not ordinarily resident during the previous year 2025-26 relevant to the assessment year 2026-27.

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

(i) If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or

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

In this case, since Mr. Brett Lee satisfies condition (ii), he is a not-ordinarily resident for the A.Y. 2026-27.

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

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

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

ILLUSTRATION 3

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

A.Y. 2026-27.

During the P.Y. 2025-26, Mr. B was in India for 70 days and during the 4 years preceding the P.Y. 2025-26, he was in India for 355 days (i.e. 55+ 60+ 90+ 150 days).
Thus, he does not satisfy the basic condition under section 6(1). Therefore, he is a non-resident for the P.Y. 2025-26.

ILLUSTRATION 4
The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the Karta of the HUF, who was born in Kolkata, visits India during the P.Y. 2025-26 after 15 years. He comes to India on 1.4.2025 and leaves for Australia on 1.12.2025. Determine the residential status of Mr. E and the HUF for A.Y. 2026-27.

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

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

Note – If the control and management is in India, even partially, then, the HUF would be resident in India. In such a case, the residential status of HUF would be resident but not ordinarily resident, since the Karta's stay in India is for less than 730 days in the 7 previous years immediately preceding the relevant previous year.

ILLUSTRATION 5
From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2026, compute the total income for the A.Y. 2026-27, if he is:
(i) Resident and ordinary resident;
(ii) Resident but not ordinarily resident;
(iii) Non-resident

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

Computation of total income of Mr. Anirudh for the A.Y. 2026-27

Particulars	Resident & ordinarily resident ₹	Resident but not ordinarily resident ₹	Non-Resident ₹
1) Short term capital gains on sale of shares of an Indian company, received in Germany	15,000	15,000	15,000
2) Dividend from a Japanese company, received in Japan	10,000	-	-
3) Rent from property in London deposited in a bank in London [See Note (i) below]	52,500	-	-
4) Dividend from RP Ltd., an Indian Company	6,000	6,000	6,000
5) Agricultural income from land in Gujarat [See Note (ii) below]	-	-	-
Total Income	83,500	21,000	21,000

Notes:

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

	₹
Rent received (assumed as gross annual value)	75,000
Less: Deduction under section 24 (30% of ₹ 75,000)	22,500
Income from house property	52,500

(ii) Agricultural income is exempt under section 10(1).

ILLUSTRATION 6

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

S. No.	Particulars	₹
(i)	Salary (Computed)	5,00,000
(ii)	Foreign Allowance [not included in (i) above]	4,00,000
(iii)	Interest on fixed deposit from bank in India	1,00,000
(iv)	Income from agriculture in Nepal	2,00,000
(v)	Income from house property in Nepal	2,50,000

Compute his Gross Total Income for A.Y. 2026-27.

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

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

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

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

a. In view of the above provisions, income from agriculture in Nepal and income from house property in Nepal would not be chargeable to tax in the hands of David, assuming that the same were received in

Nepal.

b. Income from 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Hence, such income is taxable in the hands of Mr. David, even though he is a non-resident.

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

Gross Total Income of Mr. David for A.Y. 2026-27

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

ILLUSTRATION 7

Miss Vivitha paid a sum of 5000 USD to Mr. Kulasekhara, a management consultant practising in Colombo, specializing in project financing. The payment was made in Colombo. Mr. Kulasekhara is a non-resident. The consultancy is related to a project in India with possible Ceylonese collaboration. Is this payment chargeable to tax in India in the hands of Mr. Kulasekhara, since the services were used in India?

- ✓ A non-resident is chargeable to tax in respect of income received outside India only if such income accrues or arises or is deemed to accrue or arise to him in India.
- ✓ The income deemed to accrue or arise in India under section 9 comprises, inter alia, income by way of fees for technical services, which includes any consideration for rendering of any managerial, technical or consultancy services. Therefore, payment to a management consultant relating to project financing is covered within the scope of "fees for technical services".
- ✓ The Explanation below section 9(2) clarifies that income by way of, inter alia, fees for technical services, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India or whether or not the non- resident has a residence or place of business or business connection in India.
- ✓ In the instant case, since the services were utilized in India, the payment received by Mr. Kulasekhara, a non-resident, in Colombo is chargeable to tax in his hands in India, as it is deemed to accrue or arise in India.

EXCEPTIONAL **ILLUSTRATION 8**

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and non- resident for the A.Y. 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)–

Particulars	Amount (₹)
1. Interest on UK Development Bonds, 50% of interest received in India	10,000
2. Income from a business in Chennai (50% is received in India)	20,000
3. Short term capital gains on sale of shares of an Indian company, received in London	20,000

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

Computation of total income for the A.Y. 2026-27

Particulars	Resident and ordinarily resident ₹	Resident but not ordinarily resident ₹	Non-resident ₹
1. Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
2. Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
3. Short term capital gains on sale of shares of an Indian company, received in London	20,000	20,000	20,000
4. Dividend from British company received in London	5,000	-	-
5. Long term Capital gains on sale of plant at Germany, 50% of gains are received in India	40,000	20,000	20,000
6. Income earned from business in Germany which is controlled in Delhi, out of which ₹ 40,000 is received in India	70,000	70,000	40,000
7. Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
8. Income from house property in London deposited in a Bank at London, later on remitted to India	50,000	-	-

9. Interest on debentures in an Indian company, received in London	12,000	12,000	12,000
10. Fees for technical services rendered in India but received in London	8,000	8,000	8,000
11. Profits from a business in Mumbai, managed from London	26,000	26,000	26,000
12. Income from property situated in Nepal and received there	16,000	-	-
13. Past foreign untaxed income brought to India during the previous year [Old Years Not taxed]	-	-	-
14. Income from agricultural land in Nepal, received there and then brought to India	18,000	-	-
15. Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
16. Gift received on the occasion of his wedding [not taxable]	-	-	-
17. Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
18. Income from a business in Russia, controlled in Russia	20,000	-	-
19. Dividend from Reliance Petroleum Limited, an Indian Company	5,000	5,000	5,000
20. Agricultural income from a land in Rajasthan [Exempt under section 10(1)]	-	-	
Gross Total Income	3,52,000	2,18,000	1,83,000
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of ₹ 10,000]	10,000	10,000	10,000
Total Income	3,42,000	2,08,000	1,73,000

Test Your Knowledge

Question 1: Mr. Ram, an Indian citizen, left India on 22.09.2025 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the A.Y. 2026-27.

- ✓ Under section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following conditions -
  - He has been in India during the previous year for a total period of 182 days or more, or
  - He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.
- ✓ In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in (ii) above.
- ✓ During the previous year 2025-26, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30 + 31 + 30 + 31 + 31 + 22 days). Thereafter, he left India for employment purposes.
- ✓ Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the A.Y. 2026-27.

Question 2: Mr. Dey, residing in US since 1990, visits India for 30 days every year. He came back to India on 1.4.2024 for permanent settlement. What will be his residential status for A.Y. 2026-27?

- ✓ Mr. Dey is a resident in A.Y. 2026-27 since he has stayed in India for a period of 365 days (more than 182 days) during the P.Y. 2025-26.
- ✓ As per section 6(6), a person will be "Not ordinarily Resident" in India in any previous year, if such person, inter alia:
  - has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
  - has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less.

  If he does not satisfy either of these conditions, he would be a resident and ordinarily resident.
- ✓ For the previous year 2025-26 (A.Y. 2026-27), his status would be "Resident but not ordinarily resident" since he was non-resident in 9 out of 10 previous years immediately preceding the P.Y. 2025-26. He was resident only in the P.Y. 2024-25. Prior to that, he was non-resident in all the years since his stay in India was only for 30 days each year.
- ✓ He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 545 days [365 days in P.Y. 2024-25 + (30 days x 6 years)] in 7 previous years immediately preceding the P.Y. 2025-26, which is less than 730 days.

Question 3: Mr. Ramesh & Mr. Suresh are brothers, and they earned the following incomes during the F.Y. 2025-26. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the A.Y. 2026-27 assuming that both have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Sr. No.	Particulars	Mr. Ramesh (₹)	Mr. Suresh (₹)
1.	Interest on Canada Development Bonds (only 50% of interest	35,000	40,000

	received in India)		
2.	Dividend from British company, received in London	28,000	20,000
3.	Profits from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company, received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Rent received in respect of house property at Bhopal	1,00,000	60,000
10.	Life insurance premium paid	---	30,000

Computation of total income of Mr. Ramesh & Mr. Suresh for the A.Y. 2026-27

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

Notes:

1. Mr. Ramesh is a non-resident since he has been living in Canada since 1996. Mr. Suresh, is settled in Delhi, and thus, assumed as a resident and ordinarily resident.
2. In case of a resident and ordinarily resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:

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

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

- ✓ Therefore, fees for technical services rendered in India would be taxable in the hands of Mr. Ramesh, even though he is a non-resident.
- ✓ The income referred to in Sl. No. 3,4,5 and 7 are taxable in the hands of both Mr. Ramesh and Mr. Suresh since they accrue or arise/ deemed to accrue or arise in India.
- ✓ Interest on Canada Development Bond would be fully taxable in the hands of Mr. Suresh, whereas only 50%, which is received in India, is taxable in the hands of Mr. Ramesh.

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

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

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

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

Question 4: Examine the correctness or otherwise of the statement - "Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus".

- ✓ This statement is correct.
- ✓ As per Explanation to section 9, income by way of interest, royalty or fees for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1), shall be included in the total income of the non-resident, whether or not -
  - Non-resident has a residence or place of business or business connection in India; or
  - The non-resident has rendered services in India.
- ✓ In effect, the income by way of fees for technical services, interest or royalty from services utilised in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India and irrespective of whether the non-resident has a residence or place of business or business connection in India.

Question 5: Examine with reasons whether the following transactions attract income-tax in India in the hands of recipients:

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

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

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.

Question 6: From the following particulars of income furnished by Mr. Ashutosh, aged 65 years, pertaining to year ended 31.03.2026, compute the total income for the A.Y. 2026-27 assuming that he has exercised the option of shifting out of the default tax regime provided under section

115BAC(1A), if he is

(a) Resident and ordinarily resident

(b) Non-resident

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

Computation of total income of Mr. Ashutosh for the A.Y. 2026-27

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

Notes –

1. In case of a resident and ordinarily resident, global income is taxable as per section 5(1). However, as per section 5(2), in case of a non- resident, only the following incomes are chargeable to tax:
   (i) Income received or deemed to be received in India; and
   (ii) Income accruing or arising or deemed to accrue or arise in India.
   Therefore, agricultural income from a land situated in Nepal, income earned from business in London

which is controlled from Delhi, received outside India and fees for technical services from a non-resident for business outside India is not taxable in case of non- resident.

2. In case of a senior citizen, being a resident aged 60 years or more, interest up to ₹ 50,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTB while in case of a non- resident, interest upto ₹ 10,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTA.

EXCEPTIONAL **Question 7: Mr. Dhanush, an Indian citizen aged 35 years, worked in ABC Ltd. in Mumbai. He got a job offer from XYZ Inc., USA on 01.06.2024. He left India for the first time on 31.07.2024 and joined XYZ Inc. on 08.08.2024. During the P.Y. 2025-26, Mr. Dhanush visited India from 25.05.2025 to 22.09.2025. He has earned the following income for the previous year 2025-26**

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

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

- ✓ As per section 6(1), an Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India would be resident in India if he or she stays in India for a period of 182 days or more during the relevant previous year. ~~in case such person has total income, other than the income from foreign sources, not exceeding ₹ 15 lakhs.~~ [ICAI SM wrong answer]
- ✓ However, if such person has total income, other than the income from foreign sources, exceeding ₹ 15 lakhs, he would also be a resident if he has been in India for at least 120 days during the relevant previous year and has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more. In such a case, he would be resident but not ordinarily resident in India.
- ✓ Income from foreign sources means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India.

Checking TI for Determining Residential Status

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

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

Profits from a profession in USA, which was set up in India, received there	6,00,000
Total income, other than the income from foreign sources	14,30,000

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

Computation of Total Income of Mr Dhanush for A.Y. 2026-27 [P.Y. 2025-26]

A non-resident is chargeable to tax in respect of income received or deemed to receive in India and income which accrues or arises or is deemed to accrue or arise to him in India.

Particulars		Amount (₹)
Salary from XYZ Inc., USA received in USA (Not taxable, since it neither accrues or arises in India nor is it received in India)		-
Dividend from Indian companies (Taxable, since it is deemed to accrue or arise in India)		5,50,000
Agricultural income from land situated in Punjab [Exempt u/s 10(1)]		-
Rent received/receivable from house property in Lucknow (Taxable, since it is deemed to accrue or arise in India)	4,00,000	
Less: 30% of ₹ 4 lakhs	(1,20,000)	2,80,000
Profits from a profession in USA, which was set up in India, received there		-
Gross Total Income/ Total income		8,30,000

Questions from MRP [MTPs, RTPs, Past Exam Papers]

Question 1:

Mr. Jai Chand (an Indian citizen) left India for employment in country X on 5th June, 2016. He regularly visited India and stayed for 60 days in every previous year since then. However, in the financial year 2025-26, he did not come to India at all. He owns a commercial building in Delhi which is let out. He has also set a retail store in India which is controlled by his brother from India. He provides the following information to you regarding his income for the financial year 2025-26:

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

Income from the retail store - Rs. 4,50,000 (computed as per the provisions of the Act). Country X does not tax any individual on their income as there is no personal income-tax regime there.

Determine the residential status of Mr. Jai Chand for the Assessment year 2026-27.

Will your answer change if he is a citizen of Country X?

(PEP May 23 3M)

Determination of residential status of Mr. Jai Chand for A.Y. 2026-27

Case 1: Mr. Jai is an Indian Citizen

- ✓ Since Mr. Jai Chand, an Indian citizen employed in Country X, did not come to India at all during the P.Y. 2025-26, he would not be a resident for A.Y.2026-27 as per section 6(1).
- ✓ However, since he is an Indian citizen
  - having total income (excluding income from foreign sources) of Rs. 16,50,000 [Rs. 12,00,000, being income from commercial building in India + Rs. 4,50,000, being Income from retail store in India], which exceeds the threshold of Rs. 15 lakhs during the previous year; and
  - not liable to tax in Country X, he would be deemed resident in India for the P.Y. 2025-26.
- ✓ A deemed resident is always a resident but not ordinarily resident in India (RNOR).

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Case 2: Mr. Jai is NOT an Indian Citizen

- ✓ Yes, in case Mr. Jai Chand is a citizen of Country X, he would be non-resident in India for the P.Y. 2025-26, since the provisions of deemed resident are applicable only to an Indian citizen.

Question 2:

Mr. Prashant (aged 35 years) is an Australian citizen who is settled in Australia and visits India for 125 days in every financial year since past 11 years. During the F.Y. 2025-26, he visited India for a total period of 200 days. The purpose of his visit was to meet his family members who are settled in India and also for managing his family members who are settled in India and also for managing his business in Sri Lanka through his office in Chennai, India.

During the P.Y. 2025-26, he has the following incomes:

a. Income from business in Australia controlled form Australia - Rs. 20,00,000

b. Income from business in Sri Lanka controlled form Chennai - Rs. 16,00,000

c. Short-term capital gains on sale of shares of an Indian company received in Australia - Rs. 50,000. The shares were sold online from Australia.

d. Income from agricultural land in Australia, received there and then brought to India - Rs. 2,00,000

Find out the residential status of Mr. Prashant and compute his total income for A.Y. 2026-27.

(PEP May 23 4M)

Determination of Residential Status of Mr. Prashanth

- ✓ Mr. Prashant is an Australian citizen who comes on a visit to India for 125 days in every financial year since the past 11 years. During the P.Y. 2025 -26, he visited India for 200 days. Since he stayed in India for 182 days or more during the P.Y. 2022-23, he would be resident in India for the A.Y. 2026-27.

- ✓ An individual is said to be "Resident and ordinarily resident [ROR]" in India in any previous year, if he satisfies both the following conditions:
  - He is a resident in at least 2 out of 10 previous years preceding the relevant previous year; and
  - His stay in India in the last 7 years preceding the relevant previous year is 730 days or more

  [Refer Note 1 below for alternate presentation]

First condition Check

- ✓ Residential status for P.Y.2024-25 (A.Y.2025-26) – Resident, since he has stayed in India for ≥ 60 days (125 days) in the said P.Y. and ≥ 365 days (500 days, being 125 days x 4) in the 4 immediately preceding PYs.
- ✓ Residential status for P.Y.2023-24 (A.Y.2024-25) – Resident, since he has stayed in India for ≥ 60 days (125 days) in the said P.Y. and ≥ 365 days (500 days, being 125 days x 4) in the 4 immediately preceding PYs.
- ✓ Therefore, he satisfies the first condition of being resident in India in at least 2 out of 10 previous years preceding the relevant P.Y.3

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Second condition Check

- ✓ Stay in India in 7 immediately preceding PYs = 7 x 125 days = 875 days > 730 days
- ✓ Since both the conditions are satisfied, he is **Resident and Ordinarily Resident (ROR).**

In case of ROR, global income would be taxable in India. Accordingly, his total income for A.Y. 2026-27 would as follows:

Computation of Total Income of Mr. Prashant for A.Y.2026-27

	Particulars	Rs.
(i)	Income from business in Australia	20,00,000
(ii)	Income from business in Sri Lanka	16,00,000
(iii)	Short-term capital gains on sale of shares of an Indian company	50,000
(iv)	Income from agricultural land in Australia [would not be exempt, since it is not from an agricultural land in India]	2,00,000
	Total income	**38,50,000**

Notes –

(1) Alternative manner of determination of whether Mr. Prashant is ROR/ RNOR -

"An individual is said to be "Resident but not ordinarily resident [RNOR]" in India in any previous year, if he satisfies any 1 of the following conditions:

- ➢ He is a non-resident in at least 9 out of 10 previous years preceding the relevant previous year; or
- ➢ His stay in India in the last 7 years preceding the relevant previous year is 729 days or less.

Mr. Prashant does not satisfy either of the above conditions on account of being resident in more than 1 year out of 10 years and stay in India for 875 days in the 7 years preceding the P.Y.2025-26. Hence, he is a Resident and Ordinarily Resident in the P.Y.2025-26.

Alternative Answer:

- ✓ In the absence of information relating to whether Mr. Prashant is a person of Indian origin, the above has been worked out assuming that Mr. Prashant is not a person of Indian origin.
- ✓ However, alternate assumption that Mr. Prashant is a person of Indian origin is also possible since the purpose of his visit was to meet his family members who are settled in India. Accordingly, if it is assumed that he is a person of Indian origin, then, for determining whether he is resident in P.Y.2023-24 and P.Y.2024-25, information relating to his total income (excluding income from foreign sources) for the said P.Y.s is required for ascertaining whether the condition of 120 days in the relevant P.Y. + 365 days in the 4 immediately preceding P.Ys would be attracted in his case. This information is not given in the question.
- ✓ Accordingly, assumptions would have to be made relating to the applicability of this condition.

Question 3:

State (Yes/No) whether the following transactions can be treated as income deemed to accrue or arise in India:

(1) Hire charges paid outside India for the use of machinery situated in India.

(2) Income of a non-resident and non-citizen of India from the shooting of cinematograph film in India.

(3) Capital gain arising through a transfer of a house property situated in India, the place of registration and the place of payment of consideration being outside India.

(4) Allowances paid by the Government to a citizen of India for the services rendered outside India.

(5) Past period foreign untaxed income brought to India during the previous year.

(6) Gift received by a non-resident on the occasion of his wedding in India.

(PEP Nov 23 3M)

(1) Yes

(2) No

(3) Yes

(4) Yes. **Alternative answer** – No, since allowances paid by the Government to a citizen of India for the services rendered outside India is exempt u/s 10(7).

(5) No

(6) No

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Question 4:

Mr. Sanjay has following incomes during the previous year 2025 -26:

(1) Interest on England Development Bonds (1/3 received in India) Rs. 60,000.

(2) Interest received from a non-resident Rs. 5,000 against a loan given to him to run a business in India.

(3) Royalty received from Akhil, a resident, for technical services given to run a business outside India Rs. 20,000.

(4) Income from business in Sri Lanka Rs. 25,000 out of which Rs. 15,000 were received in India. The business is controlled from India.

Compute taxable income of Mr. Sanjay for the Assessment Year 2026 -27

a. if he is a Not ordinarily resident

b. Non-resident.

(PEP Nov 23 4M)

Computation of taxable income of Mr. Sanjay for the A.Y. 2026-27

		Not ordinarily resident (RNOR)	Non-resident
(1)	**Interest on England Development Bonds (1/3 received in India),** amount of Rs. 20,000 being received in India would be taxable in case of both RNOR and non-resident.	20,000	20,000
(2)	**Interest received from non-resident against a loan given to him to run a business in India** would be deemed to accrue or arise in India. Thus, such interest is taxable in case of both RNOR and non- resident	5,000	5,000
(3)	**Royalty received from Akhil, a resident for technical services given to run a business outside India** would not be deemed to accrue or arise in India, since such services are utilised for business carried outside India. Thus, royalty would not be taxable in case of both RNOR and non-resident.	-	-
(4)	**Income from business in Sri Lanka of Rs. 25,000 out of which Rs. 15,000 were received in India.** Whole of the income from business in Sri Lanka is taxable in case of RNOR, since business is controlled from India. However, in case of non-resident only the amount received in India would be taxable.	25,000	15,000
	Taxable Income	**50,000**	**40,000**

Question 5:

Mr. Tilak aged 35 years, furnishes the following information regarding his income for the Assessment Year 2026-27. Compute the total income if he is:

(1) Resident and Ordinarily Resident.

(2) Resident but Not Ordinarily Resident (Ignore the provisions of Section 115BAC).

- **(a) Remuneration of Rs. 50,000 for service rendered in Malaysia, credited to his bank account in Malaysia and immediately remitted to his bank account in India.**
- **(b) Profits from a business in England controlled from Bombay Rs. 3,00,000 (out of which Rs. 25,000 is received in India).**
- **(c) Amount brought to India out of past untaxed profits earned in Singapore Rs. 1,00,000.**
- **(d) Capital gain on sale of land in India but received in Malaysia Rs. 2,00,000.**
- **(e) Income from agriculture land at Nepal of Rs. 18,000, received there and then brought to India.**
- **(f) He paid Rs. 50,000 towards principal payment of loan taken for construction of his self-occupied house in India.**
- **(g) Interest on saving bank deposit in State Bank of India of Rs. 12,000.**

(PEP May 24 6M)

Computation of total income of Mr. Tilak for the A.Y. 2026-27
(if he is Resident and Ordinarily Resident - ROR)

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	Particulars	Rs.
(a)	**Remuneration for services rendered in Malaysia** Global income is taxable in case of a ROR.	50,000

	[**Note** – Alternatively, remuneration for services rendered in Malaysia can be taxable as "Salaries". In such case standard deduction of Rs. 50,000 would be reduced.]	
(b)	**Profit from business in England controlled from Bombay** Global income is taxable in case of a ROR.	3,00,000
(c)	**Past untaxed profits earned in Singapore and brought to India in current year**	Nil
(d)	**Capital gain on sale of land in India but received in Malaysia** Deemed to accrue or arises in India, since the property is situated in India.	2,00,000
(e)	**Income from agricultural land in Nepal, received there** Global income is taxable in case of a ROR	18,000
(f)	**Interest on saving bank deposit in SBI** Taxable since it is deemed to accrue or arises in India.	12,000
	Gross Total Income	**5,80,000**
	Less: Deduction under Chapter VI-A	
	Deduction under section 80C - For repayment of housing loan	(50,000)
	Deduction under section 80TTA - Interest on savings bank account subject to a maximum of Rs. 10,000	(10,000)
	Total Income	**5,20,000**

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Computation of total income of Mr. Tilak for the A.Y. 2026-27
(if he is Resident but Not Ordinarily Resident - RNOR)

	Particulars	Rs.
(a)	**Remuneration for services rendered in Malaysia** In case of RNOR, remuneration would not be taxable in India since neither services are rendered in India nor remuneration received in India.	Nil
(b)	**Profit from business in England controlled from Bombay** In case of RNOR, whole profits of Rs. 3,00,000 from business in England is taxable since business is controlled from India.	3,00,000
(c)	**Past untaxed profits earned in Singapore and brought to India in current year**	Nil
(d)	**Capital gain on sale of land in India but received in Malaysia** Deemed to accrue or arises in India, since the property is situated in India.	2,00,000
(e)	**Income from agricultural land in Nepal, received there** In case of RNOR, it would not be taxable in India, since neither it is deemed to accrue or arise in India nor received in India.	Nil
(f)	**Interest on saving bank deposit in SBI** Taxable since it is deemed to accrue or arises in India.	12,000
	Gross Total Income	**5,12,000**
	Less: Deduction under Chapter VI-A	
	Deduction under section 80C – For repayment of housing loan	(50,000)
	Deduction under section 80TTA – Interest on savings bank account subject to a maximum of Rs. 10,000	(10,000)
	Total Income	**4,52,000**

Question 6:
Mr. Madan, a citizen of India and the Karta of an HUF, is employed in M/s. PCS Pvt. Ltd. He is drawing monthly salary of Rs.65,500 in India. On June 1, 2025 he purchased one

residential house property in Mumbai for Rs.18,00,000 in his individual capacity. The market value of the property is Rs.32,00,000 and value for the purpose of charging stamp duty is Rs.23,00,000. On August 31st, 2025 he was transferred to the branch office of M/s. PCS Pvt. Ltd. in U.S.A. and he left India on September 1st, 2025. The overseas branch paid him a salary of $ 2,500 per month in USA. He managed business of HUF from USA when he was not in India.
He had also gone out of India for 99 days and 201 days in previous years 2024-25 and 2023-24, respectively. He had never gone out of India prior to that.
He visited India from January 1, 2026 to January 15, 2026 for training on a project and received 15 days salary in India as per his Indian monthly salary before being transferred.
Mr. Rajeev, one of his friends, gifted him a sculpture in India on August 10, 2025. The market value is Rs.45,100.
Determine the residential status of Mr. Madan and his HUF and compute gross total income of Mr. Madan for the assessment year 2026-27 assuming he opted out of the default tax regime. The value of one USD ($) may be taken as Rs.70.

(PEP Sept 24 4M)

Residential Status of Mr. Madan

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

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Residential Status of HUF

- ✓ Since Mr. Madan is managing the HUF for part of the year from India, control and management of its affairs is situated partly in India.
- ✓ Hence, the HUF would be resident in India for the P.Y. 2023-24.
- ✓ A HUF is said to be "Resident and ordinarily resident" in India during the previous year 2025-26, if Karta (Mr. Madan, in this case) satisfies both the following conditions:
  - He is a resident in at least 2 out of 10 previous years preceding the relevant previous year; and
  - His stay in India in the last 7 years preceding the relevant previous year is 730 days or more.
- ✓ Mr. Madan has satisfied both the above conditions as he had never gone out of India except for 99 days and 201 days in the P.Y. 2024-25 and P.Y. 2023-24, respectively, the HUF would be ROR in India.

Computation of Gross Total Income of Mr. Madan for the A.Y. 2026-27

	Rs.
Income under the head "Salaries"	
Salary earned in India: [Rs.65,500 x 5 + Rs.65,500 x15/31]	3,59,194
Salary paid in USA: [Not taxable as Mr. Madan is a non- resident and such income does not accrue or arise or received in India]	Nil
Less: Standard Deduction [Optional Tax Regime] [Given]	(50,000)
	3,09,194
Income from other sources	
Difference between the consideration of Rs.18 lakhs and stamp duty value of Rs.23 lakhs of the residential property acquired [Taxable, since the difference of Rs.5 lakhs exceed Rs.1,80,000, being the higher of 10% of the consideration and Rs.50,000]	5,00,000
Sculpture received as gift from Rajeev, his friend in India [Not taxable as the value	Nil

does not exceed Rs.50,000]	
Gross Total Income	**8,09,914**

EXCEPTIONAL **Question 7:**

Mr. Akash, an Indian citizen aged 45 years, worked in XYZ Ltd. in Delhi. He got a job offer from ABC Inc., California on 01.06.2024. He left India for the first time on 31.07.2024 and joined ABC Inc. on 08.08.2024. During the P.Y. 2025-26, Mr. Akash visited India from 25.05.2025 to 22.09.2025. He has received the following income for the previous year 2025-26:

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

Determine the residential status of Mr. Akash and compute his total income for the A.Y. 2026-27.

(MTP 1 May 24 6M)

Similar to Q No 7 in TYK

- ✓ As per section 6(1), an Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India would be resident in India if he or she stays in India for a period of 182 days or more during the relevant previous year. ~~in case such person has total income, other than the income from foreign sources, not exceeding ₹ 15 lakhs.~~ [ICAI SM wrong answer]
- ✓ However, if such person has total income, other than the income from foreign sources, exceeding ₹ 15 lakhs, he would also be a resident if he has been in India for at least 120 days during the relevant previous year and has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more. In such a case, he would be resident but not ordinarily resident in India.
- ✓ Income from foreign sources means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India.

Checking TI for Determining Residential Status

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In this case, total income, other than the income from foreign sources, of Mr. Akash for P.Y. 2023-24 would be

Particulars		Amount (Rs.)
Salary from ABC Inc., California received in California (Computed) (Not included in total income, since it is income from foreign source)		-
Dividend from Indian companies (Included in total income, since it is deemed to accrue or arise in India)		5,00,000
Agricultural income from land situated in Nepal (Not included in total income, since it is accrued or arisen outside India and received outside India)		-
Rent received/receivable from house property in Delhi (Included in total income, since it is deemed to accrue or arise in India)	5,50,000	
Less: 30% of Rs. 5.50 lakhs	(1,65,000)	3,85,000
Profits from a profession in California, which was set up in India, received there		6,00,000
Total income, other than the income from foreign sources		**14,85,000**

Since, Mr. Akash is an Indian citizen who comes on a visit to India only for 121 days in the P.Y. 2023-24 and his total income, other than income from foreign sources does not exceed Rs. 15 lakhs, he would be non- resident for the A.Y. 2024-25.

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Computation of Total Income of Mr Akash for A.Y. 2026-27 [P.Y. 2025-26]

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

Particulars		Amount (Rs.)
Salary from ABC Inc., California received in California (Computed) (Not taxable, since it neither accrues or arises in India nor is it received in India)		-
Dividend from Indian companies (Taxable, since deemed to accrue or arise in India)		5,00,000
Agricultural income from land situated in Nepal (Not taxable, since it neither accrues or arises in India nor is it received in India)		-
Rent received/receivable from house property in Delhi (Taxable, since it is deemed to accrue or arise in India)	5,50,000	
Less: 30% of Rs. 5.50 lakhs	(1,65,000)	3,85,000
Profits from a profession in California, which was set up in India, received there		-
Gross Total Income/ Total income		**8,85,000**

Question 8:

Mrs. Sia D'Souza is an American, got married to Mr. Kabir of India in New York on 14.02.2025 and came to India for the first time on 18.03.2025. She left for Australia on 16.08.2025. She returned to India again on 23.03.2026.

On 01.04.2025, she had purchased a Flat in Mumbai, which was let out to Mr. Sameer on a rent of Rs. 26,000 p.m. from 1.6.2025. She had taken loan from an Indian bank for purchase of this flat on which bank had charged interest of Rs. 2,05,000 up to 31.03.2026.

While in India, during the previous year 2025-26, she had received a gold chain from her in laws worth Rs. 1,50,000 and Rs. 1,65,000 from very close friends of her husband.

From the information given above, you are required to determine her the residential status and compute her total income chargeable to tax for the Assessment Year 2026-27 assuming she has shifted out of the default tax regime under section 115BAC.

(MTP 2 May 24 6M)

- ✓ Under section 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:
  - He has been in India during the previous year for a total period of 182 days or more, or
  - He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.
- ✓ If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.
- ✓ Therefore, the residential status of Mrs. Sia D'Souza, an American, for A.Y.2026-27 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2026-27 i.e. P.Y.2025-26 and in the preceding four assessment years.

Her stay in India during the previous year 2025-26 and in the preceding four years are as under:

P.Y. 2025-26

01.04.2025 to 16.08.2025	-	138 days
23.03.2026 to 31.03.2026	-	9 days
		Total 147 days

4 preceding previous years

P.Y.2024-25 [1.4.2024 to 31.3.2024]	-	14 days
P.Y.2023-24 [1.4.2023 to 31.3.2024]	-	Nil
P.Y.2022-23 [1.4.2022 to 31.3.2023]	-	Nil
P.Y.2021-22 [1.4.2021 to 31.3.2022]	-	Nil
	Total	14 days

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The total stay of Mrs. Sia D'Souza during the previous year in India was less than 182 days and during the 4 years preceding this year was for 14 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2026-27.

Computation of total income of Mrs. Sia D'Souza for the A.Y. 2026-27

Particulars		Rs.	Rs.
Income from house property			
Flat located in Mumbai let-out from 01.06.2025 to 31.03.2026 @ Rs. 26,000 p.m. Gross Annual Value [26,000 x 10][1]		2,60,000	
Less: Municipal taxes		Nil	
Net Annual Value (NAV)		2,60,000	
Less: Deduction under section 24 30% of NAV	(78,000)		
Interest on loan [fully allowable as deduction, since property is let-out]	(2,05,000)	(2,83,000)	(23,000)
Income from other sources			
- Gold chain worth Rs. 1,50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax.		Nil	
- Gift received from friends of her husband aggregating to Rs. 1,65,000 is taxable under section 56(2)(x) since the amount of cash gifts of Rs. 1,65,000 exceeds Rs. 50,000.		1,65,000	1,65,000
Gross Total income/ Total Income			1,42,000

EXCEPTIONAL **Question 9:**

Miss Geeta, a citizen of India, got married to Mr. Peter of Australia and left India for the first time on 20.8.2025. She has not visited India again during the P.Y. 2025-26. She has derived the following income for the year ended 31-3-2026:

	Particulars	Rs.
(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 2026-27.

(MTP 1 Sept 24 6M)

- ✓ Miss Geeta is said to be resident if she satisfies any one of the following basic conditions:
  - Has been in India during the previous year for a total period of 182 days or more **(or)**
  - 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.

  Note: Condition B2 will be applicable in this case, as she left India NOT for employment but after marriage to live with her partner abroad.
- ✓ Miss Geeta's stay in India during the P.Y.2025-26 is 142 days [30+31+30+31+20] which is less than 182 days. However, her stay in India during the P.Y.2025-26 exceeds 60 days. Since, she left India for the first time, her stay in India during the four previous years prior to P.Y.2025-26 would be more than 365 days. Hence, she is a resident for P.Y.2025-26.
- ✓ Further, Miss Geeta would be "Resident and ordinarily resident" in India in during the previous year 2023-24, since her stay in India in the last 7 previous years prior to P.Y.2023-24 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. 2026-27

	Particulars	Income	Business Income Rs.	Agricultural Income Rs.
(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**

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Notes:

(1) Since Ms. Geeta is resident and ordinarily resident in India for A.Y. 2026-27, 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 Rs. 2,00,000 from sapling and seedling grown in a nursery at Cochin is agricultural income.

Question 10:

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, 2025 and 31st October, 2025. He approaches you for your advice on the following issues to mitigate his tax liability in India:

1. **Date by which he should leave India to join the company;**
2. **Direct credit of part of his salary to his bank account in Delhi maintained jointly with his mother to meet requirement of his family.**

(MTP 2 Sept 24 6M)

1. 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.

   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, 2025, 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.

2. The income earned by him in New York would not be chargeable to tax in India for A.Y. 2026-27, if he leaves India on or before 28th September, 2025.

   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.

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Question 11:

Mrs. Riya, aged 62 years, was born and brought up in New Delhi. She got married in Russia in 1996 and settled there since then. Since her marriage, she visits India for 60 days each year during her summer break. The following are the details of her income for the previous year ended 31.03.2026:

S. No.	Particulars	Amount (in Rs.)
1.	Pension received from Russian Government	65,000
2.	Long-term capital gain on sale of land at New Delhi (computed)	3,00,000
3.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid both at the time of acquisition as well as at the time of sale (computed)	60,000
4.	Premium paid for self to Russian Life Insurance Corporation at Russia	75,000
5.	Rent received (equivalent to Annual Value) in respect of house property in New Delhi	90,000

You are required to ascertain the residential status of Mrs. Riya and compute her total income in India for Assessment Year 2026-27 under default tax regime.

(MTP 1 Jan 25 6M)

An Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India ~~(and whose total income, other than from foreign sources, does not exceed Rs. 15,00,000)~~ would be resident in India only if he or she stays in India for a period of 182 days or more during the previous year. Even if his total income, other than from foreign sources, exceeds Rs. 15,00,000, he would be resident in India if stays in India for 120 days or more during the relevant previous year and 365 days or more during the 4 previous years immediately preceding the relevant previous year.

Since Mrs. Riya is a person of Indian origin who comes on a visit to India only for 60 days in the P.Y.2025-26, she is non-resident for the A.Y. 2026-27.

A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to her in India. Accordingly, her total income and tax liability would be determined in the following manner:

Computation of total income and tax liability of Mrs. Riya for A.Y. 2026-27

Particulars		Amt (Rs.)
Salaries		
Pension received from Russian Government [Not taxable, since it neither accrues or arises in India nor it is received in India]		Nil
Income from House Property		
Annual Value [Rental Income from house property in New Delhi is taxable]	90,000	
Less: Deduction u/s 24(a) @ 30%	(27,000)	
		63,000
Capital Gains		
Long-term capital gains on sale of land at New Delhi [Taxable, since it is deemed to accrue or arise in India as it is arising from transfer of land situated in India]		3,00,000
Short-term capital gains on sale of shares of Indian listed companies in respect of which STT was paid [Taxable, since it is deemed to accrue or arise in India, as such income arises on transfer of shares of Indian listed companies]		60,000
Gross Total Income		**4,23,000**
Less: **Deduction under Chapter VI-A**		
Deduction under section 80C [Not available under default tax regime]		Nil
Total Income		**4,23,000**

Question 12:

Mr. Sudesh (aged 58 years), a citizen of India, serving in the Ministry of Finance in India, was transferred to Indian Embassy in UK on 15th March 2025. His income during the financial year 2025-26 is given hereunder:

Particulars	Rs.
Rent from a house situated at UK, received in UK. Thereafter, remitted to Indian bank account.	**5,25,000**
Salary from Government of India	**9,25,000**
Foreign Allowances from Government of India	**8,00,000**

Mr. Sudesh did not come to India during the financial year 2025-26. Compute his total income for the Assessment year 2026-27.

(MTP 2 Jan 25 3M)

Mr. Sudesh is a non-resident for the A.Y.2026-27, since he was not present in India at any time during the previous year 2025-26.

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

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

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

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Computation of Total Income of Mr. Sudesh for A.Y. 2026-27

Particulars	Rs.
Salaries	
Salary from Government of India (Income chargeable under the head 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Sudesh, a citizen of India, even though he is a non- resident and rendering services outside India)	9,25,000
Foreign Allowance from Government of India [Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7)].	Nil
Gross Salary	**9,25,000**
Less: Standard Deduction under section 16(ia) of Rs. 50,000, being lower of gross salary or Rs. 50,000 [Assumed as Optional Tax Regime] [Since Regime NOT mentioned in Question]	(50,000)
	8,75,000
Income from House Property	
Rent from a house situated at UK, received in UK	Nil
(Income from property situated outside India would not be taxable in India in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India nor is it received in India)	
Gross Total Income/ Total Income	**8,75,000**

EXCEPTIONAL **Question 13:**

Ms. Rita, an Indian citizen and an MBA from Howard University, was employed in AFL LLP of Country A since June, 2018. She came to India on 15.11.2025 and joined as CEO of Autofit Ltd. Ms. Rita was in India before she left for overseas education in May, 2014 and was subsequently employed outside India and never visited India thereafter. There is no income-tax in Country A. She has earned interest income of Rs.2,40,000 (net) in Country A and salary income from AFL LLP of Rs.15 lakhs up to the date of her return to India in the financial year 2025-26.

Salary income (computed) of Ms. Rita from Autofit Ltd. up to 31.03.2026 is Rs.13,50,000 and she earned dividend of Rs.3,00,000 from shares of an Indian company.

What would be the residential status of Ms. Rita and her total income for the A.Y. 2026-27?

(RTP May 24)

Determination of residential status of Ms. Rita for the A.Y. 2026-27

✓ As per section 6(1), in order to be a resident of India in the P.Y.2025-26, Ms. Rita should satisfy

either of the following two conditions -

- Her stay in India should be for a period of 182 days or more in the P.Y.2025-26; or
- Her stay in India should be for a period of 60 days or more in the P.Y.2025-26 and for a period of 365 days or more in the 4 immediately preceding previous years.

✓ Ms. Rita's stay in India in the P.Y.2025-26 is 138 days (i.e., 16 days + 31 days +31 days + 29 days + 31 days). She left India in May, 2014 and never visited India thereafter. Her stay in India in the 4 immediately preceding previous years would be Nil. Therefore, she does not satisfy either condition (1) or condition (2) for being a resident.

✓ As per section 6(1A), an individual who is a citizen of India would be deemed to be a resident of India if his total income, other than income from foreign sources, exceed Rs.15 lakh during the relevant previous year and he is not liable to tax in any other country by reason of his domicile or residence or any other criteria of similar nature.

Ms. Rita's total income, other than income from foreign sources, would be Rs.16,50,000 for A.Y.2026-27 as shown below -

Particulars	Rs.
Salary income from Autofit Ltd. [Computed] [Accrues or arises in India]	13,50,000
Dividend from shares of an Indian company [Accrues or arises in India]	3,00,000
	16,50,000

✓ Since Ms. Rita is a citizen of India who is not liable to pay income-tax in Country A and her total income, other than income from foreign sources, exceed Rs.15 lakhs, she would be deemed resident in India under section 6(1A) for A.Y.2026-27. A deemed resident is, by default, a resident but not ordinarily resident.

✓ In case of a resident but not ordinarily resident, income accrues or arises, deemed to accrue or arise and received or deemed to be received in India, is taxable. In addition, Income which accrues or arises outside India would also be taxable if it is derived from a business controlled in or a profession set up in India.

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Ms. Rita's total income for A.Y. 2026-27

Particulars	Rs.
Salary income from AFL LLP [Not taxable since it accrues or arises outside India]	-
Salary income from Autofit Ltd. [Computed]	13,50,000
Interest income in Country A [Not taxable since it accrues or arises outside India]	-
Dividend from shares of an Indian company	3,00,000
Total Income	16,50,000

EXCEPTIONAL **Question 14:**

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. 2025-26, 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 2021-22, 2022-23, 2023-24 and 2024-25, respectively. Her annual income for the Previous year 2025-26 is as follows:

	Particulars	Amount (Rs.)
(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,

(i) You are required to determine the residential status and total income of Mrs. Sarika for the A.Y. 2026-27.

(ii) 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?

(iii) In continuation to point (ii), what would be your answer if Mrs. Sarika comes to India in P.Y. 2024-25 for 45 days instead of 145 days?

(MTP 1 May 25 6M, RTP Sept 24)

Mrs. Sarika is an Indian citizen and in employment in UAE. She comes on a visit to India during the P.Y.2025-26 for 121 days. Her stay in India in the 4 immediately preceding previous years i.e., in P.Y. 2019-20 to P.Y. 2022-23 is 371 days (50 + 100 +76 + 145 days).

Checking of Total Income for Residential Status Determination

(i) Her total income, other than the income from foreign sources, during the P.Y. 2025-26 would be

Particulars	Amount (Rs.)
Salary accrued or arisen in UAE (income from a foreign source, hence, to be excluded)	-
Income accrued and arisen in India	2,00,000
Income deemed to be accrued and arisen in India	7,00,000
Income arising in UAE, from a business set up in India (to be included since the business is controlled from India, even though such income accrues and is received outside India)	5,00,000
	14,00,000
Less: Deduction u/s 80C (LIC premium paid by cheque in India)	(1,00,000)
Total income (excluding income from foreign sources)	**13,00,000**

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

Since she has stayed only for 121 days and total income is not exceeding 15 Lakhs in India during the P.Y. 2025-26, she is a non-resident for the A.Y. 2026-27.

Computation of Total Income of Mrs. Sarika [Non Resident] for P.Y. 2025-26

Particulars	Amount (Rs.)
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 Rs. 5,00,000, her total income, other than the income from foreign sources, during the P.Y. 2025-26 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 2025-26, can be a resident in India for A.Y.2026-27, if she has been in India for 120 days or more but less than 182 days in the P.Y. 2025-26 and during the 4 years immediately preceding the P.Y. 2025-26 for a total period of 365 days or more.

Since she has stayed in India for 121 days during the P.Y. 2025-26 and her stay in India in the four immediately preceding previous years is 371 days, she would a resident in India for A.Y. 2026-27 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. 2025-26 would be Rs. 18 lakhs [Rs. 8,00,000 (computed in (i) above) plus Rs. 10,00,000].

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(iii) If Mrs. Sarika comes to India in P.Y. 2024-25 for 45 days instead of 145 days, she would not be a resident in India for the P.Y. 2025-26 as per section 6(1) since her stay in India in the 4 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. 2025-26 by virtue of section 6(1A).

A deemed resident is always a resident but not ordinarily resident. In such case, her total income during the P.Y. 2025-26 would be same i.e., Rs. 18 lakhs as computed in point (ii) above.

Question 15:

Mr. Akshay (aged 59 years), an Indian citizen, travelled frequently out of India for his business trip as well as for his outings. He left India from Delhi airport on 20th April 2025 and returned on 15th October 2025. He has been in India for less than 700 days during the 7 years immediately preceding the previous year. Determine his residential status and his total income for the Assessment Year 2026-27 from the following information:

(1) Long term capital gain on sale of shares of Shama India Ltd., a listed Indian company, amounting to Rs.1,12,000. The sale proceeds were credited to his bank account in UK.

(2) Dividend amounting to Rs.40,000 received from RIL Ltd., an Indian company. He had borrowed money from Mr. Abhay, a non- resident Indian, for the above-mentioned investment on 2nd April, 2025. Interest on the borrowed money for the P.Y. 2025-26 amounted to Rs.10,000.

(3) Interest on post office saving bank account amounting to Rs.9,500.

Mr. Akshay has shifted out of the default tax regime and wants to pay tax under normal provisions of the Act.

(RTP Jan 25)

Determination of residential status

An individual is said to be resident in India in any previous year, if he satisfies any one of the following

conditions:

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

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

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Mr. Akshay, an Indian citizen, has satisfied the first basic conditions for being a resident, since he was in India for 189 days (20+17+30+31+31+29+31) during the previous year 2025-26. Hence, he is a resident in India for A.Y.2026-27.

An individual would be resident but not ordinarily resident if he satisfies either one of the following conditions:

(i) He has been non-resident in India in any 9 out of 10 previous years preceding the relevant previous year, or

(ii) He has, during the 7 years immediately preceding the relevant previous year, been in India for a period of 729 days or less.

Since Mr. Akshay has been in India for less than 700 days during the 7 years immediately preceding the previous year, he would be a resident but not ordinarily resident for A.Y. 2026-27

Computation of total income of Mr. Akshay [RNOR] for A.Y.2026-27

	Particulars		Amount (Rs.)
(1)	Long-term capital gain on sale of shares of an Indian listed company is chargeable to tax in the hands of Mr. Akshay, since it has accrued and arisen in India even though the sale proceeds were credited to bank account in UK.	CA Ram Harsha	1,12,000
(2)	Dividend received from an Indian company taxable in the hands of the Akshay as Income from other sources since the income has accrued or arisen in India	40,000	
	Less: Interest expenditure restricted to 20% of dividend	8,000	32,000
(3)	Interest on post office saving bank account is taxable in the hands of Mr. Akshay as Income from other sources, since it has accrued and arisen in India and is also received in India.	9,500	
	Less: Exemption under section 10(15)	3,500	6,000
Gross Total Income			**1,50,000**
Less: Deduction under section 80TTA			(6,000)
Total Income			**1,44,000**

EXCEPTIONAL **Question 16:**

State with reasons whether income chargeable to tax in India for the A.Y. 2026-27 in the hands of recipients in following independent situations:

(i) Mr. Mahesh received dividend of ₹ 7 lakhs declared and paid by a foreign company outside India. Such dividend has been declared in respect of shares which derive their value substantially from assets situated in India. He is resident and not ordinarily resident in India.

(ii) Mr. Shivansh is a non-resident in India and residing in China has deposited ₹ 16 lakhs with M/s ABC Ltd., an Indian company, on 01-09-2025. He has received interest @ 12% per annum in

China during the previous year 2025-26.

(iii) Mr. Ramesh received royalty of ₹ 8,25,000 in consideration of providing patent rights to Mr. Sunil. Mr. Sunil has developed a new product in India by utilizing the patent rights. 30% of the royalty was received in India and 70% was received outside India. Mr. Ramesh and Sunil both have status of non-resident in India.

(PEP May 25 6M)

(i) Dividend received by Mr. Mahesh from a foreign company outside India would not be deemed to accrue or arise in India even if shares of such company derive their value substantially from assets situated in India.
Hence, such dividend of ₹ 7 lakhs would not be taxable in the hands of Mr. Mahesh.

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(ii) interest on deposits with M/s ABC Ltd., an Indian Company, would be deemed to accrue or arise in India in the hands of Mr. Shivansh, being a non-resident since source of income is in India.
Thus, interest income of ₹ 1,12,000 (₹ 16 lakhs x 12% x 7/12) would be taxable in his hands.

(iii) Royalty received by Mr. Ramesh, a non-resident from Mr. Sunil, another non-resident would be deemed to accrue or arise in India, since such royalty is paid for patent rights used for a new product developed in India. Thus, ₹ 8,25,000 would be taxable in the hands of Mr. Ramesh irrespective of the facts that only 30% such amount is received in India

EXCEPTIONAL **Question 17:**

Mr. Varun, an Indian citizen, engaged in consultancy business in India. He shifted to Dubai in the year 2020 to expand his consultancy business overseas. He visits India every year to supervise his office in Delhi. His stay in India for current as well as past years is as follows:

- P.Y. 2021-22: 95 days
- P.Y. 2022-23: 105 days
- P.Y. 2023-24: 95 days
- P.Y. 2024-25: 75 days
- P.Y. 2025-26: 100 days

During the P.Y. 2024-25, he earned the following income:

1. Income from consultancy business in India – ₹ 10,00,000
2. Income from consultancy business in Dubai - ₹ 4,00,000
3. Agricultural income from land situated in Kerala - ₹ 70,000
4. Dividend from an Indian company, received in Dubai - ₹ 50,000
5. Interest expenditure on investment in above shares - ₹ 15,000

You are required to:

(a) Determine Mr. Varun's residential status for A.Y. 2026-27, assuming he is not liable to tax in Dubai.

(b) Compute the Total income of Mr. Varun for P.Y. 2025-26 if he opts out of the default tax regime.

(RTP Sep 25)

Determination of residential status

As per section 6(1), an Indian citizen who, being outside India comes on a visit to India during the relevant previous year is said to be resident in India if he has been in India during the previous year for a total period of 182 days or more.

However, if his total income, other than the income from foreign sources exceeds ₹ 15 lakhs during the previous year, he will also be treated as resident in India if he has been in India for at least 120 days in the previous year and has been in India during the 4 years immediately preceding the relevant previous year for a total period of 365 days or more.

Mr. Varun visited India only for 100 days during the P.Y. 2025-26, hence he is a non-resident as per section 6(1) irrespective of whether his total income, other than the income from foreign sources exceeds ₹ 15 lakhs or not.

As per section 6(1A), an Indian citizen, having total income, other than the income from foreign sources, exceeding ₹ 15 lakhs during the previous year would be deemed to be resident in India in that previous year, if he is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature.

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Computation of total income, other than the income from foreign sources, of Mr. Varun [For Determining Deemed Residential Status]

Particulars	₹	₹
Income from consultancy business in India [Accrued or arisen in India]	10,00,000	
Income from consultancy business in Dubai [Income derived from a profession set up in India]	4,00,000	
Agricultural income from land in Kerela [Exempt u/s 10(1)]	-	
Dividend from Indian company	50,000	
Less: Deduction for interest expenses up to 20%	10,000	40,000
		14,40,000

Since Mr. Varun's total income, other than the income from foreign sources, does not exceed ₹ 15 lakhs, he is not deemed resident as per section 6(1A).

Computation of total income of Mr. Varun, a Non-Resident, for A.Y. 2026-27

Particulars	₹	₹
Income from consultancy business in India [Taxable as income accrued or arisen in India]		10,00,000
Income from consultancy business in Dubai [Not taxable since neither income accrued or arisen in India nor received in India]	-	
Agricultural income from land in Kerela [Exempt u/s 10(1)]	-	
Dividend from Indian company	50,000	
Less: Deduction for interest expenses up to 20%	(10,000)	40,000
		10,40,000

Question 18:

On 22.09.2025, Mr. Prabhjot, aged 55 years, an Indian citizen left India for the first time to work as a CFO of a company in Australia. He visits South Africa on vacation every year for a

month to visit his brother's family. He earns the following income during the PY 2025-25:

Sr.No.	Particulars	(₹)
1.	Salary (computed) from company in Australia [Received in bank account in Australia]	18,00,000
2.	Dividend from South African company received in South Africa	20,000
3.	Interest received from South Indian Bank, India	21,000
4.	Loss from business in South Africa (controlled from India)	45,000
5.	Agricultural income from a land situated in Gujarat	45,000

Compute the total income of Mr. Prabhjot for A.Y. 2026-27 if he has opted out of the default tax regime u/s 115BAC

(MTP 2 May 25 6M)

Under section 6(1), an individual is said to be a resident in India in any previous year if he satisfies any one of the following conditions -

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

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

In case of Indian citizen leaving India for the purpose of employment, the only condition for being a resident in India is to stay in India during the previous year for 182 days or more.

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

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2026-27.

As per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax in India:

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

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

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

S. No.	Particulars	Amount (₹)
1.	Salary (computed) from company in Australia **(Not taxable, since it neither received in India nor accrue or arise in India)**	-
2.	Dividend from South African Company received in South Africa **(Not taxable, since it neither received in India nor accrue or arise in India)**	-
3.	Interest received from South Indian Bank, India (Taxable, since it is deemed to accrue or arise in India)	21,000
4.	Loss from business in South Africa (controlled from India) **(Not taxable, since it neither received in India nor accrue or arise in India)**	-
5.	Agricultural income from a land in Gujarat **[Exempt u/s 10(1)]**	-
	Gross Total income	**21,000**
	Less: Deduction under Chapter VI-A	
	Section 80TTA (Interest on saving bank account upto ₹ 10,000)	(10,000)
	Total Income	**11,000**

Question 19:

Mr. Rohan furnished the following particulars of his income for the year ended 31.3.2026.

	Particulars	₹

(a)	Income earned from business in Iran which is controlled from Delhi (₹ 65,000 is received in India)	80,000
(b)	Pension for services rendered in India but received in Iran (computed)	24,000
(c)	Dividend from an Oil Company, an Iran based company, received in Iran	15,000
(d)	Interest on money borrowed by Mr. Deepender, a non- resident, for the purpose of investment in shares of XYZ Ltd., an Indian company	55,000

Compute his gross total income for the assessment year 2026-27, if he is:

(i) Resident and ordinarily resident;

(ii) Resident but not ordinarily resident;

(iii) Non-resident

(MTP 1 Sept 25 6M)

Computation of gross total income of Mr. Rohan for the A.Y. 2026-27

	Particulars	Resident & ordinarily resident	Resident but not ordinarily resident	Non-Resident
		₹	₹	₹
(a)	Income earned from business in Iran, which is controlled from Delhi, out of which ₹ 65,000 is received in India	80,000	80,000	65,000
(b)	Pension for services rendered in India but received in Iran (Computed)	24,000	24,000	24,000
(c)	Dividend received in Dubai from an Oil company, an Iran based company	15,000	-	-
(d)	Interest on money borrowed by Mr. Deepender, a non- resident, for the purpose of investment in shares of XYZ Ltd., an Indian company	55,000	-	-
	Gross Total Income	**1,74,000**	**1,04,000**	**89,000**

Notes:

(a) As per section 5(1), global income is taxable in case of a resident. However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax in India:

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

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

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Further, the income which accrues or arise outside India would be chargeable to tax in case of resident but not ordinarily resident in India, only if such income is derived from a business controlled in India.

Accordingly, the entire income earned from business in Iran which is controlled from Delhi would be chargeable to tax in the hands of Mr. Rohan if he is a resident in India or resident but not ordinarily resident. However, if he is non-resident then only that part of income which is received in India would be taxable in his hands.

(b) Dividend from an Iran based company, received in Iran and interest on money borrowed by Mr. Deepender, a non-resident, for the purpose of investment in shares of XYZ Ltd., an Indian company, would be taxable in the hands of Mr. Rohan, only if he is resident and ordinarily resident in India. If he is a resident but not ordinarily resident or a non-resident, the same would not be taxable in his hands in India since it has neither accrued nor arisen in India nor is it received in India.

Question 20:

Ms. Priya, a person of Indian origin and a citizen of Canada, got married to Mr. Aaron, an Indian citizen residing in Canada, on 24th January 2025. She came to India on 25th March 2025 and left for Canada on 10th July 2025. She returned to India with her husband on 24th February 2026 to spend some time with her parents-in-law for 30 days and thereafter returned to Canada. She stayed in India for a total of 400 days during the 4 years preceding the P.Y. 2025-26.

During the previous year 2025-26, Priya, while in India, received the following gifts from her husband's relatives and friends:

- From husband's parents	**Rs. 1,51,000**
- From husband's sister	**Rs. 21,000**
- From very close friends of her husband	**Rs. 16,00,000**

Determine Priya's residential status for Assessment Year 2026-27 and compute her total income and tax liability for that year, assuming she does not opt out of the default tax regime.

(MTP 2 Sep 25 6M)

Under section 6(1), an individual, being a person of Indian origin or an Indian citizen, who comes on a visit to India and he is having total income other than income from foreign sources exceeding Rs. 15 lakhs during the previous year, such individual is said to be resident in India, if he stays in India during the relevant previous year for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year. As per section 6(6), such individual whose stay in India is for 120 days or more but less than 182 days in the relevant previous year would be resident but not ordinarily resident.

Ms. Priya is a person of Indian origin who has come on a visit to India during the previous year 2024-25. Her total income other than income from foreign sources for the A.Y. 2026-27 is as below:

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

[For Determining Residential Status]

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

Since her total income other than income from foreign sources exceed Rs. 15,00,000, she would be considered a resident of India if she stays in India during the P.Y. 2025-26 for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year.

Her stay in India during the previous year 2025-26 is as under:

P.Y. 2025-26

01.04.2025 to 10.07.2025 - 101 days

24.02.2026 to 25.03.2026 - 30 days

Total **131 days**

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Since she stayed in India for 131 days during the P.Y. 2024-25 and for 400 days during the 4 years immediately preceding the P.Y. 2024-25, **she would be a resident but not ordinarily resident** in India for the P.Y. 2025-26.

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

Computation of tax liability of Priya for the A.Y. 2026-27 under default tax regime under section 115BAC

Particulars		Rs.
Tax on total income of Rs. 16,00,000		
Up to Rs. 4,00,000	Nil	
Rs. 4,00,001 – Rs. 8,00,000 @5%	20,000	
Rs. 8,00,001 – Rs. 12,00,000 @10%	40,000	
Rs. 12,00,001 – Rs. 16,00,000 @15%	60,000	1,20,000
Add: Health and Education cess@4%		6,800
Tax liability		1,76,800

Question 21:

Ms. Aanchal, an Indian Citizen, is a government employee working for the Indian Government. She submits the following information for the previous year ending on 31.03.2026:

	₹
1 Salary income received in Malaysia for services rendered there	2,00,000
2 Profits from business carried on in Chennai	80,000
3 Loss from business carried on in Vadodara	(20,000)
4 Loss from business carried on in USA (though profits are not received in India, business is controlled from Rishikesh)	(46,000)
5 Unabsorbed depreciation of business in USA	(16,000)
6 Profits from business in Bali (controlled from Delhi) and 60% of profit deposited in a bank in Bali and 40% received in India	70,000
7 Rent from house property situated in USA and received in USA	1,92,000

Determine the gross total income of Ms. Aanchal for the A.Y. 2026-27 assuming that she has opted out from the provisions of section 115BAC on the assumption that she is:

(1) Resident but not ordinarily resident in India

(2) Non-resident in India

(RTP Jan 26)

Computation of gross total Income of Ms. Aanchal for the A.Y. 2026-27 [Optional Tax Reg]

	Particulars of income	Resident but not ordinarily Resident (₹)	Non-Resident (₹)

1	Salary income received in Malaysia for services rendered there **(Note 1)**	2,00,000	2,00,000
	Less: Standard deduction under section 16(ia)	(50,000)	(50,000)
		1,50,000	1,50,000
2	Profits from business carried on in Chennai [Since it accrues or arises in India]	80,000	80,000
3	Loss from business carried on in Vadodara [Since it accrues or arises in India]	(20,000)	(20,000)
4	Loss from business carried on in USA (business is controlled from Rishikesh)	(46,000)	Nil
5	Unabsorbed depreciation of business in USA	(16,000)	Nil
6	Profit from business in Bali (business is controlled from Delhi and only 40% is received in India)	70,000	28,000
7	Rent from property situated in USA and received in USA	Nil	Nil
	Gross Total Income	**2,18,000**	**2,38,000**

Note 1 - Income from "Salaries" payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Standard deduction under section 16(ia) is allowable, irrespective of residential status.

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Note 2 – In case of a non-resident, only income received or deemed to be received in India and income accruing or arising or deemed to accrue or arise in India is chargeable to tax.
However, in case of a resident but not ordinarily resident, income derived from a business controlled in or profession set up in India is also taxable even though it accrues or arises outside India.

- ✓ Therefore, income referred to in S. No. 1, 2 and 3 are taxable in the hands of Ms. Aanchal in both cases if she is a resident but not ordinarily resident or if she is a non-resident.
- ✓ Loss of business carried on in USA, unabsorbed depreciation of business in USA and Profit from business in Bali would be fully chargeable to tax in India if she is a resident but not ordinarily resident as it derived from a business controlled in India. However, Profit from business in Bali is taxable in case of non-resident to the extent of such profits received in India..

EXCEPTIONAL **Question 22:**

Swetha, a citizen of India, is a chartered accountant. She is a working partner in Swetha and Varun Associates, which was set up in Chennai, India. She visits foreign country A quite often and provides accounting services to corporates there in her individual capacity. In country A, she is not subject to any income tax. The details of her income for the financial year 2025-26 is as follows:

(i) Remuneration from her CA firm in India (amount received in India) - ₹ 16 lakhs (Deductible while computing the income of the firm)

(ii) Income received from providing accounting services in country A (received in a bank account in country A) - ₹ 5 lakhs

(iii) Dividend (from companies incorporated in country A and received in a bank account in country A)- ₹ 8 lakhs

(iv) Income from a business in country A which was set up in country A but is controlled from Chennai, India (received in country A) - ₹ 7 lakhs

Ascertain her residential status (briefly explaining relevant provisions) along with the taxability of

income for the assessment year 2026-27 in the following independent situations:

(i) She did not visit India during the F.Y. 2025-26.

(ii) She visits and stays in India for 200 days every year since 12 preceding previous years including F.Y. 2025-26.

(iii) She did not visit India during the previous year 2025-26 and her income from profession in India is ₹ 4 lakhs for the financial year 2025-26, instead of ₹ 16 lakhs.

(PEP Sep 25)

(i) She did not visit India during the F.Y. 2025-26

Swetha is a citizen of India who is not liable to tax in Country A. She will be a deemed resident under section 6(1A) if her total income, other than the income from foreign sources, exceeds ₹ 15 lakhs during the previous year.

Computation of total income, other than the income from foreign sources

Particulars	₹
Remuneration from CA firm as partner [Accrued or arisen in India]	16,00,000
Income from providing accounting services in Country A and received in Country A [Income from a foreign source, hence, to be excluded]	-
Dividend from companies incorporated in Country A and received in Country A [Income from a foreign source, hence, to be excluded]	-
Income from a business in Country A but controlled from Chennai (To be included since the business is controlled from India, even though such income accrued and received outside India)	7,00,000
Total income (excluding income from foreign sources)	**23,00,000**

Since Swetha has total income excluding income from foreign sources exceeding ₹ 15 lakhs, she is a deemed resident and resident but not ordinarily resident in India by default.

Her total income would be ₹ 23 lakhs as computed above.

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(ii) She stays in India for 200 days every year since 12 preceding years including F.Y. 2025-26

Swetha is a resident in India since she stayed in India for 182 days or more during the P.Y. 2025-26. She is a resident and ordinarily resident in India since her stay in 7 previous years immediately preceding the P.Y. 2025-26 exceeds ₹ 729 days and she is resident in 2 or more previous years out of 10 previous years preceding P.Y. 2026-26.

In such case, her global income is taxable in India. Accordingly, her total income would be as follows:

Particulars	₹
Remuneration from CA firm as partner	16,00,000
Income from providing accounting services in Country A and received in Country A	5,00,000
Dividend from companies incorporated in Country A and received in Country A	8,00,000
Income from a business in Country A but controlled from Chennai	7,00,000
Total income	**36,00,000**

(iii) She did not visit India during the P.Y. 2025-26 and her income from profession in India is ₹ 4 lakhs instead of ₹ 16 lakhs.

In such case, Swetha's total income excluding income from foreign sources would be ₹ 11 lakhs (₹ 4 lakhs + ₹ 7 lakhs) which is not exceeding ₹ 15 lakhs. Accordingly, she will be a non-resident in India

during the P.Y. 2025-26. Her total income would be ₹ 4 lakhs comprising of income from profession only.

3. Salaries

Illustrations

ILLUSTRATION 1

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

(1) Basic pay ₹ 40,000 p.m.

(2) Dearness allowance (D.A.) ₹ 6,000 p.m.

(3) Commission ₹ 50,000 p.a.

(4) Motor car for personal use (expenses met by the employer) ₹ 1,500 p.m.

(5) House rent allowance ₹ 15,000 p.m.

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

HRA received	₹ 1,80,000
Less: Exempt under section 10(13A) **[Note]**	₹ 1,36,800
Taxable HRA	**₹ 43,200**

Note: Exemption shall be least of the following 3 limits:

(a) the actual amount received (₹ 15,000 × 12) = ₹ 1,80,000

(b) excess of the actual rent paid by the assessee over 10% of his salary

= Rent Paid (-) 10% of salary for the relevant period

= (₹ 16,000×12) (-) 10% of [(₹ 40,000+₹ 6,000+0) × 12]

= ₹ 1,92,000 - ₹ 55,200 = ₹ 1,36,800

(c) 40% salary as his accommodation is situated at Kanpur

= 40% of [(₹ 40,000+ ₹ 6,000+0) × 12] = ₹ 2,20,800

Note: For the purpose of exemption under section 10(13A),

Salary = Basic + D.A. [retirement] + Commission (% of Turnover)

ILLUSTRATION 2

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

Transport allowance : ₹ 1,800 p.m.

Tribal area allowance : ₹ 500 p.m.

Compute his taxable allowances

Taxable allowance in the hands of Mr. Srikant is computed as under -

Children Education Allowance:		
Elder son [(₹ 150 – ₹ 100) p.m. × 12 months]	= ₹ 600	
Younger son [(₹ 70 – ₹ 70) p.m. × 12 months]	= Nil	₹ 600
Transport allowance (₹ 1,800 p.m. × 12 months)		₹ 21,600
Tribal area allowance [(₹ 500 – ₹ 200) p.m. × 12 months]		₹ 3,600
Taxable allowances		**₹ 25,800**

If Mr. Srikant pays tax under default tax regime under section 115BAC

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

ILLUSTRATION 3

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

(a) He is a government employee.

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

(c) He is a private sector employee and did not receive any gratuity at the time of retirement.

a. For Government Employee:

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

b. For Private Sector Employee and Receiving Gratuity:

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

c. For Private Sector Employee and NOT receiving Gratuity:

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

ILLUSTRATION 4

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

Basic Salary	:	**₹ 50,000 p.m.**
Dearness Allowance	:	**₹ 10,000 p.m. (60% of which is for retirement benefits)**
Commission	:	**1% of turnover (turnover in the last 12 months was ₹ 1,20,00,000)**
Bonus	:	**₹ 25,000 p.a.**

Compute his taxable gratuity assuming:
(a) He is private sector employee and covered by the Payment of Gratuity Act, 1972.
(b) He is private sector employee and not covered by Payment of Gratuity Act, 1972.
(c) He is a Government employee.

(a) He is covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement	₹ 15,00,000
Less: Exemption under section 10(10) [Note]	(₹ 9,34,615)
Taxable Gratuity	₹ 5,75,375

Note: Exemption under section 10(10) Least of the following:

i. Gratuity received	₹ 15,00,000	
ii. Statutory limit	₹ 20,00,000	
iii. 15 days' salary based on last drawn	₹ 9,34,615	(₹ 9,34,615)

Salary for each completed year of service or part thereof in excess of 6 months

$\frac{15}{26}$ x last drawn salary x years of service i.e., $\frac{15}{26}$ x (50,000 + 10,000) x 27

(b) He is not covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement	₹ 15,00,000
Less: Exemption under section 10(10) (Note)	(₹ 8,58,000)
Taxable Gratuity	₹ 6,62,000

Note: Exemption under section 10(10) is least of the following:

(i) Gratuity received	₹ 15,00,000	
(ii) Statutory limit	₹ 20,00,000	
(iii) Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service.	₹ 8,58,000	

i.e. $\frac{1}{2}$ x Average salary x years of service

i.e. $\frac{1}{2} \times \frac{(50,000 \times 10) + (10,000 \times 60\% \times 10) + \left(1\% \times 1,20,00,000 \times \frac{10}{12}\right)}{10} \times 26$

(c) He is a government employee

Gratuity received at the time of retirement	₹ 15,00,000
Less: Exemption under section 10(10)	(₹ 15,00,000)
Taxable gratuity	Nil

ILLUSTRATION 5

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

Basic Salary	:	**₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 1.4.2025)**
Dearness Allowance	:	**₹ 3,000 p.m. (60% of which is for retirement benefits)**
Commission	:	**₹ 500 p.m.**
Bonus	:	**₹ 1,000 p.m.**
Leave availed during service	:	**480 days He was entitled to 30 days leave every year.**

You are required to compute his taxable leave salary assuming:
(a) He is a government employee.

(b) He is a non-government employee.

(a) He is a Government employee

Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exemption under section 10(10AA)	(₹ 5,00,000)
Taxable Leave salary	Nil

(a) He is a Non-Government employee

Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exempt under section 10(10AA) [See Note below]	(₹ 26,400)
Taxable Leave Salary	₹ 4,73,600

Note: Exemption under section 10(10AA) is least of the following:

(i) Leave salary received	₹ 5,00,000
(ii) Statutory limit	₹ 25,00,000
(iii) 10 months' salary based on average salary of last 10 months	
i.e. $\left(10 \times \frac{\text{Salary of last 10 months i.e.Feb. - Nov.}}{10 \text{ months}}\right)$	
i.e. $\left(10 \times \frac{(50{,}000 \times 8) + (4{,}000 \times 2) + (60\% \times 3000 \times 10)}{10 \text{ months}}\right)$	₹ 66,000

(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) Leave Due = Leave allowed – Leave taken
= (30 days per year × 20 years) – 480 days= 120 days

i.e. $\left(\frac{\text{Leave due (in days)}}{30 \text{ days}} \times \text{Average Salary P.M}\right)$ ₹ 26,400

i.e. $\left(\frac{120 \text{ days}}{30 \text{ days}} \times \frac{₹ 66{,}000}{10}\right)$

ILLUSTRATION 6

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

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

Out of the amount received from the unrecognised provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2026-27?

Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2026-27 is computed hereunder:

Particulars	₹
Amount taxable under the head "Salaries":	
Employer's share in the payment received from the URPF	2,20,000

Interest on the employer's share	50,000
Total	2,70,000
Amount taxable under the head "Income from Other Sources":	
Interest on the employee's share	60,000
Total amount taxable from the amount received from the fund	3,30,000

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

ILLUSTRATION 7

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

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

ILLUSTRATION 8

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

Basic Salary	**₹ 10,000 p.m.**
D.A. (50% is for retirement benefits)	**₹ 8,000 p.m.**
Commission as a percentage of turnover	**0.1%**
Turnover during the year	**₹ 50,00,000**
Bonus	**₹ 40,000**
Gratuity	**₹ 25,000**
His own contribution in the RPF	**₹ 20,000**
Employer's contribution to RPF	**20% of his basic salary**
Interest accrued in the RPF @ 13% p.a.	**₹ 13,000**

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

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

Notes:

1. Gratuity received during service is fully taxable.
2. Employers' contribution in the RPF is exempt up to 12% of the salary i.e., 12% of [Basic Salary +

Dearness Allowance (For retirement) + Commission based on turnover] = 12% of [₹ 1,20,000 + (50% × ₹ 96,000) + ₹ 5,000] = 12% of ₹ 1,73,000 = ₹ 20,760

3. Employee's contribution to RPF is not taxable. It is eligible for deduction under section 80C, if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 9

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

Voluntary retirement compensation received	₹ 7,00,000
Less: Exemption under section 10(10C) [**See Note below**]	(₹ 5,00,000)
Taxable voluntary retirement compensation	₹ 2,00,000

Note: Exemption is to the extent of least of the following:

(i) Compensation actually received	=	₹ 7,00,000
(ii) Statutory limit	=	₹ 5,00,000
(iii) 3 months' salary × completed years of service = (₹ 20,000 + ₹ 5,000) × 3 × 30 years	=	₹ 22,50,000
(iv) Last drawn salary × remaining months of service left = (₹ 20,000 + ₹ 5,000) × 6 × 12 months	=	₹ 18,00,000

ILLUSTRATION 10

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

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) x 0.111 + 0 = ₹ 1,532

PC	ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2024-25 = ₹ 27,600
PC1	Nil since employer's contribution is less than ₹ 7.5 lakh to recognized provident fund in P.Y. 2023-24 and there is no employer's contribution in P.Y. 2020-21, P.Y. 2021-22 and P.Y. 2022-23.
TP1	Nil
R	I/Favg = 2,06,711/18,62,093 = 0.111

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

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

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

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

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

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2026-27

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2025-26 – ₹ 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) x 0.09479 + (27,600 + 1,532) x 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. 2025-26 = ₹ 27,600
PC1	Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2021-22, P.Y. 2022-23 and P.Y. 2023-24 = ₹ 27,600
TP1	Taxable perquisite under section 17(2)(viia) for the P.Y. 2024-25 = ₹ 1,532
R	I/Favg = 3,50,307/36,95,802 = 0.09479
I	RPF balance as on 31.3.2026 – employee's and employer's contribution during the year – RPF balance as on 1.4.2025 = ₹ 3,50,307 (₹ 46,48,555 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 27,43,048)
Favg	Balance to the credit of recognized provident fund as on 1st April, 2025 + Balance to the credit of recognized provident fund as on 31st March, 2026)/2 = (₹ 27,43,048 + ₹ 46,48,555)/2 = ₹ 36,95,802

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

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

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

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

(iv) interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2023-24 interest accrued on ₹ 5,27,600 being excess employee's contribution of P.Y. 2024-25

ILLUSTRATION 11

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

Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his 3 children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt in the hands of Mr. D, since he is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 12

In the above illustration 11, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.

Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his 3 children. LTC exemption can be availed in respect of only two children.

Taxable LTC = 15,000 x 1/3 = ₹ 5,000.

LTC exempt would be only ₹ 55,000 (i.e. ₹ 60,000 – ₹ 5,000)

ILLUSTRATION 13

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

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

Computation of Taxable Perquisite

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

ILLUSTRATION 14

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

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

Even though the company allotted the house to him on 1.4.2025, he occupied the same only from 1.11.2025. Calculate the taxable value of the perquisite for A.Y.2026-27.

Value of the rent-free unfurnished accommodation
= 10% of salary for the relevant period
= 10% of [(₹ 8,500 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)] **[See Note below]**
= 10% of ₹ 53,000 = ₹ 5,300.

Note: Since Mr. C occupies the house only from 1.11.2025, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2025 to 31.03.2026) will be considered.

Salary = Basic + DA (R) + Any Commission + Bonus + Taxable portion of Allowances

ILLUSTRATION 15

Using the data given in the previous illustration 14, compute the value of the perquisite if Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company for the use of this accommodation.

Valuation of Concessional Accommodation Provided:

Value of the accommodation	= ₹ 5,300
Less: Rent paid by the employee (₹ 1,000 × 5)	= (₹ 5,000)
Perquisite value of accommodation given at a concessional rent	= **₹ 300**

ILLUSTRATION 16

Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of ₹ 1,025 p.m. and Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.

Value of the accommodation **[Note]**	= ₹ 5,125
Less: Rent paid by the employee (₹ 1,000 × 5)	= (₹ 5,000)
Taxable Perquisite	**₹ 125**

Note: Value of the accommodation is lower of

(i) Lease rent paid by the company for relevant period = ₹ 1,025 × 5	= ₹ 5,125
(ii) 10% of salary for the relevant period (computed earlier)	= ₹ 5,300

ILLUSTRATION 17

Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has provided a television (WDV ₹ 10,000; Cost ₹ 25,000) and two air conditioners. The rent paid by the company for the air conditioners is ₹ 400 p.m. each. The television was provided on

1.1.2026. However, Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company.

Value of the accommodation (computed earlier)	= ₹ 5,300
Add: Value of furniture provided by the employer **[Note]**	= ₹ 4,625
Value of furnished accommodation	= ₹ 9,925
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ (5,000)
Taxable Perquisite	**₹ 4,925**

Note:

- ✓ Value of the furniture provided = (₹ 400 p.m. × 2 × 5 months) + (₹ 25,000 × 10% p.a. for 3 months) = ₹ 4,000 + ₹ 625 = ₹ 4,625
- ✓ If Movable assets are provided for usage of employees, the perquisite value will be:
  - 10% p.a. of original cost in case of own assets and
  - For Leased assets, the value will be rental expense incurred by company.

ILLUSTRATION 18

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

Value of the accommodation (₹ 700 × 5)	= ₹ 3,500
Add: Value of furniture provided by the employer (computed earlier)	= ₹ 4,625
Value of furnished accommodation	**= ₹ 8,125**
Less: Rent paid by the employee (₹ 1,000 × 5)	= (₹ 5,000)
Perquisite value of furnished accommodation given at concessional rent	**= ₹ 3,125**

ILLUSTRATION 19

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

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

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

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

(i) In the case of Mr. X, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. Hence, the perquisite will be covered under section 17(2)(iv) and will be taxable in the hands of Mr. X. This is taxable in the case of all employees.

(ii) In the case of Mr. Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by section 17(2)(iii). Hence, there is no perquisite element in the hands of Mr. Y.

ILLUSTRATION 20

Mr. X retired from the services of M/s Y Ltd. on 31.01.2026, after completing service of 30 years

and one month. He had joined the company on 1.1.1996 at the age of 30 years and received the following on his retirement:

(i) Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.

(ii) Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.

(iii) As per the scheme of the company, he was offered a car which was purchased on 30.01.2023 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.

(iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.

(v) Company presented him a gift voucher worth ₹ 6,000 on his retirement.

(vi) His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars:

(i) He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance per month for the period from 01.04.2025 to 31.01.2026.

(ii) Received pension of ₹ 5,000 per month for the period 01.02.2026 to 31.03.2026 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2026-27 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of Income from Salary and Gross Total Income for AY 2026-27

Particulars	₹
Basic Salary = ₹ 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher (See Note - 1)	6,000
Transfer of car (See Note - 2)	56,000
Gratuity (See Note - 3)	80,769
Leave encashment (See Note - 4)	1,30,000
Uncommuted pension (₹ 5000 x 2)	10,000
Commuted pension (See Note - 5)	1,50,000
Gross Salary	7,32,769
Less: Standard deduction u/s 16(ia)	(50,000)
Taxable Salary /Gross Total Income	6,82,769

Notes:

(1) As per Rule 3(7)(iv), if the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is below ₹ 5,000 in aggregate during the previous year, the value of such perquisite will be nil. In this case, the amount was received on his retirement and the sum is ₹ 5,000 or more.

Therefore, the entire amount of ₹ 6,000 is liable to tax as perquisite.

Note – An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 1,000 and gross total income would be ₹ 7,27,769.

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

transfer of motor car, in this case, would be:

Particulars	₹
Purchase price (30.1.2023)	5,00,000
Less: Depreciation @20%	(1,00,000)
WDV on 29.1.2024	4,00,000
Less: Depreciation @20%	(80,000)
WDV on 29.1.2025	3,20,000
Less: Depreciation @20%	(64,000)
WDV on 29.1.2026	2,56,000
Less: Amount recovered	(2,00,000)
Value of perquisite	56,000

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

(3) **Computation of Gratuity:**

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

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

(4) **Computation of Taxable Leave encashment:**

Particulars		₹
Leave Salary received		3,30,000
Less: Exempt under section 10(10AA) - Least of the following:		
(i) Notified limit	₹ 25,00,000	
(ii) Actual leave salary	₹ 3,30,000	
(iii) 10 months x ₹ 20,000	₹ 2,00,000	
(iv) Cash equivalent of leave to his credit $\frac{330}{30}$ x 20,000	₹ 2,20,000	(2,00,000)
Taxable Leave encashment		1,30,000

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

(5) **Computation of Taxable Commuted pension:**

Since Mr. X is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of 1/3rd of Full Pension Value.

Particulars	₹
Amount received	3,00,000
Less: Exemption under section 10(10A) = $\frac{1}{3} \times \left[3,00,000 \times \frac{3}{2}\right]$	(1,50,000)
Taxable amount	**1,50,000**

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

ILLUSTRATION 21

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

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

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

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

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

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

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

(vi) Housing loan @ 6% per annum. Amount outstanding on 31.3.2025 is ₹ 6,00,000. Shri Bala pays ₹ 12,000 per month towards principal on 1st of each month.

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

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

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

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

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

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

Therefore, there would be no perquisite in respect of cost of free education provided to his child

Arthy, since the cost does not exceed ₹ 1,000 per month.

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

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

(iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers.

In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is ₹ 1,10,000.

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

(iv) As per Rule 3(7)(iv), if the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is below ₹ 5,000 in aggregate during the previous year, the value of such perquisite will be nil. In this case, the amount was received on the occasion of marriage anniversary and the sum is ₹ 5,000 or more.

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

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

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

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

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

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

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
April, 2025	5,88,000	1,960
May, 2025	5,76,000	1,920
June, 2025	5,64,000	1,880
July, 2025	5,52,000	1,840
August, 2025	5,40,000	1,800
September, 2025	5,28,000	1,760
October, 2025	5,16,000	1,720
November, 2025	5,04,000	1,680
December, 2025	4,92,000	1,640
January, 2026	4,80,000	1,600

February, 2026	4,68,000	1,560
March, 2026	4,56,000	1,520
Total value of this perquisite		20,880

Total Perquisite Value of all above will be = ₹ 74,280 [i.e. ₹ 18,000 + ₹ 14,400 + ₹ 11,000 + ₹ 10,000 + ₹ 20,880].

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

ILLUSTRATION 22

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

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

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

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

Particulars	₹
Fair market value of 1000 sweat equity shares @ ₹ 300 each	3,00,000
Less: Amount recovered from Sri Chand 1000 shares @ ₹ 200 each	(2,00,000)
Value of perquisite of sweat equity shares allotted to Sri Chand	1,00,000

(ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi). (The provisions of section 49 are discussed in Capital Gains chapter)

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be ₹ 3,00,000.

ILLUSTRATION 23

X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2025-26 –

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

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

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

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

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

	Particulars	Amount in ₹		
(1)	**Value of accommodation at concessional rate**			
	Actual amount of lease rental paid by X Ltd.	1,80,000		
	10% of salary i.e., 10% of ₹ 10,00,000	1,00,000		
	Lower of the above		1,00,000	
	Less: Rent paid by Mr. Y (₹ 5,000 × 12)		(60,000)	
			40,000	
	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (₹ 3,000 × 12)		36,000	76,000
(2)	Perquisite value of Santro car owned by			
	X Ltd. and provided to Mr. Y for his personal and official use [(₹ 1,800 + ₹ 900) × 12]			32,400
(3)	Value of gift voucher*			10,000
	Value of perquisites chargeable to tax			1,18,400

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

ILLUSTRATION 24

Mr. Goyal receives the following emoluments during the previous year ending 31.03.2026.

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

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

Computation of salary of Mr. Goyal for the A.Y.2026-27 under default tax regime under 115BAC

Particulars	₹
Basic Salary	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment Allowance received	40,000
Employee's contribution to RPF [Note]	-
Medical expenses reimbursed	25,000
Professional tax paid by the employer	1,000
Gross Salary	7,16,000
Less: Deductions under section 16(ia) - Standard deduction of up to ₹ 75,000	(75,000)
Income from Salary	6,41,000

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C. However, such deduction shall not be available under the default tax regime under section 115BAC.

Computation of salary of Mr. Goyal for the A.Y.2026-27 under the optional tax regime (normal provisions of the Act)

Particulars	₹	₹
Basic Salary		4,00,000
Dearness Allowance		1,50,000
Commission		1,00,000
Entertainment Allowance received		40,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
Gross Salary		**7,16,000**
Less: Deductions under section 16		
1. under section 16(ia) - Standard deduction of upto ₹ 50,000		(50,000)
2. under section 16(ii) - Entertainment allowance being lowest of :		
(a) Allowance received	40,000	
(b) One fifth of basic salary [1/5 × ₹ 4,00,000]	80,000	
(c) Statutory amount	5,000	(5,000)
3. under section 16(iii) - Professional tax paid		(2,000)
Income from Salary		**6,59,000**

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

ILLUSTRATION 25

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

Previous year	Taxable Salary (₹)	Arrears now received (₹)
2016 - 2017	7,10,000	1,03,000
2017 - 2018	8,25,000	1,17,000
2018 - 2019	9,50,000	1,25,000

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

Note: Rates of Taxes:

Assessment Year	Slab rates of income-tax			
	For resident individuals of the age of 60 years or more at any time during the previous year		For other resident individuals	
	Slabs	Rate	Slabs	Rate
2017-18	Upto ₹ 3,00,000	Nil	Upto ₹ 2,50,000	Nil
	₹ 3,00,001 - ₹ 5,00,000	10%	₹ 2,50,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 10,00,000	20%	₹ 5,00,001 - ₹ 10,00,000	20%

	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%
2018-19	Upto ₹ 3,00,000	Nil	Upto ₹ 2,50,000	Nil
	₹ 3,00,001 - ₹ 5,00,000	5%	₹ 2,50,001 - ₹ 5,00,000	5%
	₹ 5,00,001 - ₹ 10,00,000	20%	₹ 5,00,001 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%
2019-20	Upto ₹ 3,00,000	Nil	Upto ₹ 2,50,000	Nil
	₹ 3,00,001 - ₹ 5,00,000	5%	₹ 2,50,001 - ₹ 5,00,000	5%
	₹ 5,00,001 - ₹ 10,00,000	20%	₹ 5,00,001 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%

Note – Education cess@2% and secondary and higher education cess@1% was attracted on the income-tax for A.Y. 2017-18 and A.Y. 2018-19.

Computation of tax payable by Mr. Hari for the A.Y.2026-27

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

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

Particulars	A.Y. 2017-18		A.Y. 2018-19		A.Y. 2019-20	
	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	**9,50,000**
Add: Arrears of salary	1,03,000	-	1,17,000	-	1,25,000	**-**
Taxable salary	**8,13,000**	**7,10,000**	**9,42,000**	**8,25,000**	**10,75,000**	**9,50,000**
Tax on the above	87,600	67,000	98,400	75,000	1,32,500	**1,00,000**
Add: Cess@3%/4%	2,628	2,010	2,952	2,250	5,300	**4,000**
Tax payable	**90,228**	**69,010**	**1,01,352**	**77,250**	**1,37,800**	**1,04,000**

Computation of relief under section 89

	Particulars	₹	₹
i	Tax payable in A.Y.2026-27 on arrears:		
	Tax on income including arrears	2,28,280	
	Less: Tax on income excluding arrears	1,20,640	**1,07,640**
ii	Tax payable in respective years on arrears:		
	Tax on income including arrears (₹ 90,228 + ₹ 1,01,352 + ₹ 1,37,800)	3,29,380	
	Less: Tax on income excluding arrears (₹ 69,010 + ₹ 77,250 + ₹ 1,04,000)	2,50,260	**(79,120)**
	Relief under section 89 - difference between tax on arrears in A.Y.		**28,520**

	2026-27 and tax on arrears in the respective years		

Tax payable for A.Y.2026-27 after relief under section 89

Particulars	₹
Income-tax payable on total income including arrears of salary	2,28,280
Less : Relief under section 89 as computed above	(28,520)
Tax payable after claiming relief	1,99,760

Test Your Knowledge

Question 1: Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. with effect from 01.01.2026. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2026. Rent paid by him during the P.Y.2025-26 is as under:

April and May, 2025- Nil, as he stayed with his parents

June to October, 2025 - ₹ 6,000 p.m. for an accommodation in Ghaziabad November, 2025 to March, 2026 - ₹ 8,000 p.m. for an accommodation in Delhi

Compute his gross salary for A.Y.2026-27, assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of gross salary of Mr. Mohit for A.Y. 2026-27

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

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-March (₹)
Computation of Salary for HRA:					
Basic salary per month	10,000	10,000	10,000	10,000	**11,000**
Dearness allowance (**For Retirement**) (50% of basic salary)	5,000	5,000	5,000	5,000	**5,500**
Commission (% of Turnover)	-	-	-	-	-
Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	**16,500**
Relevant period (in months	2	5	2	1	**2**
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	**33,000**
Rent paid for the relevant period	Nil	30,000 (₹ 6,000 × 5)	16,000 (₹ 8,000 × 2)	8,000 (₹ 8,000 × 1)	**16,000 (₹ 8,000 × 2)**
House rent allowance (HRA) received during the relevant period (A)	12,000 (₹ 6,000 × 2)	30,000 (₹ 6,000 × 5)	12,000 (₹ 6,000 × 2)	7,000 (₹ 7,000 × 1)	**14,000 (₹ 7,000 × 2)**
Least of the following is exempt [u/s 10(13A)]	N.A.				
1. Actual HRA received	-	30,000	12,000	7,000	**14,000**
2. Rent paid (-) 10% of salary	-	22,500	13,000	6,500	**12,700**
3. 40% of salary	-	30,000	15,000	7,500	**16,500**

(Residence at Ghaziabad – June to Oct, 2025)		(40% × ₹ 75,000)	(50% × ₹ 30,000)	(50% × ₹ 15,000)	**(50% × ₹ 33,000)**
50% of salary (Residence at Delhi– Nov, 25 - March, 26)					
Exempt HRA (B)	Nil	22,500	12,000	6,500	12,700
Taxable HRA [Actual HRA (–) Exempt HRA] (A-B)	**12,000**	**7,500**	**Nil**	**500**	**1,300**

Question 2: Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2025-26:

	Particulars	₹
1	Reimbursement of following medical expenses incurred by Ms. Rakhi (A) On treatment of her self-employed daughter in a private clinic (B) On treatment of herself by family doctor (C) On treatment of her mother-in-law dependent on her, in a nursing home	 4,000 8,000 5,000
2	Payment of premium on Mediclaim Policy taken on her health	7,500
3	Medical Allowance	2,000 p.m.
4	Medical expenses reimbursed on her son's treatment in a government hospital	5,000
5	Expenses incurred by company on the treatment of her minor son abroad including stay expenses	1,05,000
6	Expenses in relation to foreign travel of Rakhi and her son for medical treatment Note - Limit prescribed by RBI for expenditure on medical treatment and stay abroad is USD 2,50,000 per financial year under liberalized remittance scheme.	1,20,000

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

Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi for A.Y. 2026-27

		Particulars
1.	Reimbursement of medical expenses incurred by Ms. Rakhi	
	(A)	The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite.
	(B)	The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite.
	(C)	The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependent mother-in-law in a nursing home is taxable perquisite.
	The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite	
2.	Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free perquisite as per clause (iii) of the first proviso to section 17(2).	
3.	Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.	
4.	As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is a tax-free perquisite.	

5. & 6.	As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions – (i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India including stay expenses [₹ 1,05,000, in this case]; (ii) Expenditure on travel of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [₹ 1,20,000, in this case].
	The conditions subject to which the above expenditure would be exempt are as follows –
	(i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India;
	(ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed the amount as may be prescribed.
	Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed the amount as may be prescribed.

Question 3: Mr. X is employed with AB Ltd. on a monthly salary of ₹ 25,000 per month and an entertainment allowance and commission of ₹ 1,000 p.m. each. The company provides him with the following benefits:

(i) A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 1.8.2025.

(ii) A personal loan of ₹ 5,00,000 on 1.7.2025 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding (Assume SBI rate of interest on 1.4.2025 was 12.75% p.a.)

(iii) His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2022. The motor cycle was finally sold to him on 1.8.2025 for ₹ 30,000.

(iv) Professional tax paid by Mr. X is ₹ 2,000.

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

Computation of Income from Salary of Mr. X for the A.Y. 2026-27

Particulars	₹	₹
Basic salary [₹ 25,000 × 12]		3,00,000
Commission [₹ 1,000 × 12]		12,000
Entertainment allowance [₹ 1,000 × 12]		12,000
Rent free accommodation [Note 1]	32,400	
Add: Value of furniture [₹ 2,40,000 × 10% p.a. for 8 months]	16,000	48,400
Interest on personal loan [Note 2]		22,500
Use of motor cycle [₹ 60,000 × 10% p.a. for 4 months]		2,000
Transfer of motor cycle [Note 3]		12,000
Gross Salary		4,08,900
Less: Deduction under section 16		

Under section 16(ia) – Standard deduction	(50,000)	
Under section 16(iii) - Professional tax paid	(2,000)	(52,000)
Income from Salary		**3,56,900**

Notes:

1. **Value of rent-free unfurnished accommodation**
   = 10% of salary for the relevant period
   = 10% of (₹ 3,00,000 + ₹ 12,000 + ₹ 12,000) = ₹ 32,400
2. **Value of perquisite for interest on personal loan**
   = [₹ 5,00,000 × (12.75% - 6.75%) for 9 months] = ₹ 22,500
3. **Depreciated value of the motor cycle**
   = Original cost – Depreciation @ 10% p.a. for 3 completed years.
   = ₹ 60,000 – (₹ 60,000 × 10% p.a. × 3 years) = ₹ 42,000.
   Perquisite = ₹ 42,000 – ₹ 30,000 = ₹ 12,000.

Question 4: Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2026:

(i)	**Basic salary upto 31.10.2025**	**₹ 50,000 p.m.**
	Basic salary from 01.11.2025	**₹ 60,000 p.m.**

Note - Salary is due and paid on the last day of every month.

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

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

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

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

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

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

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

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

Computation of Taxable Salary of Mr. Balaji for A.Y. 2026-27

Particulars		₹
Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]		6,50,000
Dearness Allowance (40% of basic salary)		2,60,000
Bonus (₹ 50,000 + 40% of ₹ 50,000) (See Note 1)		70,000
Employers contribution to recognized provident fund in excess of 12% of salary = 4%		

of ₹ 6,50,000 (See Note 2)		26,000
Professional tax paid by employer		2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 4)		12,000
Gross Salary		10,20,000
Less: Deduction under section 16		
Standard deduction u/s 16(ia)	(₹ 50,000)	
Professional tax u/s 16(iii) (See Note 6)	(₹ 2,500)	(52,500)
Taxable Salary		**9,67,500**

Notes:

1. Since bonus was paid in the month of October, the basic salary of ₹ 50,000 for the month of October is considered for its calculation.
2. It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
3. As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.
4. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 2,400 per month. The car was provided to the employee from 01.11.2025, therefore the perquisite value has been calculated for 5 months.
5. Mr. Balaji can avail exemption under section 10(5) on the entire amount of ₹ 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.
   It is assumed that the Leave Travel Concession was availed for journey within India.
   He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
6. As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year.
   Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.

Question 5: From the following details, find out the salary chargeable to tax for the A.Y.2026-27 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) -

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

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

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

Computation of taxable salary of Mr. X for A.Y. 2026-27

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

Notes:

1. Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly worked out.
2. Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 10% of salary, whichever is lower.

   For the purposes of valuation of rent free house, salary includes:

   (i) Basic salary i.e., ₹ 2,43,000
   (ii) Dearness allowance i.e. ₹ 24,300
   (iii) Bonus i.e., ₹ 21,000
   (iv) Telephone allowance i.e., ₹ 6,000
   Salary for RFA Purpose ₹ 2,94,300

   10% of salary = ₹ 2,94,300 × 10/100 = ₹ 29,430

Value of rent-free house = Lower of rent paid by the employer (i.e. ₹ 1,20,000) or 10% of salary (i.e., ₹ 29,430). Therefore, the perquisite value is ₹ 44,145.

3. Facility of use of laptop is not a taxable perquisite.
4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
5. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum is ₹ 5,000 or more. Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.
   Note - An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000.
6. Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.

Question 6: You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2026:

(i) He retired on 31-12-2025 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.

(ii) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.

(iii) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.

(iv) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.

(v) He is receiving ₹ 5,000 as pension. On 1.2.2026, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.

(vi) The company presented him with a gift voucher of ₹ 4,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.

Computation of income under the head "Salaries"
of Mr. Raja for the A.Y.2026-27 under default tax regime

Particulars	₹	₹
1. Basic Salary = ₹ 5,000 x 9 months		2,25,000
2. House Rent Allowance = ₹ 6,000 x 9 months [Fully taxable under default tax regime]		54,000
3. Gratuity	3,50,000	
Less: Least of the following exempt under section 10(10)(ii)	(3,50,000)	Nil
(i) Actual Gratuity received ₹ 3,50,000		
(ii) 15 days salary for every year of completed service [15/26 x ₹ 25,000 x 26] =₹ 3,75,000		
(iii) Notified limit = ₹ 20,00,000		
4. Leave encashment	3,15,000	
Less: Least of the following exempt under section 10(10AA)	(2,50,000)	65,000
(i) ₹ 25,00,000		
(ii) Leave salary actually received ₹ 3,15,000		
(iii) ₹ 2,50,000, being 10 months' salary x ₹ 25,000		

(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired 375/30 x ₹ 25,000 = ₹ 3,12,500 [Leave Due = Leave allowed – Leave taken] = 750 (30 days per year × 25 years) – 375 days (15 days x 25) = 375 days]		
5. Uncommuted Pension received [₹ 5,000 x 1) + (₹ 5,000 x 2 x 40%)		9,000
6. Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A)		
(1/3 x ₹ 3,00,000/60% x 100%)	(1,66,667)	1,33,333
7. Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year is exempt]		Nil
8. Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder)		Nil
Gross Salary		**4,86,333**
Less: Standard deduction u/s 16 [Actual salary or ₹ 75,000, whichever is less] [Allowable under default tax regime]		(75,000)
Net Salary		**4,11,333**

Question 7: Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2025-26:

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

You are required to compute the income chargeable under the head Salaries for the

assessment year 2026-27 if she pays tax under default tax regime.

Computation of income chargeable under the head "Salaries" of Ms. Akansha for A.Y.2026-27 under default tax regime

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v) [Not an accident insurance policy]	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [₹ (2,400+ 900) ×12] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000
Gross Salary	12,16,600
Less: Deductions under section 16	
- Standard Deduction as per section 16(ia)	(75,000)
Income chargeable under the head "Salaries"	11,41,600

Question 8: Mr. Kunal (age 27 years) is an employee in a private company posted in Delhi. He was appointed on 01.02.2024 in the scale of ₹ 60,000 -₹ 1,000 - ₹ 70,000. He furnishes the following information for the previous year 2025-26:

(i) Dearness allowance @25% of basic salary (60% of DA forms part of retirement benefits)

(ii) Bonus equal to one month's salary. Paid in November 2025 on basic salary applicable for that month.

(iii) Leave encashment for P.Y. 2025-26 of ₹ 10,000.

(iv) He also received a motor car on 01.12.2025 (cubic capacity of engine exceeds 1.60 litres) along with chauffeur for both official and personal purpose. The motor car is owned by his employer and all expenses are met by the employer.

(v) His employer granted him a loan of ₹ 2,00,000 on 1st June, 2025 which is repayable in equal quarterly installments over 2 years starting from 1st October, 2025. The State Bank of India (SBI) lending rate for such loans is 9.5% per annum as on 01.04.2025, while the employer recovers interest @5.5% per annum from the employee.

(vi) His employer gave him a rent-free accommodation (fully furnished) in Delhi from 01.04.2024. This house is owned by the employer. The perquisite value of such furnished rent-free accommodation during the previous year 2024-25 was valued at ₹ 92,000. Further, the accommodation is continued to be provided by the employer to the employee in P.Y.

2025-26 also.

(vii) The furniture and appliances provided with the house were bought by the employer at an aggregate cost of ₹ 1,50,000 on 01.01.2024. Electricity and water bills of ₹ 5,000 p.m. for t he said house were paid by the employer. F.Y. 2024-25-363; F.Y. 2025-26-376.

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

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

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

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

whichever is less]		
Net Salary		**10,87,912**

Working Note:

Perquisite of Interest on Loan

The benefit to the assessee resulting from the concessional loan made to the employee during the relevant previous year shall be determined as the sum equal to the interest computed at the rate charged 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, 2025	2,00,000	667
July, 2025	2,00,000	667
August, 2025	2,00,000	667
September, 2025	2,00,000	667
October, 2025	1,75,000	583
November, 2025	1,75000	583
December, 2025	1,75,000	583
January, 2026	1,50,000	500
February, 2026	1,50,000	500
March, 2026	1,50,000	500
Taxable Value of perquisite		5,917

Questions from MRP [MTPs, RTPs, Past Exam Papers]

Question 1:

Mr. Rohan retired from M/s. QRST Ltd. a private sector company, on 31st March, 2026 after completing 28 years and 3 months of service. He received the following sums/gifts on his retirement:

(i) Gratuity of Rs. 7,50,000. He was covered under the Payment of Gratuity Act, 1972.

(ii) Leave encashment of Rs. 3,25,000 for 210 days leave balance in his account. He was credited with 30 days leave for each completed year of service.

(iii) Crockery set worth Rs. 4,500 from his employer at the farewell party which was organised by the HR department a day before his retirement.

He drew a basic salary of Rs. 25,000 per month alongwith 50% of basic salary as dearness allowance (not forming part of retirement benefits) for the period from 1st April, 2025 to 31st March, 2026.

Further, during the year, his employer provided him a motor car of 1800 cc which was used by him and his family solely for personal purposes. The cost of fuel and repairs were met by Mr. Rohan himself. The car was purchased by the employer on 1st April, 2024 at a cost of Rs. 8,00,000. Salary of driver amounting to Rs. 10,000 per month was met by the employer only. Upon retirement, he gave the car back to the employer.

You are required to compute the taxable salary of Mr. Rohan for A.Y.2026 -27 assuming that he neither claims any relief under section 89 nor does he opt to pay tax under section 115BAC.

(PEP May 23 7M)

Computation of taxable salary [under Optional Tax Regime] of Mr. Rohan for A.Y. 2026-27

Particulars		Rs.
1. Basic Salary Rs. 25,000 x 12		3,00,000
2. Dearness Allowance (50% of basic salary)		1,50,000
3. Gratuity [Rs. 7,50,000 – Rs. 6,05,769]		1,44,231
Less: Exempt under section 10(10) - Least of the following:	**Rs.**	
(i) Notified limit	20,00,000	
(ii) Actual gratuity received	7,50,000	
(iii) 15/26 x last drawn salary x no. of completed years of services or part in excess of 6 months [15/26 x 37,5004 x 28]	6,05,769	
4. Leave encashment [Rs. 3,25,000 – Rs. 1,75,000]		1,50,000
Less: Exempt under section 10(10AA) - Least of the following:		
(i) Notified limit	25,00,000	
(ii) Actual leave salary received	3,25,000	
(iii) 10 months x Rs. 25,000	2,50,000	
(iv) Cash equivalent of leave to his credit [Rs. 25,000 x 210/30]	1,75,000	
5. Crockery set [not Taxable, since value of gift does not exceed Rs. 5,000]		-
6. Perquisite value of car		2,00,000
[Driver's salary met by employer Rs. 1,20,000 (i.e., Rs. 10,000 x 12) + Rs. 80,000 (10% of Rs. 8,00,000), being normal wear and tear on car]		
Gross Salary		**9,44,231**
Less: Standard deduction u/s 16(ia)		50,000

Taxable Salary		8,94,231

Question 2:

Ms. Neelima, a resident of Delhi, was employed by LMN Ltd. Up to 15, March, 1995. At the time of leaving LMN Ltd., she was paid Rs. 3,50,000 as leave salary out of which Rs. 59,000 was exempted from tax under section 10(10AA).

Thereafter, she joined CD (P) Ltd. and received Rs. 4,14,000 as leave salary at the time of retirement on December 31, 2022. In addition she received a gratuity of Rs. 12,00,000 from the employer (she is not covered by the Payment of Gratuity Act, 1972). The following information is available:

Average salary received during 11 months ending on December 31, 2025

From February 1 to July 31 (p.m.)	Rs. 22,600
From August 1 to December 31 (p.m.)	Rs. 22,900
Duration of service	14 years 7 months
Leave entitlement for every year of service	45 days
Leave availed while in service	90 days
Leave at her credit at the of retirement	18 months

She received Rs. 5,20,000 from unrecognized provident fund of which she was a member (This constitutes employee's contribution Rs. 2,00,000; employer's contribution Rs. 2,10,000; interest on employee's contribution Rs. 60,000; interest on employer's contribution Rs. 50,000).

You are required to compute her total income for the assessment year 2026 -27, clearly showing all workings. (Ignore section 115BAC provisions).

(PEP Nov 23 6M)

Computation of Total income of Ms. Neelima for A.Y. 2026-27

Particulars	Rs.	Rs.	Rs.
Income under the head "Salaries"			
1. Basic Salary [Rs. 22,600 x 4 + Rs. 22,900 x 5]		2,04,900	
2. Gratuity [Rs. 12,00,000 – Rs. 1,59,040]		10,40,960	
Less: Exempt under section 10(10) - Least of the following:			
(i) Notified limit	20,00,000		
(ii) Actual gratuity received	12,00,000		
(iii) 1/2 x 22,720 [(22,600 x 6 + 22,900 x 4)/102] x 14 [No. of completed years of services, ignore fraction]	1,59,040		
3. Leave encashment [Rs. 4,14,000 – Rs. 2,27,500]		1,86,500	
Less: Exempt under section 10(10AA) - Least of the following:			
(i) Notified limit [Rs. 25,00,000 – Rs. 59,000, amount exempted earlier]	24,41,000		
(ii) Actual leave salary received	4,14,000		
(iii) 10 months x 22,750 [(Rs. 22,600 x 5 + 22,900 x 5)/103]	2,27,500		
(iv) Cash equivalent of leave to his credit [Rs. 22,750 x 11 [420 days (30 days x 14 years of service) less 90 days of leave availed /30]	2,50,250		

Employer's contribution from unrecognized provident fund received on retirement		2,10,000	
Interest on Employer's contribution from unrecognized provident fund received on retirement		50,000	
Gross Salary		16,92,360	
Less: Standard deduction u/s 16(ia)		(50,000)	
Taxable Salary			16,42,360
Income from Other Sources			
Interest on employee's contribution from unrecognized provident fund		60,000	
Employee's contribution from unrecognized provident fund received on retirement [Not Taxable]			60,000
Gross Total Income/Total Income		-	**17,02,360**

Question 3:

The particulars given below are of Mr. Radhey's income (age 47 years) posted in a private company in Delhi, for the previous year 2025-26:

(i) Basic Pay Rs.35,000 per month till January 31, 2026, Rs.40,000 p.m. from February 2026.

(ii) Dearness allowance 30% of basic salary (54% of DA forms part of retirement benefits)

(iii) Leave encashment for P.Y. 2025-26 Rs.10,000.

(iv) He received salary for the month of April 2026 in advance on 31st March 2026. Also, he received an arrear salary for the month of March 2025 on the same day.

(v) His employer gave him a rent-free accommodation (fully furnished) in Delhi from 01.04.2021. This house is owned by his employer. During the previous year 2021-22, the perquisite value of such rent-free furnished accommodation was valued at Rs.39,000. The employer also provided him with the facility of a gardener to maintain this house. The salary of gardener paid by the employer was Rs.1,000 p.m. The furniture and appliances provided with the house were bought by the employer at an aggregate cost of Rs.1,50,000 on 01.01.2022. Electricity and water bills of Rs.4,000 p.m. for the said house were paid by the employer.

Cost Inflation Index

F.Y. 2021-22-317,

F.Y. 2022-23-331,

F.Y. 2023-24-348,

F.Y 2025-26-376

(vi) The employer also spent Rs.50,000 on a refresher course for upgrading Mr. Radhey's skills.

(vii) During the previous year his wife had been admitted in a notified hospital for treatment of her kidney disease, the hospital bills amounting to Rs.3,50,000 were paid by the employer.

You are required to compute the taxable salary income of Mr. Radhey for the Assessment Year 2026-27 assuming that he has opted out of the default tax regime under section 115BAC.

(PEP Sept 24 6M)

Computation of taxable salary of Mr. Radhey for A.Y.2026-27

	Rs.	Rs.
1. Basic Pay [Rs.35,000 x 10 + Rs.40,000 x 2]		4,30,000

2. Dearness Allowance [Rs.4,30,000 x 30%]		1,29,000
3. Leave encashment for P.Y. 2025-26		10,000
4. Advance salary for April 2026 received on 31.3.2025 [**Note -** Alternatively, it is possible to assume that the advance salary is inclusive of DA. In such a case, advance salary for April 2026 would be Rs.52,000.]		40,000
5. Arrear salary for March 2023, assumed it is taxed on due basis during the P.Y. 2022-23.		--
6. Value **of Rent-free accommodation**		
Value of Rent-free accommodation [10% of Salary] Salary = Basic + DA(R) + Any Commission + Bonus + Taxable portion of Allowances] = 10% of [430000+129000*54%+10000] = 10%*509660 = 50966/-	50,966	
Add: Value of furniture [Rs.1,50,000 × 10% p.a.]	15,000	
Total Value of Accommodation		65,966
[This Shall not exceed [Value in 2023-24*CII of FY 25-26/CII of FY 23-24]] [Note: Since Salary info for 23-24 Not provided, the concept of indexation is ignored]		
7. Facility of gardener [Salary of gardener paid by the employer would be taxable as perquisite] [Rs.1,000 x 12]		12,000
8. Facility of use of electricity [Electricity and water bills paid by the employer would be taxable as perquisite] [Rs.4,000 x 12]		48,000
9. Refresher course for upgrading skills [Tax free perquisite]		Nil
10. Value of medical treatment [Exempt, since medical treatment for wife is in notified hospital]		Nil
Gross Salary		**7,45,342**
Less: Deduction under section 16 - Standard deduction		(50,000)
Taxable Salary		**6,95,342**

Question 4:

Mr. Sahil, a resident individual, aged 40 years, is an assistant manager of Fox Ltd. He is getting a salary of Rs. 55,000 per month. During the previous year 2025-26, he received the following amounts from his employer.

(i) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).

(ii) Bonus of Rs. 60,000.

(iii) Fixed Medical allowance of Rs. 50,000 for meeting medical expenditure.

(iv) He was also reimbursed the medical bill of his mother dependent on him amounting to Rs. 6,500.

(v) Mr. Sahil was provided;

- **a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2023 at Rs. 35,000.**
- **a domestic servant at a monthly salary of Rs. 8,000 which was reimbursed by his employer.**

(vi) Fox Ltd. allotted 700 equity shares in the month of October 2023 @ Rs. 170 per share against the fair market value of Rs. 280 per share on the date of exercise of option by Mr. Sahil. The fair market value was computed in accordance with the method prescribed under the Act.

(vii) Professional tax Rs. 2,200 (out of which Rs. 1,400 was paid by the employer).

Compute the Income under the head "Salaries" of Mr. Sahil for the assessment year 2026-27 if he is paying tax under default tax regime under section 115BAC.

(MTP 1 May 24 5M)

Computation of Income under the head "Salaries" in the hands of Mr. Sahil for the A.Y. 2026-27

Particulars	Rs.
1. Basic Salary [Rs. 55,000 x 12]	6,60,000
2. Dearness allowance [10% of basic salary]	66,000
3. Bonus	60,000
4. Fixed Medical Allowance [Taxable]	50,000
5. Reimbursement of Medical expenditure incurred for his father [Fully taxable]	6,500
6. Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]	Nil
7. Reimbursement of salary of domestic servant [Rs. 8,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	96,000
8. Value of equity shares allotted [700 equity shares x Rs. 110 (Rs. 280, being the fair market value – Rs. 170, being the amount recovered)]	77,000
9. Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	1,400
Gross Salary	**10,16,900**
Less: Deduction under section 16	
Professional tax paid [Not allowed under DTR]	-
Standard Deduction (Lower of Rs. 75,000 or amount of salary)	(75,000)
Taxable Salary	**9,41,900**

Question 5:

Ms. Priyanka, General Manager of ABC Ltd., Mumbai, furnishes the following particulars for the financial year 2025-26:

(i) Salary Rs. 40,000 per month

(ii) Value of medical facility in a hospital maintained by the company Rs. 10,000

(iii) Rent free accommodation owned by the company

(iv) Housing loan of Rs. 7,00,000 given on 01.04.2025 at the interest rate of 6% p.a. (No repayment made during the year). The rate of interest charged by State Bank of India (SBI) as on 01.04.2025 in respect of housing loan is 9.5%.

(v) A dining table was provided to Ms. Priyanka at her residence. This was purchased on 1.6.2022 for Rs. 60,000 and sold to Ms. Priyanka on 1.5.2025 for Rs. 30,000.

(vi) Personal purchases through credit card provided by the company amounting to Rs. 10,000 was paid by the company. No part of the amount was recovered from Ms. Priyanka.

(vii) A Maruti Suzuki car which was purchased by the company on 16.7.2023 for Rs. 2,50,000 was sold to the assessee on 14.7.2025 for Rs. 1,60,000.

Other income received by the assessee during the previous year 2025-26:

	Particulars	Rs.
(a)	Interest on Fixed Deposits with a company	7,000
(b)	Income from specified mutual fund	3,000

(c)	Interest on bank fixed deposits of a minor married daughter	4,000

(viii) Deposit in PPF Account made during the year 2025-26 Rs.40,000

Compute the gross total income of Ms. Priyanka for the Assessment year 2026-27 if she exercised the option to shift out of the default tax regime under section 115BAC.

(MTP 2 May 24 6M)

Computation of gross total income of Ms. Priyanka for the A.Y. 2026-27 under OTR

	Particulars	Rs.	Rs.
(a)	Income from salaries **(See Working Note below)**		5,71,000
(b)	Income from Other Sources		
	(i) Interest on fixed deposit with a company	7,000	
	(ii) Income from specified mutual fund	3,000	
	(iii) Interest on Fixed Deposit received by minor daughter (Rs.4,000-Rs. 1500)	2,500	12,500
Gross total income			**5,83,500**

Working Notes:

Computation of salary income of Ms. Priyanka for the A.Y. 2026-27

Particulars		Rs.
1. Salary [Rs. 40,000 x 12]		4,80,000
2. Medical facility [in the hospital maintained by the company is exempt]		–
3. Rent free accommodation:		
10% of salary (Rs. 4,80,000 × 10%) [Assumed that this is First Year of providing accommodation]		48,000
4. Valuation of perquisite of interest on loan		
[Rule 3(7)(i)] – 9.5% is taxable which is to be reduced by actual rate of interest charged i.e. [9.5% - 6% = 3.5%]		24,500
5. Use of dining table for 1 month [Rs. 60,000 x 10/100 x 1/12]		500
6. Perquisite on sale of dining table		
Cost	60,000	
Less: Depreciation on straight line method @ 10% for 2 years	(12,000)	
Written Down Value	48,000	
Less: Amount paid by the assessee	(30,000)	18,000
7. Purchase through credit card		10,000
8. Perquisite on sale of car		
Original cost of car	2,50,000	
Less: Depreciation from 16.7.2023 to 15.7.2025 @ 20%	(50,000)	
Value as on 14.07.2025- being the date of sale to employee	2,00,000	
Less: Amount received from the assessee on 14.07.2025	(1,60,000)	40,000
Gross salary		**6,21,000**
Less: Standard deduction upto Rs. 50,000		(50,000)
Income from Salaries		**5,71,000**

Question 6:

Mr. Sailesh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head Salary for assessment year 2026-27.

(i) Basic salary is Rs.70,000 per month.

(ii) Dearness allowance @ 40% of basic salary

(iii) He is provided health insurance scheme approved by IRDA for which Rs.20,000 incurred by Smile Ltd.

(iv) Received Rs.10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.

(v) Smile Ltd. allotted 800 sweat equity shares in August 2025. The shares were allotted at Rs.450 per share and the fair market value on the date of exercising the option by Mr. Sailesh was Rs.700 per share.

(vi) He was provided with furniture during September 2021. The furniture is used at his residence for personal purpose. The actual cost of the furniture was Rs.1,10,000. On 31st March, 2026, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.

(vii) Received Rs.10,000 towards entertainment allowance.

(viii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2025 is Rs.15 Lakhs. Rs.50,000 is paid by Mr. Sailesh every quarter towards principal starting from June 2025. The lending rate of SBI for similar loan as on 01.04.2025 was 8%.

(ix) Facility of laptop costing Rs.50,000

(MTP 1 Sept 24 6M)

Computation of income under the head "Salaries" of Mr. Sailesh for the A.Y.2026-27 [Under DTR]

Particulars	Rs.	Rs.
1. Basic Salary [Rs. 70,000 x 12 months]		8,40,000
2. Dearness allowance [40% of Rs.8,40,000]		3,36,000
3. Entertainment allowance		10,000
4. Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds Rs. 20,000, For computation, the lending rate of SBI on 1.4.2025 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%) [See Working Note]		49,291
5. Health insurance premium paid by the employer [tax free perquisite]		Nil
6. Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding Rs. 5,000 in aggregate during the previous year is fully taxable] (See note below)		10,000
7. Allotment of sweat equity shares		
Fair market value of 800 sweat equity shares @ Rs. 700 each	5,60,000	
Less: Amount recovered @ Rs. 450 each	(3,60,000)	2,00,000
8. Use of furniture by employee (10% p.a. of the actual cost of Rs. 1,10,000)		11,000
9. Use of Laptop		
(Facility of use of laptop is not a taxable perquisite)		Nil

10. Transfer of asset to employee Value of furniture transferred to Mr. Sailesh	1,10,000	
Less: Normal wear and tear @10% for each completed year of usage on SLM basis [1,10,000 x 10% x 4 years (from September 2021 to September 2025)]	44,000	66,000
Gross Salary		**15,22,291**
Less: Standard deduction u/s 16 [Actual salary or Rs. 75,000, whichever is less]		(75,000)
Net Salary		**14,47,291**

Working Note:

Computation of perquisite value of loan given at concessional rate

For computation, the lending rate of SBI on 1.4.2025 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%)

Month	Maximum outstanding balance as on last date of month (Rs.)	Perquisite value at 3.5% for the month (Rs.)
April, 2023	15,00,000	4,375
May, 2023	15,00,000	4,375
June, 2023	14,50,000	4,229
July, 2023	14,50,000	4,229
August, 2023	14,50,000	4,229
September, 2023	14,00,000	4,083
October, 2023	14,00,000	4,083
November, 2023	14,00,000	4,083
December, 2023	13,50,000	3,937.50
January, 2024	13,50,000	3,937.50
February, 2024	13,50,000	3,937.50
March, 2024	13,00,000	3,792
Total value of this perquisite		**49,290.50**

Note: An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable. In such a case, the value of perquisite would be Rs. 5,000 and gross salary and net salary would be Rs. 15,17,291 and Rs. 14,42,291, respectively.

Question 7:

Mr. Anshul, a salaried employee in a private company, furnishes you the following information for the year ended on 31-03-2026:

(i) Basic salary Rs. 75,000 p.m.
From 1st December 2025, basic salary increased to 85,000 p.m.

(ii) Dearness allowance @50% of basic salary (40% of D.A. forms part of salary for retirement benefits).

(iii) Entertainment allowance Rs. 10,000

(iv) Contribution of employer to recognized provident fund account of the employee @18% of basic salary. Employees also contribute an equivalent amount.

(v) Professional tax paid Rs. 2,200 of which Rs. 1,800 was paid by the employer.

(vi) House rent allowance of Rs. 16,000 p.m. He paid rent of Rs. 17,000 p.m. for accommodation

in Meerut.

(vii) Conveyance allowance of Rs. 1,500 p.m. by the company towards actual reimbursement of conveyance spent on official duty.

(viii) Loan of Rs. 2,00,000 was taken from the employer on 1.7.2025 for medical treatment of his brother for tuberculosis treatment. Interest charged on such loan is 5%. The entire loan is outstanding as on 31.3.2026. No medical insurance has been taken for his brother. SBI rate of interest on 1.4.2025 was 11%.

(ix) Free education was provided to the sister of Mr. Anshul in a school maintained and owned by the company. The cost of such education facility is computed at Rs. 900 p.m. No amount was recovered by the company for such education facility from Anshul.

(viii) Leave travel concession given to Anshul, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer Rs. 20,000 for adults and lumpsum of Rs. 25,000 for three children. Anshul is eligible for availing exemption this year to the extent it is permissible under the Income- tax Act, 1961.

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

(RTP Sept 24)

Computation of taxable salary of Mr. Anshul for the A.Y. 2026-27

Particulars		Rs.	Rs.
1. Basic Salary [(Rs. 75,000 x 8) + (Rs. 85,000 x 4)]			9,40,000
2. Dearness allowance [50% of basic salary]			4,70,000
3. Employer's contribution to recognized provident fund [18% x Rs. 9,40,000]		1,69,200	
Less: Exempt up to 12% of basic salary and			
D.A. forms part of retirement benefit			
[12% x Rs. 11,28,000]		(1,35,360)	33,840
Taxable allowances			
4. Entertainment allowance			10,000
5. Conveyance allowance [Exempt, since it is based on actual reimbursement for official purpose]			-
6. House rent allowance		1,92,000	
Less: Least of the following exempt under			
section 10(13A)		(91,200)	1,00,800
(i) HRA received	1,92,000		
(ii) Rent paid (-) 10% of salary [Rs. 2,04,000 – 10% x Rs. 11,28,000]	91,200		
(iii) 40% of salary [40% x Rs. 11,28,000]	4,51,200		
Taxable Perquisite			
7. Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]			1,800
8. Interest on loan [Not a perquisite, since loan is for medical treatment of his brother for tuberculosis treatment]			-
9. Provision of education facility [Rs. 900 x 12]			10,800
10. Leave travel concession		45,000	

Less: Exempt	45,000	-
[Mr. Anshul can avail exemption on the entire amount of Rs. 45,000 reimbursed by the employer towards leave travel concession since the leave travel concession was availed for himself, wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple birth which take place after the first child.]		
Gross Salary		**15,67,240**
Less: Deduction under section 16		
Professional tax paid	(2,200)	
Standard Deduction [Lower of salary or Rs. 50,000]	(50,000)	52,200
Taxable Salary		**15,15,040**

Question 8:

Mr. Rohan, an employee of ABC Ltd. is posted at Mumbai. He was appointed on 1st March 2025 on the scale of Rs.60,000 - Rs.2,000 - Rs.80,000. Details of his other income for the previous year 2025-26 are as follows:

(i) Dearness allowance: 40% of basic salary (60% forms part of pay for retirement benefits)

(ii) Telephone allowance @₹500 per month

(iii) Both Mr. Rohan and the company contribute 15% of basic salary to RPF. Interest accrued in this Fund@12% p.a. amounted to Rs.25,800.

(iv) The company has provided him with the rent free unfurnished accommodation in Mumbai owned by the company.

(v) The salary of Rs.2,500 p.m. of domestic servant is reimbursed by the company.

(vi) Rohan has used his own motor car of 1.8 ltr engine capacity for both official and personal purposes. The running and maintenance costs of Rs.50,000 are borne by the company.

(vii) Professional tax paid Rs.2,500 of which Rs.1,500 was paid by the employer.

(viii) During the year 2024-25, Mr. Rohan gifted a sum of Rs.6,00,000 to Mrs. Rohan. She started a business by introducing such amount as her capital. On 1st April, 2025, her total investment in business was Rs.10,00,000. During the previous year 2025-26, she has suffered a loss of Rs.1,20,000 from such business Determine the gross total income of Mr. Rohan for the A.Y. 2026-27 under normal provisions of the Act.

(RTP Jan 25)

Computation of gross total income of Mr. Rohan for the A.Y.2024-25

	Particulars	Amount (Rs.)	Amount (Rs.)
I	**Salaries**		
	1. Basic Salary (Rs.60,000 x 11 + Rs.62,000 x 1)		7,22,000
	2. Dearness Allowance (40% of Rs.7,22,000)		2,88,800
	3. Telephone allowance (Rs.500 x 12)		6,000
	4. Employer's contribution to RPF (15% of Rs.7,22,000)	1,08,300	
	Less: Exempt [12% of salary] 12% x 8,95,280 (7,22,000 + 60% of 2,88,800)]	(1,07,434)	866
	5. Interest accrued in the RPF@12%	25,800	

	Less: Exempt @9.5% p.a.	(20,425)	5,375
	6. Value of Rent Free accommodation		
	[10% of Rs.9,01,280 i.e., Rs.7,22,000 (60,000 x 11 + 62,000 x 1) + 2,88,800*60% + Rs.6,000 (Rs.500 x 12)] [Assume this is 1st year]		90,128
	7. Reimbursement of salary of domestic servant [Rs.2,500 x 12]		30,000
	8. Perquisite value of motor car		
	Running and maintenance costs incurred by employer	50,000	
	Less: Specified as per Rule 3 [Rs.2,400 x 12]	(28,800)	21,200
	9. Professional tax paid by employer		1,500
	Gross Salary		**11,65,869**
	Less: Deduction under section 16		
	Standard deduction	50,000	
	Professional tax paid	2,500	(52,500)
	Taxable Salary		**11,32,094**
II	**Profit and gains from business or profession**		
	1. Where the amount of Mr. Rohan (Rs.6 lakh, in this case) is invested by Mrs. Rohan in a business as her capital, proportionate share of profit or loss, as the case may be, computing taking into account the value of the investment as on 1.4.2023 to the total investment in the business (Rs.10 lakhs) would be included in the income of Mr. Rohan [loss of Rs.1,20,000 x 6/10]		No Setoff
	2. [Business loss of Rs.72,000 cannot be set off against salary income. It has to be carried forward to next year]	(72,000)	
	Gross Total Income		**11,32,094**

Question 9:

Mr. Rishabh, a salaried employee in a private company, provides you with the following information for the year ended on 31-03-2026:

(i) Basic salary ₹ 75,000 p.m.

(ii) From 1st February 2026, basic salary increased to 85,000 p.m.

(iii) Dearness allowance @50% of basic salary (40% of D.A. forms part of salary for retirement benefits).

(iv) Contribution of employer to recognized provident fund account of the employee @18% of basic salary. Employees also contribute an equivalent amount.

(v) Professional tax paid ₹ 2,200 of which ₹ 1,800 was paid by the employer.

(vi) House rent allowance of ₹ 16,000 p.m. He paid rent of ₹ 17,000 p.m. for accommodation in Bangalore.

(vii) Loan of ₹ 2,00,000 was taken from the employer on 1.7.2025 for medical treatment of his brother for tuberculosis treatment. Interest charged on such loan is 5%. The entire loan is outstanding as on 31.3.2026. No medical insurance has been taken for his brother. SBI rate of interest on 1.4.2025 was 11%.

(viii) Leave travel concession given to Rishabh, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer ₹ 20,000 for adults and lumpsum of ₹ 25,000 for 3 children. Rishabh is eligible for availing exemption this year to the extent it is permissible under the Income-tax Act, 1961.

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

(May 25 5M)

Computation of taxable salary of Mr. Rishabh for the A.Y. 2026-27

Particulars	₹	₹
1. Basic Salary [(₹ 75,000 x 10) + (₹ 85,000 x 2)]		9,20,000
2. Dearness allowance [50% of basic salary]		4,60,000
3. Employer's contribution to recognized provident fund [18% x ₹ 9,20,000]	1,65,600	
Less: Exempt upto 12% of basic salary and D.A. forms part of retirement benefit [12% x ₹ 11,04,000]	(1,32,480)	33,120
4. House rent allowance	1,92,000	
Less: Least of the following exempt under section 10(13A)	(93,600)	98,400
(i) HRA received 1,92,000 (ii) Rent paid (-) 10% of salary 93,600 [₹ 2,04,000 – 10% x ₹ 11,04,000] (iii) 40% of salary [40% x 4,41,600 ₹ 11,04,000]		
5. Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]		1,800
6. Interest on loan [Not a perquisite, since loan is for medical treatment of his brother for tuberculosis treatment]		-
7. Leave travel concession	45,000	
Less: Exempt u/s 10(5)	45,000	-
[Mr. Rishabh can avail exemption on the entire amount of ₹ 45,000 towards leave travel concession since the leave travel concession was availed for himself, wife and 3 children and the journey was undertaken by economy class airfare. The restriction imposed for 2 children is not applicable in case of multiple birth which take place after the first child.]		
Gross Salary		**15,13,320**
Less: Deduction under section 16		
Professional tax paid	(2,200)	
Standard Deduction, lower of salary or ₹ 50,000 (Since Mr. Rishabh has opted out of section 115BAC)	(50,000)	(52,200)
Taxable Salary		**14,61,120**

Question 10:

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

Basic Salary ₹ 70,000 p.m.

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

Bonus ₹ 21,000 p.m.

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

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

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

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

Compute the relief available under section 89 and the tax payable for the A.Y. 2026-27. Assume that Ms. Ashima exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) for A.Y. 2026-27.

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

Note: Rates of Tax

The rates of tax under normal provisions of the Act for A.Y. 2022-23, A.Y. 2023-24 and A.Y. 2024-25 are same as for A.Y. 2025-26. The rates of tax as per section 115BAC for different years are as follows:

Assessment Year	Slab rates of income-tax	
	Slabs	Rate
2022-23	Up to ₹ 2,50,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	5%
	₹ 5,00,001 - ₹ 7,50,000	10%
	₹ 7,50,001 - ₹ 10,00,000	15%
	₹ 10,00,001 - ₹ 12,50,000	20%
	₹ 12,50,001 - ₹ 15,00,000	25%
	Above ₹ 15,00,000	30%
2023-24	Up to ₹ 2,50,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	5%
	₹ 5,00,001 - ₹ 7,50,000	10%
	₹ 7,50,001 - ₹ 10,00,000	15%
	₹ 10,00,001 - ₹ 12,50,000	20%
	₹ 12,50,001 - ₹ 15,00,000	25%
	Above ₹ 15,00,000	30%
2024-25	Up to ₹ 3,00,000	Nil
	₹ 3,00,001 - ₹ 6,00,000	5%
	₹ 6,00,001 - ₹ 9,00,000	10%
	₹ 9,00,001 - ₹ 12,00,000	15%
	₹ 12,00,001 - ₹ 15,00,000	20%
	Above ₹ 15,00,000	30%

(RTP Jan 26)

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

Particulars	₹
1. Basic Salary [₹ 70,000 x 12]	8,40,000

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

Computation of tax payable by Ms. Ashima for the A.Y.2026-27 under OTR

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

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

Particulars	A.Y. 2022-23		A.Y. 2023-24		A.Y. 2024-25	
	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)
Taxable salary	9,50,000	9,50,000	10,90,000	10,90,000	12,10,000	12,10,000
Add: Arrears of salary	1,20,000	-	1,10,000	-	1,05,000	-
Taxable salary	**10,70,000**	**9,50,000**	**12,00,000**	**10,90,000**	**13,15,000**	**12,10,000**
Tax on the above	89,000	67,500	1,72,500	1,39,500	1,13,000	92,000
Add: HEC@ 4%	3,560	2,700	6,900	5,580	4,520	3,680
Tax payable	**92,560**	**70,200**	**1,79,400**	**1,45,080**	**1,17,520**	**95,680**

Computation of relief under section 89

Particulars	₹	₹
i Tax payable in A.Y.2025-26 on arrears:		

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

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

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

Question 11:

Prabhu, a resident individual aged 45 years, is employed with a private limited company as HR manager, on a basic salary of ₹ 80,000 p.m. He has been provided with the following other benefits:

(i) A rent-free unfurnished accommodation (owned by the company) in Mumbai from 01.05.2025. However, he occupied the accommodation only from 01.12.2025. The company had bought this house in the financial year 2024-25 at a cost of ₹ 2 crores.

(ii) A mobile phone for his personal use on 01.04.2025. The cost of the phone was ₹ 90,000. The company also gives him a telephone allowance amounting to ₹ 1,000 p.m. to cover his mobile phone bill. During the F.Y. 2025-26, his aggregate mobile phone bill was ₹ 15,000.

(iii) Company had purchased a car on 01.07.2023 for ₹ 10 lakhs. This car is sold to Prabhu on 01.08.2025 for ₹ 2,50,000.

(iv) He was allowed to use the video camera and laptop belonging to the company from 01.04.2025. The company had purchased these assets for ₹ 50,000 and ₹ 2,00,000, respectively on 01.04.2023.

Compute the taxable salary of Prabhu assuming he has opted out of default tax regime.

(PEP Sept 25)

Computation of taxable salary of Mr. Prabhu for A.Y. 2025-26 as per the optional tax regime

Particulars	₹	₹
Income from Salaries		
1. Basic Salary [₹ 80,000 x 12]		9,60,000
2. Perquisite Value of Rent-free accommodation		
10% of salary [₹ 9,60,000 x 10% x 4/12]		32,000
Mr. Prabhu has occupied the accommodation from 01.12.2025. Therefore, the value of rent-free accommodation will be calculated for 4 months only.		
3. Mobile phone given for personal use is not taxable perquisite. Since telephone allowance of ₹ 12,000 is less than the actual mobile phone bill	-	

of ₹ 15,000, nothing is taxable as perquisite. [Here the allowance is assumed as reimbursement] [Alternatively This can be taxed fully as it is Allowance]		
4. Perquisite Value on sale of car		
Original cost of car	10,00,000	
Less: Depreciation from 01.7.2023 to 30.6.2024 @20%	(2,00,000)	
Less: Depreciation from 01.7.2024 to 30.6.2025 @20%	(1,60,000)	
Value as on 01.08.2025- being the date of sale to Mr. Prabhu	6,40,000	
Less: Amount received from the Mr. Prabhu on 01.08.2024	(2,50,000)	3,90,000
5. Perquisite value on use of moveable assets		
Use of Laptop [Not taxable as perquisite]		-
Use of Video Camera [₹ 50,000 x 10%]		5,000
Gross Salary		**13,87,000**
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		(50,000)
Net salary		**13,37,000**

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4. Income from House Property

Illustrations

ILLUSTRATION 1

Jayashree owns five houses in India, all of which are let-out. Compute the GAV of each house from the information given below –

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

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

Computation of GAV of each house owned by Jayashree

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

ILLUSTRATION 2

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

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

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

Particulars	₹
Gross Annual Value (£ 10,000 x 12 x 95)	1,14,00,000
Less: Municipal taxes paid (£ 8,000 x 95)	(7,60,000)
Net Annual Value (NAV)	**1,06,40,000**

ILLUSTRATION 3

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

Mr. Manas can claim benefit of Nil Annual Value in respect of his house property at Bombay and Delhi.
He is eligible for deduction under section 24(b) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of deduction u/s 24(b) for A.Y.2026-27

	Particulars	₹
I	Interest on loan taken for acquisition of residential house property at Bombay 30,00,000 x 10% = ₹ 3,00,000 Restricted to ₹ 2,00,000	2,00,000
II	Interest on loan taken for repair of residential house property at Delhi	
	₹ 5,00,000 x 11% = ₹ 55,000	
	Restricted to ₹ 30,000	30,000
Total interest		2,30,000
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to		**2,00,000**

ILLUSTRATION 4

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

Computation of Income from house property of Mr. Anirudh for A.Y.2026-27

	Particulars	Amount in ₹	
Computation of GAV			
Step 1	Compute ER		
	ER = Higher of MV of ₹ 1,30,000 p.a. and FR of ₹ 1,10,000 p.a., but restricted to SR of ₹ 1,20,000 p.a.	1,20,000	
Step 2	Compute actual rent received/receivable		
	Actual rent received/receivable less unrealized rent as per Rule 4 = ₹ 1,32,000 - ₹ 11,000	1,21,000	
Step 3	Compare ER of ₹ 1,20,000 and Actual rent received/receivable of ₹ 1,21,000		
Step 4	GAV is the higher of ER and Actual rent received/receivable	1,21,000	
Gross Annual Value (GAV)			**1,21,000**

Less:	Municipal taxes (paid by the owner during the previous year) = 10% of ₹ 1,30,000		(13,000)
Net Annual Value (NAV)			**1,08,000**
Less:	**Deductions under section 24**		
	(a) 30% of NAV	(32,400)	
	(b) Interest on borrowed capital (actual without any ceiling limit)	(40,000)	(72,400)
Income from house property			**35,600**

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

ILLUSTRATION 5

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

Computation of income from house property of Ganesh for A.Y.2026-27

Particulars	Amount in ₹	
Computation of GAV Step 1 Compute ER Higher of MV of ₹ 2,50,000 p.a. & FR of ₹ 2,00,000 p.a., but restricted to SR of ₹ 2,10,000 p.a.	2,10,000	
Step 2 Compute Actual rent received/receivable Actual rent received / receivable for let out period less unrealized rent as per Rule 4 = ₹ 2,00,000 – ₹ 20,000	1,80,000	
Step 3 Compare ER & Actual rent received/receivable		
Step 4 In this case the actual rent of ₹ 1,80,000 is lower than ER of ₹ 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 2,20,000 (₹ 1,80,000 + ₹ 40,000, being notional rent for February and March 2026). Therefore, actual rent is the GAV.	1,80,000	
Gross Annual Value (GAV)		1,80,000
Less: Municipal taxes (paid by the owner during the previous year) = 8% of ₹ 2,50,000		(20,000)
Net Annual Value (NAV)		1,60,000
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 1,60,00	(48,000)	
(b) Interest on borrowed capital (actual without any ceiling limit)	(65,000)	(1,13,000)
Income from house property		**47,000**

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 2,00,000, being the actual rent, since the actual rent is lower than the expected rent of ₹

2,10,000 owing to vacancy. Thereafter, unrealized rent of ₹ 20,000 and municipal taxes of ₹ 20,000 would be deducted from GAV of ₹ 2,00,000 to arrive at the NAV of ₹ 1,60,000.

ILLUSTRATION 6

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

Computation of income from house property of Smt. Poorna for A.Y.2026-27

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

ILLUSTRATION 7

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

Computation of income from house property of Smt. Rajalakshmi for A.Y.2026-27

Particulars		Amount in ₹	
Computation of GAV			
Step 1	Compute ER for the whole year		
	ER = Higher of MV of ₹ 5,00,000 and FR of ₹ 4,20,000, but restricted to SR of ₹ 4,80,000	4,80,000	
Step 2	Compute Actual rent received/receivable		
	Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = (₹ 50,000 x 9) - (₹ 50,000 x 2) = ₹		

	4,50,000 - ₹ 1,00,000	3,50,000	
Step 3	Compare ER for the whole year with the actual rent received / receivable for the let-out period i.e. ₹ 4,80,000 and ₹ 3,50,000		
Step 4	GAV is the higher of ER computed for the whole year and Actual rent received/receivable computed for the let-out period	4,80,000	
Gross Annual Value (GAV)			**4,80,000**
Less:	Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 5,00,000		(60,000)
Net Annual Value (NAV)			**4,20,000**
Less:	**Deductions under section 24**		
	(a) 30% of NAV = 30% of ₹ 4,20,000	(1,26,000)	
	(b) Interest on borrowed capital	(25,000)	(1,51,000)
Income from house property			**2,69,000**

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV then, GAV would be ₹ 4,80,000, being higher of expected rent of ₹ 4,80,000 and actual rent of ₹ 4,50,000. Thereafter, unrealized rent of ₹ 1,00,000 and municipal taxes of ₹ 60,000 would be deducted from GAV of ₹ 4,80,000 to arrive at the NAV of ₹ 3,20,000. The deduction u/s 24(a) would be ₹ 96,000, being 30% of ₹ 3,20,000. The income from house property would, therefore, be ₹ 1,99,000. [Ignore this logic]

ILLUSTRATION 8

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

Particulars	House I	House II	House III
Municipal valuation p.a.	₹ 3,00,000	₹ 3,60,000	₹ 3,30,000
Fair rent p.a.	₹ 3,75,000	₹ 2,75,000	₹ 3,80,000
Standard rent p.a.	₹ 3,50,000	₹ 3,70,000	₹ 3,75,000
Date of completion/purchase	31.3.2000	31.3.2002	01.5.2019
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	₹ 55,000	
Interest for current year on money borrowed in April, 2018 for purchase of property			₹ 1,75,000

Compute Ganesh's income from house property for A.Y.2026-27 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

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

Computation of income from house property of Ganesh for the A.Y. 2026-27

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

	(b) Interest on borrowed capital	-	(55,000)	(1,75,000)
Income from house property		**2,19,800**	**1,76,840**	**73,640**

Ganesh can opt to treat any 2 of the above house properties as self-occupied. [ICAI SM Answer]

Note: The manner of answer determined above is NOT correct. We have to compute IFHP under 3 Options and check where the Net IFHP is lower. [Discussed in Detailed in the class]

ILLUSTRATION 9

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

What would be Prem's income from house property under the default tax regime?

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

Computation of income from house property of Mr. Prem for A.Y.2026-27
(Under Normal provisions of the Act)

Particulars		Amount in ₹	
Unit I (2/3rd area – self-occupied)			
Annual Value			Nil
Less:	Deduction under section 24(b) 2/3rd of ₹ 1,20,000		(80,000)
Income from Unit I (self-occupied)			(80,000)
Unit II (1/3rd area – let out)			
Computation of GAV			
Step 1	Compute ER		
	ER = Higher of MV and FR, restricted to SR However, in this case, SR of ₹ 1,10,000 (1/3rd of ₹ 3,30,000) is more than the higher of MV of ₹ 1,00,000 (1/3rd of ₹ 3,00,000) and FR of ₹ 90,000 (1/3rd of ₹ 2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV.	1,00,000	
Step 2	Compute actual rent received/ receivable ₹ 8,000 x 12 = ₹ 96,000	96,000	
Step 3	Compare ER and Actual rent received/receivable		
Step 4	GAV is the higher of ER and actual rent received / receivable i.e. higher of ₹ 1,00,000 and ₹ 96,000	1,00,000	
Gross Annual Value(GAV)			1,00,000
Less:	Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3rd of (10% of ₹ 3,00,000) = ₹ 30,000/3 = ₹ 10,000		(10,000)
Net Annual Value (NAV)			90,000

Less:	Deductions under section 24		
	(a) 30% of NAV = 30% of ₹ 90,000	(27,000)	
	(b) Interest paid on borrowed capital (relating to let out portion) 1/3rd of ₹ 1,20,000	(40,000)	(67,000)
Income from Unit II (let-out)			23,000
Loss under the head "Income from house property" = (₹ 80,000) + ₹ 23,000 = (₹ 57,000)			

Under the default tax regime, Prem would not be entitled to interest deduction of ₹ 80,000 under section 24(b) in respect of self-occupied portion (Unit 1). Hence, income from house property would be ₹ 23,000, being income from Unit II, which is let out.

ILLUSTRATION 10

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

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

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

Since the unrealised rent was recovered in the P.Y.2025-26, the same would be taxable in the A.Y.2026-27 under section 25A. Further, the arrears of rent was also received in the P.Y.2025-26, and hence the same would be taxable in the A.Y.2026-27 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y.2026-27.

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

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

ILLUSTRATION 11

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

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

Particulars	₹
I Interest on loan taken for acquisition of residential house property at Calcutta ₹ 50,00,000 x 10% = ₹ 5,00,000	
Ms. Aparna's share = 50% of ₹ 5,00,000 = ₹ 2,50,000	
Restricted to ₹ 2,00,000	2,00,000
II Interest on loan taken for repair of flat at Pune	
₹ 3,00,000 x 12% = ₹ 36,000	
Restricted to ₹ 30,000	30,000
Total interest	2,30,000
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to	**2,00,000**

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

Particulars	₹
Interest on loan taken for acquisition of residential house property at Calcutta	
₹ 50,00,000 x 10% = ₹ 5,00,000	
Ms. Dimple's share = 50% of ₹ 5,00,000 = ₹ 2,50,000	
Restricted to ₹ 2,00,000	2,00,000
Deduction under section 24(b)	**2,00,000**

Test Your Knowledge

Question 1: Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property.

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

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

The municipal taxes of ₹ 5,100 have been paid by the tenant.

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

Computation of income from house property of Mr. Raman for A.Y. 2026-27

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

Notes:

1. **Computation of Gross Annual Value (GAV)**

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

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

2. Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
3. Section 26 provides that where a house property is owned by 2 or more persons whose shares are

definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

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

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

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

Computation of Income from house property for A.Y. 2026-27

Particulars	₹	₹
(A) Rented unit (50% of total area – See Note below)		
Step I - Computation of Expected Rent		
• Municipal valuation (₹ 1,90,000 x ½)	95,000	
• Fair rent (₹ 1,85,000 x ½)	92,500	
• Standard rent (₹ 1,62,000 x ½)	81,000	
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
Step II - Actual Rent		
Rent received/receivable for the let out period (₹ 8,000 x 10)	80,000	
Step III – Computation of Gross Annual Value		
The actual rent of ₹ 80,000 is lower than ER of ₹ 81,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 96,000 (₹ 80,000 + ₹ 16,000, being notional rent for two months. Therefore, actual rent is the GAV.	80,000	
Gross Annual Value		80,000
Less: Municipal taxes (5% of ₹ 95,000)		(4,750)
Net Annual value		75,250
Less : Deductions under section 24 -		
(i) 30% of net annual value	(22,575)	
(ii) Interest on borrowed capital (₹ 750 x 12)	(9,000)	(31,575)
Taxable income from let out portion		43,675

(B) Self occupied unit (50% of total area – See Note below)		
Annual value	Nil	
Less: Deduction under section 24 -		
Interest on borrowed capital (₹ 750 x 12)	9,000	9,000
Loss from self occupied portion		(9,000)
Income from house property		**34,675**

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

Question 3: Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 (per annum), respectively. During the F.Y. 2025-26, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @11% of municipal value was paid during the year.

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

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

Computation of income from house property of Mr. Vikas for the A.Y. 2026-27

Particulars		₹	₹
Income from house property			
I. Self-occupied portion (Two third)			
Net Annual value			Nil
Less: Deduction under section 24(b)			
Interest on loan (See Note below) (₹ 18,600 x 2/3) [Allowable since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]			12,400
Loss from self-occupied property			(12,400)
II. Let-out portion (One third)			
Gross Annual Value			
(a) Actual rent received (₹ 5,000 x 12)	₹ 60,000		
(b) Expected rent [higher of municipal valuation (i.e., ₹ 96,000) and fair rent (i.e., ₹ 1,26,000) but restricted to standard rent (i.e., ₹ 1,08,000)] = ₹ 1,08,000 x 1/3	₹ 36,000		
Higher of (a) or (b)		60,000	
Less: Municipal taxes (₹ 96,000 x 11% x 1/3)		(3,520)	
Net Annual Value		56,480	
Less: Deductions under section 24			
(a) 30% of NAV		(16,944)	
(b) Interest on loan (See Note below) (₹ 18,600 x 1/3)		(6,200)	33,336
Income from house property			**20,936**

Note: Interest on loan taken for construction of building

1. Interest for the year (1.4.2025 to 31.3.2026) = 12% of ₹ 1,00,000 = ₹ 12,000
2. Pre-construction period interest = 12% of ₹ 1,00,000 for 33 months (from 1.07.2018 to 31.3.2021) = ₹ 33,000. Pre-construction period interest to be allowed in 5 equal annual installments of ₹ 6,600 from the year of completion of construction i.e., from F.Y. 2021-22 till F.Y. 2025-26.

Therefore, total interest deduction under section 24 = ₹ 12,000 + ₹ 6,600 = ₹ 18,600.

Question 4: Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2025-26. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is $20,000. The value of one USD ($) may be taken as ₹ 75.

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

Property Tax ₹ 16,200

Sewerage Tax ₹ 1,800

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

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

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

Compute the income chargeable from house property of Mrs. Rohini Ravi for the A.Y. 2026-27 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?

(MTP 2 May 25 5 Marks)

(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.2026-27 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		Nil
	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 x 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(1A).

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

Question 5: Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2017-2018. The property consists of eight identical units and is situated at Cochin.

During the financial year 2025-26, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 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 2025-26.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2026-27 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).

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

Computation of total income for the A.Y. 2026-27

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	1,25,850	1,25,850
Income from house property	1,25,850	1,25,850
Other Income	2,90,000	1,80,000
Total Income	**4,15,850**	**3,05,850**

Working Note

Computation of Income from Let-Out Portion of House Property

Particulars	₹	₹
Let-out portion (75%)		
Gross Annual Value		
(a) Municipal value (75% of ₹ 9 lakh)	6,75,000	
(b) Actual rent [(₹ 12000 x 6 x 12) – (₹ 12,000 x 1 x 4)] = ₹ 8,64,000 - ₹ 48,000	8,16,000	
- whichever is higher		8,16,000
Less: Municipal taxes 75% of ₹ 1,80,000 (20% of ₹ 9 lakh)		(1,35,000)
Net Annual Value (NAV)		6,81,000
Less: Deduction 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**

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

Computation of total income for the A.Y. 2026-27

Particulars	Arun (₹)	Bimal(₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b)		
Interest on loan taken for construction ₹ 37,500 (being 25% of ₹ 1.5 lakh) [Allowable since they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]	37,500	37,500
Loss from self occupied property	(37,500)	(37,500)
II. Let-out portion (75%) – See Working Note above	1,25,850	1,25,850

Income from house property	88,350	88,350
Other Income	2,90,000	1,80,000
Total Income	**3,78,350**	**2,68,350**

Question 6: Mr. Roxx, a citizen of the Country Y, is a resident but not ordinarily resident in India during the financial year 2025-26. He owns two house properties in Country Y, one is used as his residence. Another house property is rented for a monthly rent of $ 18,000. Fair rent of the house property is $ 20,000. The value of one CYD ($) may be taken as ₹ 78.

He took ownership and possession of a flat in Delhi on 1.10.2025, which is used for self-occupation, while he is in India. The flat was used by him for 2 months at the time when he visited India during the previous year 2025-26. The municipal valuation is ₹ 4,58,000 p.a. and the fair rent is ₹ 3,60,000 p.a. He paid property tax of ₹ 13,800 and ₹ 2,800 as Sewerage tax to Municipal Corporation of Delhi.

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

He also had a house property in Bangalore which is let out on a monthly rent of ₹ 40,000. The fair rent of which is ₹ 4,58,000 p.a. and Municipal value of ₹ 3,58,000 p.a. and standard rent of ₹ 4,20,000 p.a. He had taken a loan of ₹ 25,00,000 @ 10% from one of his friends, residing in Country Y for this house. Municipal tax of ₹ 5,400 is paid by him in respect of this house during the previous year 2025-26.

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

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

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

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

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

	ceiling limit)	2,50,000	3,92,380
			82,220
	Loss under the head "Income from house property" (₹ 2,00,000 - ₹ 82,220)		(1,17,780)

Note: Interest on borrowed capital

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

Question 7: Mr. Roy owns a house in Kolkata. During the previous year 2025-26, 3/4th portion of the house was self-occupied and 1/4th portion was let out for residential purposes at a rent of ₹ 12,000 p.m. The tenant vacated the property on 28th February, 2026. The property was vacant during March, 2026. Rent for the months of January 2026 and February 2026 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. Municipal value of the property is ₹ 4,50,000 p.a., fair rent is ₹ 4,70,000 p.a. and standard rent is ₹ 5,00,000. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 30,00,000 was taken by him during the year 2018 for acquiring the property. Interest on loan paid during the previous year 2025-26 was ₹ 1,51,000. Compute Roy's income from house property for the A.Y. 2026-27 if he has shifted out of the default tax regime.

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

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

Particulars	**₹**	
Unit I (3/4th area – self-occupied)		
Annual Value		Nil
Less: Deduction under section 24(b) 3/4th of ₹ 1,51,000		1,13,250
Income from Unit I (self-occupied)		**(1,13,250)**
Unit II (1/4th area – let out)		
Computation of GAV		
Step 1 – Computation of Expected Rent (ER)		
ER = Higher of municipal value (MV) and fair rent (FR), but restricted to standard rent (SR).	1,17,500	
However, in this case, standard rent of ₹ 1,25,000 (1/4th of ₹ 5,00,000) is more than the higher of MV of ₹ 1,12,500 (1/4th of ₹ 4,50,000) and FR of ₹ 1,17,500 (1/4th of ₹ 4,70,000). Hence the higher of MV and FR is the ER. In this case, it is the fair rent.		
Step 2 – Computation of actual rent received/ receivable ₹ 12,000 x 9 = 1,08,000	1,08,000	

[The property was let-out for 11 months. However, rent for 2 months i.e., January and February, 2026 could not be realized. Actual rent should not include any amount of rent which is not capable of being realized. Therefore, actual rent has been computed for 9 months]		
Step 3 – Computation of GAV		
The actual rent of ₹ 1,08,000 is lower than expected rent of ₹ 1,17,500 owing to vacancy, since had the property not been vacant in March 2026, the actual rent would have been ₹ 1,20,000 (i.e. ₹ 1,08,000 + ₹ 12,000), which is higher than the ER of ₹ 1,17,500. Therefore, actual rent is the GAV.	1,08,000	
Gross Annual Value (GAV)		**1,08,000**
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion 1/4th of (10% of ₹ 4,50,000) =₹ 45,000/4 = ₹ 11,250		11,250
Net Annual Value (NAV)		**96,750**
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 96,750	29,025	
(b) Interest paid on borrowed capital (relating to let out portion) [1/4th of ₹ 1,51,000]	37,750	66,775
Income from Unit II (let-out)		**29,975**
Loss under the head "Income from house property" (-₹ 1,13,250 + ₹ 29,975)		**-83,275**

Note – Alternatively, as per income-tax returns, unrealized rent can be deducted from GAV. In such a case, GAV would be ₹ 1,32,000, being higher of expected rent of ₹ 1,17,500 and actual rent of ₹ 1,32,000. Thereafter, unrealized rent of ₹ 24,000 and municipal taxes of ₹ 11,250 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 96,750.

Questions from MRP [MTPs, RTPs, Past Exam Papers]

Question 1:

Mr. Kushal is a resident but not ordinarily resident in India during the Assessment Year 2024-25. He furnishes the following information regarding his income/expenditure pertaining to his house properties for the previous year 2025-26:

- **He owns two houses, one in New York and the other in Ahmedabad.**
- **The house in New York is let out there at a rent of $ 5,000 p.m. The entire rent is received in India. He paid Property tax of $ 1,250 and Sewerage Tax $ 750 there. ($ 1 = INR 81)**
- **The house in Ahmedabad is self-occupied. He had taken a loan of Rs. 30,00,000 to construct the house on 1st September, 2020 @10%. The construction was completed on 31st May, 2020 and he occupied the house on 1st June, 2022.**

The entire loan is outstanding as on 31st March, 2026. Property tax paid in respect of the second house is Rs. 2,800.

Compute the income chargeable under the head "Income from House property" in the hands of Mr. Kushal for the Assessment Year 2026 -27 if he has opted out of the default tax regime under section 115BAC.

(MTP 1 May 24 5M)

Computation of income from house property of Mr. Kushal for A.Y. 2026-27

Particulars	Rs.	Rs.
1. Income from let-out property in New York [See Note 1 below]		
[1]Gross Annual Value ($ 5,000 p.m. x 12 months x Rs. 81)		48,60,000
Less: Municipal taxes paid during the year [$ 2,000 ($ 1,250 + $ 750) x Rs. 81]2		1,62,000
Net Annual Value (NAV)		46,98,000
Less: Deductions under section 24		
(a) 30% of NAV	(14,09,400)	
(b) Interest on housing loan	0	(14,09,400)
		32,88,600
2. Income from self-occupied property in Ahmedabad		
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]**		2,00,000
		(2,00,000)
Income from house property [Rs. 32,88,600 – Rs. 2,00,000]		**30,88,600**

Notes:

(1) Since Mr. Kushal is a resident but not ordinarily resident in India for A.Y. 2024-25, income which is, inter alia, received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of section 5(1). Accordingly, rent received from house property in New York would be taxable in India since such income is received by him in India.

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

Interest for the current year (Rs. 30,00,000 x 10%)	Rs. 3,00,000

Pre-construction interest	
For the period 01.09.2018 to 31.03.2020 (Rs. 30,00,000 x 10% x 19/12) = Rs. 4,75,000 Rs.4,75,000 allowed in 5 equal installments (Rs. 4,75,000/5)	Rs. 95,000
	Rs. 3,95,000
In case of self-occupied property, interest deduction to be restricted to	Rs. 2,00,000

Question 2:

Mr. Kamal, a resident but not ordinarily resident in India during the Assessment Year 2024-25. 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 2023-24. The house in Mumbai is self-occupied. He had taken a loan of Rs. 10,00,000 to construct the house on 1st June, 2020 @12%. The construction was completed on 31st May, 2022 and he occupied the house on 1st June, 2022. The entire loan is outstanding as on 31st March, 2024. Property tax paid in respect of the second house is Rs. 2,400 for the Financial Year 2023-24. Compute the income chargeable under the head "Income from House property" in the hands of Mr. Kamal for the Assessment Year 2024-25 under regular provisions of the Act.

(MTP 2 Sept 24 5M)

Computation of income from house property of Mr. Kamal for A.Y. 2024-25

Particulars	Rs.	Rs.
1. Income from let-out property in Dubai [See Note 1 below]		
Gross Annual Value (DHS 20,000 p.m. x 12 months x Rs. 22)		52,80,000
Less: Municipal taxes paid during the year [DHS 4,000 (DHS 2,500 + DHS 1,500) x Rs. 22]		(88,000)
Net Annual Value (NAV)		51,92,000
Less: Deductions under section 24		
(a) 30% of NAV	(15,57,600)	
(b) Interest on housing loan	0	(15,57,600)
		36,34,400
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]		1,64,000
		(1,64,000)
Income from house property [Rs. 36,34,400 – Rs. 1,64,000]		**34,70,400**

Notes:

1) Since Mr. Kamal is a resident but not ordinarily resident in India for A.Y. 2024-25, 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:

Interest for the current year (Rs. 10,00,000 x 12%)	Rs. 1,20,000
Pre-construction interest For the period 01.06.2020 to 31.03.2022 (Rs. 10,00,000 x 12% x 22/12) = Rs. 2,20,000 Rs.2,20,000 allowed in 5 equal installments (Rs. 2,20,000/5)	Rs. 44,000
	Rs. 1,64,000

Question 3:

Mr. Yogesh constructed a house in P.Y. 2019-20 with 3 independent units. During the P.Y. 2025-26, Unit - 1 (50% of floor area) is let out for residential purpose at monthly rent of Rs.20,000. Rent of January, 2026 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Yogesh is occupied by the tenant. Unit - 1 remains vacant for February and March 2026 when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Yogesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation - Rs.2,88,000
Fair rent - Rs.2,98,000
Standard rent under the Rent Control Act - Rs.2,78,000
Municipal taxes - Rs.30,000 paid by Mr. Yogesh
Repairs - Rs.7,000
Interest on capital borrowed for the construction of the property - Rs.90,000,
Ground rent - Rs.6,000 and
Fire insurance premium paid - Rs.60,000.

Income of Yogesh from the business is Rs.2,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable income of Mr. Yogesh for the assessment year 2026-27 if he pays tax under section 115BAC.

(MTP 2 Jan 25 5M)

Computation of taxable income of Mr. Yogesh for A.Y. 2026-27

Particulars	Amount (Rs.)	Amount (Rs.)
Income from house property (A)		
Unit - 1 [50% of floor area - Let out]		
Gross Annual Value, higher of		
➢ **Expected rent Rs.1,39,000**[Higher of Municipal Value of Rs. 1,44,000 p.a. and Fair Rent of Rs. 1,49,000 p.a., but restricted to Standard Rent of Rs. 1,39,000 p.a.]		
➢ Actual rent Rs. 1,80,000 i.e., [Rs. 20,000 x 10] less unrealized rent of January, 2024 Rs. 20,000		
Gross Annual Value	1,80,000	
Less: Municipal taxes [50% of Rs. 30,000]	15,000	
Net Annual Value	1,65,000	

Less: Deductions from Net Annual Value			
(a) 30% of Net Annual Value		(49,500)	
(b) Interest on loan [50% of Rs. 90,000]		(45,000)	70,500
Unit – 3 [25% of floor area – Self occupied]			
Net Annual Value		-	
Less: Interest on loan [Not allowed as Mr. Yogesh is paying tax under section 115BAC.]		-	-
			70,500
Profits and gains from business or profession (B)			
Business Income [without deducting expenditure of Unit – 2, 25% floor area used for business purposes]		2,40,000	
Less: Expenditure in respect of Unit -2			
➢ Municipal taxes [25%of Rs. 30,000]	(7,500)		
➢ Repairs [25% of Rs. 7,000]	(1,750)		
➢ Interest on loan [25% of Rs. 90,000]	(22,500)		
➢ Ground rent [25% of Rs. 6,000]	(1,500)		
➢ Fire Insurance premium [25% of Rs. 60,000]	(15,000)	(48,250)	1,91,750
Taxable Income (A+B)			2,62,250

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

Question 4:

Mr. Raj, a resident in India, owns two house property, one in Delhi and another in Kanpur. The property in Kanpur is self-occupied by Mr. Raj, however, the property in Delhi is let out throughout the year. The particulars of the Delhi house for the P.Y. 2025-26 are as under:

Standard rent	**Rs.1,72,000 p.a.**
Municipal valuation	**Rs.2,05,000 p.a.**
Fair rent	**Rs.1,95,000 p. a**
Rent received	**15,000 p.m.**
Municipal tax (Paid by Mr. Raj)	**5% of municipal valuation**

Municipal tax paid by Mr. Raj on 10.6.2025 for Kanpur house is Rs.3,500. Mr. Raj had taken a loan from SBI of Rs.35 lakhs@12 p.a. in April, 2023 for purchase of Delhi house. The stamp duty value of this house was Rs.40 lakhs. Mr. Raj purchased a plot in Kanpur in May, 2023 and the construction of the Kanpur house was began in June, 2023 and was completed on December, 2024. Mr. Raj took a loan of Rs.25,00,000@10% on 1-7-2023 for the construction of this house. No repayment has been done so far for both the loans.

During the P.Y. 2025-26, Mr. Raj has earned a salary income of Rs.18,00,000. Compute total income of Mr. Raj for the A.Y. 2026-27 under both tax regimes.

(MTP 1 May 25 5M, RTP May 24)

Computation of total income of Mr. Raj for A.Y. 2026-27 under default tax regime

Particulars	Rs.	Rs.

I.	**Salaries**		
	Gross salary	18,00,000	
	Less: Standard deduction under section 16(ia)	(75,000)	17,25,000
II.	**Income from house property**		
	Rented property at Delhi		
	Step I - Computation of Expected Rent		
	Expected Rent = Higher of Municipal Value of Rs.2,05,000 and Fair Rent of Rs.1,95,000, but restricted to Standard Rent of Rs.1,72,000	1,72,000	
	Step II - Actual Rent		
	Actual rent received or receivable (Rs.15,000 x 12)	1,80,000	
	Step III – Computation of Gross Annual Value		
	GAV is the higher of Expected Rent and Actual rent received/ receivable	1,80,000	
	Gross Annual Value	**1,80,000**	
	Less: Municipal taxes (5% of Rs.2,05,000)	(10,250)	
	Net Annual value	**1,69,750**	
	Less: Deductions under section 24 -		
	(i) 30% of net annual value	(50,925)	
	(ii) Interest on loan (Rs.35 lakhs x 12%)	(4,20,000)	(3,01,175)
	Self-occupied property at Kanpur		
	Annual value [No deduction for municipal taxes is allowed in respect of self-occupied property]	Nil	
	Less: Deduction under section 24 - Interest on borrowed capital [Not allowable under section 115BAC]	Nil	Nil
	Income from house property		(3,01,175)
	Gross Total Income [Loss from house property is not allowed to be set off against income under any other head while computing income under section 115BAC]		**17,25,000**
	Less: Deduction under section 80EEA [Not allowable under section 115BAC]		Nil
	Total Income		**17,25,000**

Computation of total income of Mr. Raj for A.Y. 2026-27 under normal provisions of the Act

Particulars		Rs.	Rs.
I.	**Salaries**		
	Gross salary	18,00,000	
	Less: Standard deduction under section 16(ia)	(50,000)	17,50,000
II.	**Income from house property**		
	Rented property at Delhi		
	Step I - Computation of Expected Rent		
	Expected Rent = Higher of Municipal Value of Rs.2,05,000 and Fair Rent of Rs.1,95,000, but restricted to Standard Rent of Rs.1,72,000	1,72,000	
	Step II - Actual Rent		

	Actual rent received or receivable (Rs.15,000 x 12)	1,80,000	
	Step III – Computation of Gross Annual Value		
	GAV is the higher of Expected Rent and Actual rent received / receivable	1,80,000	
	Gross Annual Value	**1,80,000**	
	Less: Municipal taxes (5% of Rs.2,05,000)	(10,250)	
	Net Annual value	**1,69,750**	
	Less: Deductions under section 24 -		
	(i) 30% of net annual value	(50,925)	
	(ii) Interest on loan (Rs.35 lakhs x 12%) [Rs.4,20,000 - Rs.1,50,000, being the interest for which deduction under section 80EEA is claimed]	(2,70,000)	(1,51,175)
	Self-occupied property at Kanpur		
	Annual value [No deduction for municipal taxes is allowed in respect of self-occupied property]	Nil	
	Less: Deduction under section 24 -		
	Interest on borrowed capital [Rs.2,50,000 (Rs.25,00,000 x 10%) plus pre construction interest of Rs.37,500, being 1/5th of (Rs.25,00,000 x 10% x 9/12)] [Rs. 2,87,500, restricted to Rs.2,00,000]	2,00,000	(2,00,000)
	Income from house property		**(3,51,175)**
	Gross Total Income [As per section 71(3A), loss from house property can be set off against income under any other head to the extent of Rs.2,00,000 only. Balance loss of Rs.1,51,175 to be carried forward to A.Y. 2025-26]		**15,50,000**
	Less: Deduction under section 80EEA [Since the loan is sanctioned between 1.4.2019 and 31.3.2022 and the stamp duty value of the property does not exceed Rs.45 lakhs, deduction of Rs.1,50,000 is allowed in respect of interest on loan for Delhi house]		(1,50,000)
	Total Income		**14,00,000**

Question 5:

Mr. Sandeep, manager in CTL Pvt. Ltd. at Mumbai, furnishes following information for the year ended 31st March, 2026:

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

He took a personal loan of ₹ 3,00,000 on 1st September, 2025 on which the interest @7.75% per annum was charged by the company. The entire loan is still outstanding. SBI rate of interest on 1" April, 2025 is 12.75%.

Mr. Sandeep is the owner of a house property in Kolkata which he constructed during the financial year 2017-18. The property consists of four identical units.

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

of the house is ₹ 2,00,000.

Compute total income of Mr. Sandeep for the A.Y. 2026-27 assuming he has opted out default tax regime u/s 115BAC(1A).

(PEP May 25 10M)

Computation of total income of Mr. Sandeep for A.Y. 2026-27 as per the optional tax regime

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

	Self-occupied portion [One Unit]			
	Annual Value	Nil		
	Less: Deduction u/s 24			
	Interest on loan for construction [₹ 2,00,000 x ¼]	50,000	(50,000)	1,25,500
	Gross Total Income/ Total Income			**8,67,250**

Question 6:

Mr. Arjun and Mr. Rohit started constructing independent residential houses on plot of land situated in Delhi. Each house comprises a ground floor and a first floor, having a built-up area of 1,800 sq. ft each. Mr. Arjun commenced construction on 1st April 2023 and completed it on 1st April 2025. He occupied the entire house for his personal residence from the date of completion.

Mr. Rohit also commenced construction on 1st April 2023 and completed it on 30th September 2025. He occupied the ground floor from 1st October 2025 for his own residence and let out the first floor at a monthly rent of ₹ 20,000 for the period from 1st October 2025 to 31st December 2025. The tenant vacated the premises on 31st December 2025 and Mr. Rohit occupied the entire house from 1st January 2026 onwards.

The following additional information is provided:

1. **The fair rent and municipal value of each floor (ground and first) is ₹ 1,00,000 and ₹ 72,000 per annum, respectively.**
2. **Municipal taxes paid: ₹ 8,000 each by Mr. Arjun and Mr. Rohit.**
3. **Repair and maintenance expenses: ₹ 28,000 by Mr. Arjun and ₹ 30,000 by Mr. Rohit.**
4. **Housing loans:**
   - **Mr. Arjun availed a loan of ₹ 15,00,000 @12% p.a. on 01-04-2023.**
   - **Mr. Rohit availed a loan of ₹ 10,00,000 @10% p.a. on 01-07-2023.**
   - **No principal repayment was made by either till 31-03-2026.**

You are required to compute the income from house property of Mr. Arjun and Mr. Rohit for the A.Y. 2026-27, assuming both Mr. Arjun and Mr. Rohit opt out of the default tax regime.

(MTP 1 Sept 25 6M)

Computation of income from house property of Mr. Arjun for A.Y. 2026-27

[under normal provision of the Act]

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

Computation of income from house property of Mr. Rohit for A.Y. 2026 -27
[under normal provision of the Act]

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

Note: Computation of Gross Annual Value (GAV) of first floor of Rohit's house

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

Expected rent = ₹ 50,000 being higher of -

Fair rent = 1,00,000 x 6 /12 = ₹ 50,000 Municipal value = 72,000 x 6/12 = ₹ 36,000

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

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

Question 7:

Verma is a manager in ABC (P) Limited. He owns two house properties during the previous year 2025-26. In addition to these properties, he possesses two cars, one of which he uses exclusively for personal purposes, while the other is let out to a friend on rent for Rs. 20,000 per month. The following details (annual) are furnished in respect of two-house properties for the previous year 2025-26.

	House 1	House 2
Fair rent	**1,25,000**	**3,95,000**
Actual rent	**1,20,000**	**2,85,000**
Municipal Valuation	**1,24,000**	**3,90,000**
Municipal taxes paid	**18,000**	**70,000**
Repairs	**15,000**	**35,000**
Insurance premium on building	**12,000**	**17,000**

Ground rent	7,000	9,000

Additional information:

Mr. Verma has paid Rs. 57,000 as interest on a loan that was secured by mortgaging House 1 in order to fund the construction of House 2.

Additionally, in the previous year 2025-26, Mr. Verma acquired a rural agricultural land for Rs. 2,50,000, whereas the stamp duty value of the property was Rs. 3,00,000.

Determine the taxable income of Mr. Verma for the A.Y. 2026-27 assuming he does not opt out of the default tax regime.

(MTP 2 Sep 25 5M)

Computation of taxable income of Mr. Verma for A.Y. 2026-27 under default tax regime

Particulars	Rs.	Rs.	Rs.
Income from house property	House 1	House 2	
Municipal value (A)	1,24,000	3,90,000	
Fair rent (B)	1,25,000	3,95,000	
Higher of (A) and (B) = (C)	1,25,000	3,95,000	
Actual rent received	1,20,000	2,85,000	
Gross Annual Value [Higher of (C) and Actual rent]	1,25,000	3,95,000	
Less: Municipal tax paid	(18,000)	(70,000)	
Net Annual Value (NAV)	1,07,000	3,25,000	
Less: Deductions u/s 24 30% of NAV	(32,100)	(97,500)	
Interest on loan	(Nil)	(57,000)	
	74,900	1,70,500	
Income from house property			**2,45,400**
[Rs. 74,900 + Rs. 1,70,500]			
Income from Other Sources			
Rental income from Car [Rs. 20,000 x 12]		2,40,000	
Purchase of rural agricultural land for inadequate consideration a consideration less than stamp duty value [Not taxable under section 56(2)(x), since rural agricultural land is not a capital asset]		Nil	2,40,000
Taxable Income			**4,85,400**
Note - Expenditure on repairs, insurance premium on building and ground rent are not allowable under the head "Income from house property."			

5. Profits and Gains of Business or Profession

Illustrations

ILLUSTRATION 1

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

	Particulars	₹
(1)	Opening balance of plant and machinery as on 1.4.2025 (i.e., WDV as on 31.3.2024 after reducing depreciation for P.Y. 2024-25)	30,00,000
(2)	New plant and machinery purchased and put to use on 8.06.2025	20,00,000
(3)	New plant and machinery acquired and put to use on 15.12.2025	8,00,000
(4)	Computer acquired and installed in the office premises on 2.1.2026	3,00,000

Compute the amount of depreciation and additional depreciation for the A.Y. 2026-27, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that all the assets were purchased by way of account payee cheque.

Computation of depreciation and additional depreciation for A.Y. 2026-27

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

Working Notes:

(1) Computation of written down value of Plant & Machinery

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

(2) Composition of plant and machinery included in the WDV

Particulars	Plant & Machinery (₹)	Computer (₹)
Plant and machinery put to use for 180 days or more [₹ 30,00,000 (WDV) + ₹ 20,00,000 (purchased on 8.6.2025)]	50,00,000	
Plant and machinery put to use for < 180 days	8,00,000	-
Computers put to use for < 180 days	-	3,00,000
	58,00,000	3,00,000

Notes:

(1) Where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage.

Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2025 and computer acquired and installed on 02.01.2026, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to ₹ 80,000, being 10% (i.e., 50% of 20%) of ₹ 8 lakh.

Mr. X is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(2) As per third proviso to section 32(1)(ii), the balance additional depreciation of ₹ 80,000 being 50% of ₹ 1,60,000 (20% of ₹ 8,00,000) would be allowed as deduction in the A.Y.2027-28.

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

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant installed in office premises, residential accommodation or in any guest house.

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

ILLUSTRATION 2

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

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

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

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

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

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

ILLUSTRATION 3

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

Sl. No.	Description	Date of acquisition	Date when put to use	Amount ₹
1.	Computer including computer software	27 Sept., 25	1 Oct., 25	35,000
2.	Computer UPS	2 Oct., 25	8 Oct., 25	8,500
3.	Computer printer	1 Oct., 25	1 Oct., 25	12,500
4.	Books (other than annual publications are of ₹ 12,000)	1 Apr., 25	1 Apr., 25	13,000
5.	Office furniture (Acquired from a practicing C.A.)	1 Apr., 25	1 Apr., 25	3,00,000
6.	Laptop	26 Sep., 25	8 Oct., 25	43,000

Computation of depreciation allowable for A.Y.2026-27

Asset		Rate	Depreciation (₹)
Block 1	Furniture [See working note below]	10%	30,000
Block 2	Plant (Computer including computer software, Computer UPS, Laptop, Printers and Books) [See working note below]	40%	34,500
Total depreciation allowable			**64,500**

Working Note:

Computation of depreciation

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

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

ILLUSTRATION 4

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

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

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

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

Notes:

1. As per section 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since deduction is allowable under section 35 in respect of such capital expenditure.
2. Mr. Gamma is entitled to additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in, inter alia, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

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

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

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

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

(i) Second hand plant and machinery;

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

ILLUSTRATION 5

Mr. A, furnishes the following particulars for the P.Y.2025-26. Compute the deduction allowable under section 35 for A.Y.2026-27, while computing his income under the head "Profits and gains of business or profession", if.

(i) he is paying tax under default tax regime under section 115BAC

(ii) he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

	Particulars	₹
1.	Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3.	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	4,00,000
4.	Expenditure incurred on in-house scientific research and development facility as approved by the prescribed authority related to his business	
	(a) Revenue expenditure on scientific research	3,00,000
	(b) Capital expenditure (including cost of acquisition of land ₹ 5,00,000) on scientific research	7,50,000

(i) If Mr. A is paying tax under default tax regime under section 115BAC Computation of deduction under section 35 for the A.Y.2026-27

Particulars	₹	Section		Allowability	Amount of deduction (₹)
Payment for scientific research					
Indian Institute of Science, Bangalore	1,00,000	35(1)(ii)	}	Not allowable under default tax regime	Nil
IIT, Delhi	2,50,000	35(2AA)	}		Nil
X Ltd.	4,00,000	35(1)(iia)	}		Nil
Expenditure incurred on in-house research and development facility					
Revenue expenditure	3,00,000	35(1)(i)	}	Allowable under default tax regime	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)	}		2,50,000
Deduction allowable under section 35					**5,50,000**

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

Computation of deduction under section 35 for the A.Y.2026-27

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

ILLUSTRATION 6

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

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

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

Computation of profits and gains of business or profession for A.Y.2026-27

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

Computation of income/loss from specified business under section 35AD

Particulars		Food Grains	Sugar	Total
		₹ (in lakhs)		
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 35AD)	16	14	30
	Less: Deduction under section 35AD			
(B)	Capital expenditure incurred prior to 1.4.2025 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2025 (excluding the expenditure incurred on acquisition of land) = ₹ 30 lakh (₹ 80 lakh – ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh – ₹ 40 lakh)	(30)	(20)	(50)
(C)	Capital expenditure incurred during the P.Y. 2025-26	(20)	(15)	(35)
(D)	Total capital expenditure (B + C)	(50)	(35)	(85)
(E)	Deduction under section 35AD			
	100% of capital expenditure (food grains/ sugar)	50	35	85
	Total deduction u/s 35AD for A.Y.2026-27	(50)	(35)	(85)
(F)	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)

Notes:

(i) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2026-27 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 1.4.2012 or on or after 1.4.2009, respectively.

(ii) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.

(iii) Mr. A can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2025-26.

(iv) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

ILLUSTRATION 7

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

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2026-27, assuming that he has fulfilled all the conditions specified under section 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading "C – Deductions in respect of certain incomes". He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2026-27 is ₹ 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the A.Y. 2026-27. Also, assume that payments for capital expenditure were made by net banking.

Computation of profits and gains of business or profession for A.Y. 2026-27

Particulars		₹
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)		25 lakh
Less: Deduction under section 35AD		
Capital expenditure incurred during the P.Y.2025-26 (excluding the expenditure incurred on acquisition of land) = ₹ 200 lakh – ₹ 150 lakh	(50 lakh)	
Capital expenditure incurred prior to 1.4.2025 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2025	(50 lakh)	
Total deduction under section 35AD for A.Y.2026-27		(100 lakh)
Loss from the specified business of new hotel in Madurai		(75 lakh)
Profit from the existing business of running a hotel in Coimbatore		120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A		**45 lakh**

ILLUSTRATION 8
Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil.
Unit A commenced operations on 1.4.2024 and it claimed deduction of ₹ 100 lakhs incurred on purchase of two buildings for ₹ 50 lakhs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2025-26. However, in February, 2026, Unit A transferred one of its buildings to Unit B.
Examine the tax implications of such transfer in the hands of Mr. Arnav.

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

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

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation u/s 32 on the building in Unit B for A.Y.2026-27. For the purpose of claiming depreciation on building in Unit B,

the actual cost of the building would be:

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

ILLUSTRATION 9

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

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

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

- ✓ Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source as per the provisions of Chapter XVII-B would attract disallowance u/s 40(a)(ia).
- ✓ Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible u/s 194J, would attract disallowance@30% u/s 40(a)(ia). Whereas in case of salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y.2025-26, since salary was paid in that year and directors' remuneration was credited in that year.

Therefore, the amount to be disallowed u/s 40(a)(ia) while computing business income for A.Y.2026-27 is as follows:

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

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

ILLUSTRATION 10

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

(i) Interest of ₹ 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
(ii) ₹ 15,00,000 was paid as salary to a resident individual without deduction of tax at source;
(iii) Commission of ₹ 26,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2025 without deduction of tax at source.
Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja?

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

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

(ii) The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed ₹ 1 crore in the immediately preceding previous year.
Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

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

ILLUSTRATION 11
A firm has paid ₹ 8,50,000 as remuneration to its partners for the P.Y.2025-26, in accordance with its partnership deed, and it has a book profit of ₹ 10 lakhs. What is the remuneration allowable as deduction?

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

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

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

ILLUSTRATION 12

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

(1) Salary of ₹ 40,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).

(2) Depreciation on plant and machinery under section 32 (computed) ₹ 1,50,000.

(3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is ₹ 5,00,000.

Compute:

(i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.

(ii) Allowable working partner salary for the A.Y. 2026-27 as per section 40(b).

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

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

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

Particulars		₹	₹
Net Profit (before deduction of depreciation, salary and interest)			17,00,000
Less:	Depreciation under section 32	(1,50,000)	
	Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 5,00,000 ×12%)	(60,000)	(2,10,000)
Book Profit			**14,90,000**

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

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

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

Therefore, the maximum allowable working partners' salary for the A.Y. 2026-27 in this case would be:

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

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

ILLUSTRATION 13

X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees.

Compute the amount of deduction allowable under section 36(1)(iva), if the basic salary of the employees aggregate to ₹ 10 lakh. Would disallowance under section 40A(9) be attracted, and if so, to what extent?

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

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

ILLUSTRATION 14

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

		₹
(i)	Andhra Pradesh State Financial Corporation (P.Y. 2024-25 & 2025-26)	15,00,000
(ii)	Indian Bank (P.Y. 2025-26)	30,00,000
		45,00,000

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

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

- ✓ According to section 43B, any interest payable on the term loans to specified financial institutions and any interest payable on any loans and advances to, inter alia, scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee.
- ✓ Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.
- ✓ In the given case of Hari, the unpaid interest of ₹ 15,00,000 due to APSFC and of ₹ 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari

that the entire interest of ₹ 45,00,000 is to be allowed as deduction in the year of conversion is not tenable.

✓ The deduction shall be allowed only to the extent of repayment made during the financial year.

Accordingly, the amount of interest eligible for deduction for the A.Y.2026-27 shall be calculated as follows:

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

ILLUSTRATION 15

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

Particulars	₹
Financial year 2022-23	**1,15,000**
Financial year 2023-24	**1,80,000**
Financial year 2024-25	**2,10,000**

What is his obligation regarding maintenance of books of accounts for Assessment Year 2026-27 under section 44AA of Income-tax Act, 1961?

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

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

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

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

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

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

ILLUSTRATION 16

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the financial year 2025-26. Amount received in cash during the P.Y. 2025-26 is ₹ 14,00,000 and balance through prescribed electronic modes on or before 31st July 2026. His income from the said business as per books of account is ₹ 15,00,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2025-26 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation

u/s 44AD.

(i) Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the assessment year 2026-27?

(ii) If so, determine his income from retail trade as per the applicable presumptive provision.

(iii) In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 1961?

(iii) What is the due date for filing his return of income under both the options?

(i) Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover (14,00,000/2,98,50,000 x 100) and his total turnover for the F.Y.2025-26 is below ₹ 300 lakhs, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.

(ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹ 18,19,000 (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).

(iii) Mr. Praveen had declared profit for the previous year 2024-25 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive assessment years i.e., A.Y. 2026-27 to A.Y. 2030-31, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2025-26 relevant to A.Y.2026-27, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2027-28 to A.Y. 2031-32.

Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.

(iv) In case he declares presumptive income under section 44AD, the due date would be 31st July, 2026.

In case he declares profits as per books of account which is lower than the presumptive income, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2026.

ILLUSTRATION 17

Mr. X commenced the business of operating goods vehicles on 1.4.2025. He purchased the following vehicles during the P.Y.2025-26. Compute his income under section 44AE for A.Y.2026-27.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2025
(2)	6,500	1	15.03.2026
(3)	10,000	3	16.07.2025
(4)	11,000	1	02.01.2026
(5)	15,000	2	29.08.2025
(6)	15,000	1	23.02.2026

Would your answer change if the goods vehicles purchased in April, 2025 were put to use only in July, 2025?

- ✓ Since Mr. X does not own more than 10 vehicles at any time during the previous year 2025-26, he is eligible to opt for presumptive taxation scheme under section 44AE.
- ✓ ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than

heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

✓ Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1) Number of Vehicles	(2) Date of purchase	(3) No. of months for which vehicle is owned	(4) No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2025	8	16
1	23.02.2026	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2025	12	24
1	15.3.2026	1	1
3	16.7.2025	9	27
1	02.1.2026	3	3
			55

✓ The presumptive income of Mr. X under section 44AE for A.Y.2026-27 would be - ₹ 6,82,500, [i.e., 55 × ₹ 7,500, being for other than heavy goods vehicle + 18 x ₹ 1,000 x 15 ton being for heavy goods vehicle.]

✓ The answer would remain the same even if the two vehicles purchased in April, 2025 were put to use only in July, 2025, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

ILLUSTRATION 18

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2026:

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

You are required to compute the business income and agricultural income of Miss Vivitha for the A.Y. 2026-27.

Computation of business income and agricultural income of Ms. Vivitha for the A.Y.2026-27

Sr. No.	Source of income	Gross (₹)	Business income		Agricultural income
			%	₹	₹

(i)	Sale of centrifuged latex	3,00,000	35%	1,05,000	1,95,000
	from rubber plants grown				
	in India.				
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000
(iii)	Sale of coffee grown, cured,	2,50,000	100%	2,50,000	-
	roasted and grounded				
	outside India. **(See Note 1 below)**				
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings				
	grown in nursery in India **(See Note 2 below)**	80,000		Nil	80,000
	Total			**5,40,000**	**5,90,000**

Notes:

1. Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.
2. Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land. Therefore, such income would be exempt u/s 10(1).

Test Your Knowledge

Question 1: Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2026:

	(₹ in lakhs)
WDV of Plant and Machinery on 31.3.2025	30.00
Depreciation including additional depreciation for P.Y. 2024-25	4.75
New machinery purchased on 1-9-2025	10.00
New machinery purchased on 1-12-2025	8.00
Computer purchased on 3-1-2026	4.00

Additional information:

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

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

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

(ii) he pays tax under the default tax regime under section 115BAC.

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

Particulars	Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
Written down value (as on 31.3.2025)	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2024-25	(4.75)	-
Opening balance as on 1.4.2025	25.25	-
Add: Actual cost of new assets acquired during the year New machinery purchased on 1.9.2025	10.00	-
New machinery purchased on 1.12.2025	8.00	-
Computer purchased on 3.1.2026	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2026)	**43.25**	**4.00**

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

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

Computation of depreciation for A.Y. 2026-27

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

Notes:

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

However, additional depreciation shall not be allowed in respect of,

inter alia-

(i) any office appliances or road transport vehicles;

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

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

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

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

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

Hence, in this case, the balance additional depreciation@10% (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the previous year 2024-25 and put to

use for less than 180 days in that year can be claimed in P.Y. 2025- 26 being immediately succeeding previous year.

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

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

Computation of depreciation for A.Y. 2026-27

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

Question 2: Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the A.Y. 2026-27, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

	Particulars	(₹ in lakhs)
(i)	WDV of block as on 31.3.2025 (15% rate)	50.00
(ii)	Depreciation for P.Y. 2024-25	7.50
(iii)	New machinery purchased on 12-10-2025	10.00
(iv)	Machinery imported from Colombo on 12-4-2025	9.00
	This machine had been used only in Colombo earlier and the assessee is the first user in India.	
(v)	New computer installed in generation wing unit on 15-7-2025	2.00

All assets were purchased by A/c payee cheque.

Computation of depreciation under section 32 for A.Y.2026-27

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

Note:

- ✓ Mr. Abhimanyu is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, inter alia, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.
- ✓ Therefore, new computer installed in generation wing units eligible for additional depreciation@20%.
- ✓ Since the new machinery was purchased only on 12.10.2025, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y.2026-27. The balance additional depreciation would be allowed in the next year.
- ✓ However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.

Question 3: Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) -

(i) Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.

(ii) Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to ₹ 4,50,000.

(iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted. The sales for the P.Y. 2024-25 was ₹ 202 lakhs. Mr. X has not paid the tax, if any, on such interest.

(iv) Commodities transaction tax paid ₹ 20,000 on sale of bullion.

Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

(i) Construction of school building in compliance with CSR activities

- ✓ Under section 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.
- ✓ However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall **not** be allowed as deduction under section 37.
- ✓ Accordingly, the amount of ₹ 5,60,000 incurred by Mr. Manav, towards construction of school building in compliance with CSR activities shall **not** be allowed as deduction under section 37.

(ii) Purchase of building for setting up and operating a warehousing facility for storage of food grains.

- ✓ Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The deduction u/s 35AD would be 100% of ₹ 4,50,000, being the amount invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (P.Y.2025-26, in this case).
- ✓ Therefore, the deduction under section 35AD while computing business income of such specified business would be ₹ 4,50,000, if Mr. Manav opts for section 35AD.

(iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted

- ✓ As per section 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 2024-25 exceeds ₹ 100 lakhs.
- ✓ Therefore, ₹ 15,000, being 30% of ₹ 50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source under section 194A on interest of ₹ 50,000 paid by it to Mr. X.
- ✓ The balance ₹ 35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

(iv) Commodities transaction tax of ₹ 20,000 paid on sale of bullion

- ✓ Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".
- ✓ Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of ₹ 20,000 paid is allowable as deduction under section 36(1)(xvi).

Question 4: Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

(i) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.

(ii) Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes

the payment of ₹ 25,000 through a crossed cheque, ₹ 25,000 can be the profits and gains of business under section 40A(3A) in the year of payment.

(iii) It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession".

(iv) The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by an account payee cheque on 27.12.2025 is a deductible expenditure under section 36.

(v) Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.

(vi) An individual engaged in trading activities and exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) can claim additional depreciation under section 32(1)(iia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.

(i) True: Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.

(ii) True: As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding ₹ 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.

(iii) True: According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/ profession whether or not the assessee has claimed the same while computing his total income.

(iv) True: Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).

(v) False: Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.

(vi) False: Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.

In this case, the individual is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, he will not be entitled to claim additional depreciation under section 32(1)(iia), even though he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Question 5: Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the A.Y. 2026-27:

(i) Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filing return.

(ii) Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.
(iii) Tax on non-monetary perquisite provided to an employee ₹ 20,000.
(iv) Payment of ₹ 50,000 by using credit card for fire insurance.
(v) Salary payment of ₹ 10,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.
(vi) Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods.

(i) Not allowable as deduction: As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following 2 cases:

(1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund; or

(2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.

Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

(ii) Allowable as deduction: As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds ₹ 10,000.

Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

(iii) Not allowable as deduction: Income-tax of ₹ 20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC).

As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

(iv) Allowable as deduction: Payment for fire insurance is allowable as deduction under section 36(1). Since payment is made by credit card, which is a prescribed electronic mode, disallowance under section 40A(3) is not attracted in this case.

(v) Not allowable as deduction: Disallowance under section 40(a)(iii) is attracted in respect of salary payment of ₹ 10,00,000 outside India by a company without deduction of tax at source.

(vi) Allowable as deduction: The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is ₹ 35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A(3) is not attracted for payment of ₹ 30,000 made in cash to a transporter for carriage of goods.

Question 6: Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:
(a) Payment made in respect of a business expenditure incurred on 16th February, 2026 for ₹ 25,000 through a crossed cheque is hit by the provisions of section 40A(3).

(b)

(i) It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.

(ii) Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a non- resident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income.

(a) True: In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a crossed cheque will attract disallowance under section 40A(3).

(b)

(i) True: It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same as bad debt under section 36(1)(vii). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDSs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.

(ii) True: Section 40(a)(i) provides that failure to deduct tax at source from, inter alia, rent or royalty payable to a non-resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.

Question 7: Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2026:

Trading and Profit and Loss Account for the year ended 31.03.2026

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

Additional Information:

(i) It was found that some stocks were omitted to be included in both the Opening and Closing

Stock, the values of which were:
Opening stock ₹ 9,000
Closing stock ₹ 18,000

(ii) Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.

(iii) The whole amount of printing and stationery was paid in cash by way of one-time payment to Mr. Ramesh.

(iv) The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:
The opening balance of plant and machinery (i.e., the written down value as on 31.3.2025 minus depreciation for P.Y. 2024-25) is ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2025 for ₹ 70,000. Two old plants were sold on 1.10.2025 for ₹ 50,000.

(v) Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2026.

(vi) Other general expenses include ₹ 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation u/s 44AD and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

Computation of business income of Mr. Sivam for the A.Y. 2026-27

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

Computation of business income as per section 44AD:

As per section 44AD, where the amount of turnover is received, inter alia, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes, the presumptive business income would be 6% of turnover,

i.e., ₹ 1,12,11,500 x 6 /100 = ₹ 6,72,690

Notes:

1. **Calculation of depreciation**

Particulars	₹
Opening balance of plant & machinery as on 1.4.2025 (i.e. WDV as on 31.3.2025 (-) depreciation for P.Y. 2024-25)	4,20,000
Add: Cost of new plant & machinery	70,000
Gross Block Value	4,90,000
Less: Sale proceeds of assets sold	(50,000)
WDV of the block of plant & machinery as on 31.3.2026	4,40,000
Depreciation@15%	**66,000**
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

Question 8: Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2025, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2 nd May, 2025, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2025. This new vehicle could, however, be put to use only on 15th June, 2025.

Compute the total income of Mr. Sukhvinder for the A.Y. 2026-27, taking note of the following data:

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

- ✓ Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than 10 goods carriages at any time during the previous year.
- ✓ Section 44AE provides for computation of business income of such assesses on a presumptive basis.
- ✓ The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income.
- ✓ Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is ₹ 13,72,500 **(See Notes 1 & 2 below)** and his total income would be ₹ 14,42,500.
- ✓ However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be ₹ 4,45,000 instead of ₹ 13,72,500 and his total income would be ₹ 5,15,000.

Notes:

1. **Computation of total income of Mr. Sukhvinder for A.Y. 2026-27**

Particulars	Presumptive Income ₹	Where books are maintained ₹
Income from business of plying goods carriages [See Note 2 Below]	13,72,500	4,45,000
Other business and non-business income	70,000	70,000
Total Income	**14,42,500**	**5,15,000**

2. **Calculation of presumptive income as per section 44AE**

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

Question 9: Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2026:

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2026

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

	12,55,000		12,55,000

Following are the further information relating to the financial year 2025-26:

(i) Administrative charges include ₹ 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹ 36,000.

(ii) The assessee paid ₹ 33,000 in cash to a transport carrier on 29.12.2025. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)

(iii) A sum of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.

(iv) Bank term loan interest actually paid upto 31.03.2026 was ₹ 20,000 and the balance was paid in November 2026.

(v) Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in P.Y. 2024-25 for self-occupation. Interest on housing loan was ₹ 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.

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

Plant & Machinery (Depreciation rate@15%)	₹
WDV as on 31.03.2025 minus Depreciation for P.Y. 2024-25	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the A.Y. 2026-27 assuming he pays tax under default tax regime.

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

Computation of total income of Mr. Raju for the A.Y. 2026-27

Particulars		₹	₹
Profits and gains of business or profession			
Net profit as per profit and loss account			5,00,000
Add:	Excess commission paid to brother disallowed under section 40A(2)	10,000	
	Disallowance under section 40A(3) is not attracted since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators. Therefore, amount of ₹ 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
	Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B	40,000	
	State GST penalty paid disallowed [See Note 2 below]	5,000	
	Depreciation debited to profit and loss account	2,00,000	2,55,000
			7,55,000
Less:	Dividend from domestic companies [Chargeable to tax under the head "Income from Other Sources"]	(15,000)	
	Income from agriculture [Exempt under section 10(1)]	(1,80,000)	
	Salary paid to staff not recorded in the books (Assumed it was an erroneous omission and that the assessee has offered satisfactory	(48,000)	

	explanation for the same. In such a case, the same would be allowable as deduction while computing profits and gains of business and profession) [See Note 1 below]		
	Depreciation under the Income-tax Act, 1961 (As per working note)	(2,23,500)	(4,66,500)
Income from Business or Profession			**2,88,500**
Income from house property			
Annual value of self-occupied property		Nil	
Less:	Deduction u/s 24(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]	Nil	Nil
Income from Other Sources			
Dividend from domestic companies			15,000
Gross Total Income			**3,03,500**
Less: Deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime]			Nil
Total Income			**3,03,500**

Working Note:

Computation of depreciation under the Income-tax Act, 1961

Particulars	₹
Depreciation@15% on ₹ 13.90 lakhs (WDV as on 31.3.2025 less depreciation for P.Y. 2024-25 i.e., ₹ 11.90 lakh plus assets purchased during the year and used for more than 180 days ₹ 2 lakh)	2,08,500
Depreciation @7.5% on ₹ 2 lakh (Assets used for < 180 days)	15,000
	2,23,500

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

Notes (Alternate views):

1. It is also possible to take a view that the salary paid to staff not recorded in the books is in the nature of unexplained expenditure and hence, would be deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE. In such a case, no deduction allowable in respect of such expenditure.
2. Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible.

   However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.

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

Question 10: Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2026 are given below:

Particulars	₹
Opening balance of car (only asset in the block) as on 1.4.2025 (i.e. WDV as on 31.3.2025 (-) depreciation for P.Y. 2024-25)	3,00,000
Opening balance of machinery as on 1.4.2025 (i.e., WDV as on 31.3.2025 (-) depreciation for P.Y. 2024-25)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

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

Compute the income arising from the above activities for the A.Y. 2026-27.

- ✓ Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962.
- ✓ As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

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

Computation of depreciation for P.Y. 2025-26

Car	₹	₹
Opening balance as on 1.4.2025 (i.e., WDV as on 31.3.2025 (-) depreciation for P.Y.2024-25)		3,00,000
Depreciation thereon at 15%	45,000	
Less: Disallowance @20% for personal use	(9,000)	
Depreciation actually allowed		**36,000**
Machinery		
Opening balance as on 1.4.2025 (i.e., WDV as on 31.3.2025 (-) depreciation for P.Y.2024-25)		15,00,000
Depreciation @ 15% for P.Y. 2025-26		**2,25,000**

Explanation 7 to section 43(6) provides that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

Question 11: Mr. Prem has following assets used for business purpose as on 01.04.2025:

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

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

(iii) A temporary wooden structure costing ₹ 70,000 erected in December, 2025.

Compute the depreciation allowed on these assets for A.Y. 2026-27.

Computation of Depreciation to Mr. Prem for A.Y. 2026-27

Particulars	Amount (₹)
Depreciation on machinery used for scientific research – Actual cost is nil as ₹ 4,00,000, being actual cost – ₹ 4,00,000, being deduction allowed and claimed u/s 35	Nil
Depreciation on laptop received as a gift @40% on ₹ 36,000 [₹ 60,000, being actual cost to previous owner – ₹ 24,000, being depreciation for P.Y. 2024-25 allowable to assessee if it was the only asset] [Explanation 2 to 43(1)]	14,400
Depreciation on temporary wooden structure @40% x 50% on ₹ 70,000 [Since it is put to use for less than 180 days]	14,000
	28,400

Question 12: AB Light LLP consists of 2 working partners, Mr. Anand and Mr. Bheem with 60% and 40% share, respectively. As per the partnership deed, they are eligible for interest on capital @15% p.a. on their capital contribution of ₹ 15 lakhs each and remuneration of ₹ 50,000 p.m. to Anand and ₹ 40,000 p.m. to Bheem. The firm is engaged in manufacturing business. During the year ended 31.3.2026, the net profit as per profit and loss account was ₹ 25,86,000 before considering interest on capital and remuneration to partners as well as the following items:

		₹
(i)	Current year revenue expenditure on scientific research	2,40,000
(ii)	Unabsorbed capital expenditure on scientific research relating to P.Y. 2022-23	85,000
(iii)	Unabsorbed depreciation of A.Y. 2017-18	52,000
(iv)	Current year depreciation under section 32	4,70,000
(v)	Brought forward business loss of A.Y. 2021-22	49,000
(vi)	Current year capital expenditure on scientific research	3,45,000

You are required to compute the book profit and remuneration allowable in the hands of AB Light LLP for A.Y. 2026-27. Also, determine the amount of remuneration taxable in the hands of Mr. Anand and Mr. Bheem.

Computation of book profit of AB Light LLP for the A.Y. 2026-27

Particulars	Amount (₹)	Amount (₹)
Net profit as per profit and loss account before interest on capital and remuneration to partners and other items		25,86,000
Less: Expenditure allowable from business income		
- Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 15,00,000 × 12% x 2)	(3,60,000)	
- Current year revenue expenditure on scientific research under section 35(1)(i)	(2,40,000)	
- Current year depreciation under section 32(1)	(4,70,000)	
- Current year capital expenditure on scientific research under section 35(1)(iv)	(3,45,000)	
- Unabsorbed depreciation of A.Y. 2017-18 under section 32(2)	(52,000)	
- Unabsorbed capital expenditure on scientific research relating to P.Y. 2022-23 under section 35(4)	(85,000)	(15,52,000)
Book Profit		**10,34,000**

Note: Brough forward business loss of A.Y. 2021-22 is not allowed to be set off while computing book profit.

1. Deduction allowed to the firm:

Remuneration actually paid or payable to working partners = **₹ 10,80,000**
[₹ 50,000 x 12 + ₹ 40,000 x 12]

Partners' remuneration allowable under section 40(b)

On the first ₹ 6,00,000 of book profit [₹ 6,00,000 x 90%]	5,40,000
On the balance ₹ 4,34,000 [₹ 4,34,000 x 60%]	2,60,400
	8,00,400

Hence, allowable working partners salary in the hands of AB Light LLP for the A.Y. 2026-27 is ₹ 8,00,400

2. Amounts Taxable in Hands of Partners:

Remuneration taxable in the hands of Mr. Anand as business income
= ₹ 8,00,400 x 6,00,000/10,80,000 = ₹ 4,44,667
Remuneration taxable in the hands of Mr. Bheem as business income
= ₹ 8,00,400 x 4,80,000/10,80,000 = ₹ 3,55,733

Question 13: Mr. Piyush runs a sole proprietorship firm and owns four machines which was put in use for business in March, 2025. The depreciation on these machines is charged @15%. The written down value of these machines as on 1 st April, 2025 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2025 for ₹ 10,00,000. A second-hand plant was bought for ₹ 6,10,000 on 30th December, 2025.

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

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

(ii)	Payment made to Satywati College	17

Compute the following for Assessment Year 2026-27

(i) Claim of depreciation

(ii) Capital Gains

(iii) Deduction available under section 35 if he has shifted out of the default tax regime

(MTP 1 JAN 2025 6 MARKS)

(i) Computation of depreciation for A.Y.2026-27

Particulars	₹
W.D.V. of the block as on 1.4.2025	7,70,000
Add: Purchase of second hand plant during the year [in December, 2025]	6,10,000
Gross Block Value	**13,80,000**
Less: Sale consideration of old machinery during the year [in July, 2025]	(10,00,000)
W.D.V of the block as on 31.03.2026	3,80,000
Depreciation @ 15% but restricted to 50% thereon.	**28,500**

Note: Since the value of the block as on 31.3.2026 represents part of actual cost of second hand plant purchased in December, 2025, which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the **year is ₹ 28,500** being 7½% of ₹ 3,80,000

(ii) Capital Gains: 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
Deduction allowable under section 35				**15**

Questions from MRP [MTPs, RTPs, Past Exam Papers]

Question 1:

Mr. Rao finished the following information regarding the payments made towards Scientific Research during the financial year 2025-26:

(i) Revenue expenditure on Scientific Research incurred during the year Rs. 1,00,000.

(ii) Capital Expenditure for Scientific Research Rs. 3,00,000.

(iii) Contribution to Notified approved research association Rs. 1,50,000.

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(iv) Amount paid to H Limited an Indian company which has as its main object scientific research and approved by the prescribed authority Rs. 2,50,000.

(v) Expenditure of Rs. 2,50,000 towards purchase of Land for scientific research.

(vi) He also incurred revenue expenditure of Rs. 2,00,000 towards salary of research staff in the F.Y.2023-24 (before commencement of business) and certified by the prescribed authority.

Compute the deduction allowable u/s 35 for the assessment year 2026-27, assuming that he has not opted for default tax regime u/s 115BAC.

(PEP May 24 4M)

Computation of deduction allowable u/s 35 for the A.Y. 2026 -27

	Particulars	Rs.
(i)	Revenue expenditure on scientific research allowable as deduction u/s 35(1)(i), assuming such expenditure is related to his business.	1,00,000
(ii)	Capital expenditure allowable as deduction u/s 35(1)(iv), assuming such expenditure is incurred for his business.	3,00,000
(iii)	Contribution to notified approved research association for scientific research – 100% of the amount paid is allowed as deduction u/s 35(1)(ii).	1,50,000
(iv)	Amount paid to H Ltd., an Indian company approved by the prescribed authority - 100% of the amount paid is allowed as deduction u/s 35(1)(iia)	2,50,000
(v)	Expenditure towards purchase of land – not allowed as deduction	Nil
(vi)	Revenue expenditure towards salary of research staff incurred in the F.Y. 2023-24 (before commencement of business) – allowed as deduction u/s 35(1)(i) in the P.Y. 2023-24 as it was expended within the 3 years immediately preceding the commencement of business (assuming business is commenced during the P.Y. 2025-26).	2,00,000
	Note - Since the date of commencement of business is not given, an alternative view is possible that the business is commenced during the F.Y. 2024-25 itself. In that case, deduction for revenue expenditure incurred towards salary of research staff in F.Y. 2024-25 before commencement of business would have been allowed in the F.Y. 2024-25 and accordingly, no deduction would be available in F.Y. 2025-26.	
Total deduction allowable		**10,00,000**

Question 2:

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

- **Salary of Rs. 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 Rs. 2,50,000
- Interest on capital 15% per annum (as per the deed of partnership).
  The amount of capital eligible for interest is Rs. 6,00,000 for both partners
- Carry forward loss of P.Y. 2024-25 - Rs. 50,000

Compute for A.Y. 2026-27:

(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).

(MTP 2 May 24 4M)

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

Particulars	Amount (Rs.)	Amount (Rs.)
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)] (Rs. 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 Rs. 50,000 of P.Y.2022-23 is not allowed to be set off for computation of "book profit".

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

As per the provisions of section 40(b)(v), the maximum allowable working partners' salary for the A.Y. 2026-27 in this case would be:

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

Question 3:

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

Sl. No.	Particulars	Rs. (in lakhs)
(i)	Payment made to AB University, an approved University	15
(ii)	Payment made to Siya College	17
(iii)	Payment made to IIT, Bangalore (under an approved programme for scientific research)	12
(iv)	Machinery purchased for in-house scientific research	25

Compute the deduction available under section 35 of the Income-tax Act, 1961 for A.Y. 2026-27, while computing his income under the head "Profits and gains of business or profession" under

default tax regime under section 115BAC.

(MTP 1 Sept 2024 4M)

Computation of deduction allowable under section 35

Particulars	Amount (Rs. in lakhs)	Section	% of deduction	Amount of deduction (Rs. in lakhs)
Payment for scientific research				
AB University, an approved University	15	35(1)(ii)	Nil	Nil
Siya College	17	-	Nil	Nil
IIT Bangalore (under an approved programme for scientific research)	12	35(2AA)	Nil	Nil
In-house research				
Capital expenditure – Purchase of Machinery	25	35(1)(iv) r.w. 35(2)	100%	25
Deduction allowable under section 35				**25**

Deduction under section 35(1)(ii) and 35(2AA) is not allowable under default tax regime under section 115BAC.

Question 4:

(A) What is the meaning of Micro arid Small Enterprise u/s 43B of Income Tax Act, 1961?



(B) Mr. Prem has following assets as on 01.04.2025:

(i) A machinery costing ₹ 4 lakh, which was used for scientific research related to business and deduction u/s 35 was allowed ₹ 40,000.

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

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

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

(PEP Jan 25)

(A) Meaning of Micro and Small Enterprise: [Finance Act 2025]

Type of Enterprise	Investment in P&M	Turnover
Micro	<= ₹ 2.5 crore	<= ₹ 10 crore
Small	<= ₹ 25 crore	<= ₹ 100 crore

(B) Computation of Depreciation to Mr. Prem for P.Y. 2025-26

Particulars	Amount (₹)
Depreciation on machinery used for scientific research @15% on ₹ 3,60,000 [₹ 4,00,000, being actual cost – ₹ 40,000, being deduction allowed u/s 35]	54,000
Depreciation on laptop received as a gift @40% on ₹ 36,000 [₹ 60,000, being actual cost to previous owner – ₹ 24,000, being depreciation for P.Y.	14,400

2022-23 allowable to assessee if it was the only asset] [Expl 2 to 43(1)]	
Depreciation on temporary wooden structure @40% x 50% on ₹ 70,000 [Since it is put to use for less than 180 days]	14,000
	82,400

Question 5:

M/s. Aditya Traders, a sole proprietorship concern, owns four machines that were first put to use for business purposes in March 2025. The depreciation on these machines is charged@ 15%.

- **The Written Down Value (WDV) of the block as on 1st April 2024 was ₹ 7,70,000**
- **On 15th July 2025, it sold two of the old machines for ₹10,00,000.**
- **On 30th December 2025, it acquired a second-hand plant for ₹ 6,10,000 and put it to use for business purposes.**

You are required to:

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(i) Determine the claim of depreciation for Assessment Year 2026-27.

(ii) Compute the capital gains liable to tax for Assessment Year 2026-27.

If M/s. Aditya Traders had sold the two machines in July, 2025 for ₹ 15,00,000, will there be any difference in your above workings?

(MTP 1 Sept 25 4M)

(i) Computation of depreciation for A.Y.2026-27

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

(iii) If the two machines are sold in July, 2025 for ₹ 15,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	₹	₹
Sale consideration		15,00,000
Less: W.D.V. of the machines as on 1.4.2025	(7,70,000)	
Purchase of second plant during the year	(6,10,000)	(13,80,000)
Short term capital gains		**1,20,000**

6. Capital Gains

Illustrations

Illustration 1.
How will you calculate the period of holding in case of the following assets?
(1) Shares held in a company in liquidation
(2) Bonus shares
(3) Flat in a co-operative society

1. **Shares held in a company in liquidation -** The period after the date on which the company goes into liquidation shall be excluded while calculating the period of holding. Therefore, the period of holding shall commence from the date of acquisition and end with the date on which the company goes into liquidation.

2. **Bonus shares -** The period of holding shall be reckoned from the date of allotment of bonus shares and will end with the date of transfer.

3. **Flat in a co-operative society -** The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

   [Note – Any transaction whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a transfer as per section 2(47)(vi). Hence, it is possible to take a view that any date from which such right is obtained may be taken as the date of acquisition]

Illustration 2.
A is the owner of a car. On 1-4-2025, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2026 and gets a profit of ₹ 1 lakh. Discuss the tax implication in his hands under the head "Capital gains".

Since car is a personal asset, conversion or treatment of the same as the stock-in- trade of his business will not be trapped by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

Illustration 3.
X converts his capital asset (acquired on June 10, 2006 for ₹ 60,000) into stock-in-trade on March 10, 2025. The fair market value on the date of the above conversion was ₹ 5,50,000. He subsequently sells the stock-in-trade so converted for ₹ 6,00,000 on June 10, 2025. Discuss the year of chargeability of capital gain and business income.

- ✓ Since the capital asset is converted into stock-in-trade during the previous year 2024-25 relevant to the A.Y. 2025-26, it will be a transfer u/s 2(47) during the P.Y. 2024-25. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2026-27, since the stock-in-trade has been sold only on June 10, 2025.
- ✓ For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2025) will be

the full value of consideration for computation of capital gains.

- ✓ The capital gains would be computed by reducing the cost of acquisition therefrom. The business income of ₹ 50,000 (i.e., ₹ 6,00,000 (-) ₹ 5,50,000, being the fair market value on the date of conversion) would also be taxable in the A.Y.2026-27.
- ✓ Thus, both capital gains and business income would be chargeable to tax in the A.Y.2026-27.

Illustration 4.

M held 2000 shares in a company ABC Ltd., an Indian company. This company amalgamated with another Indian company XYZ Ltd. during the previous year ending 31.3.2026. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by Rs 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax ₹ 50,000 as capital gain. Is he justified.

In the above example, the transaction is squarely covered by the exemption explained above and the proposal of the Assessing Officer to treat the transaction as a transfer is not justified.

Illustration 5.

In which of the following situations capital gains tax liability does not arise?

(i) Mr. A purchased gold in 1970 for ₹ 25,000. In the P.Y. 2025-26, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹ 1,00,000.

(ii) A house property is purchased by a Hindu undivided family in 1945 for Rs 20,000. It is given to one of the family members in the P.Y. 2025-26 at the time of partition of the family. FMV on the date of partition was ₹ 12,00,000.

(iii) Mr. B purchased 50 convertible debentures for ₹ 40,000 in 1995 which are converted into 500 shares worth ₹ 85,000 in November 2025 by the company.

We know that capital gains arises only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

(i) As per the provisions of section 47(iii), gift of a capital asset by an individual is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

(ii) As per the provisions of section 47(i), distribution of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

(iii) As per the provisions of section 47(x), conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation

Illustration 6.

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his

loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

- ✓ Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.
- ✓ Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.
- ✓ Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.

Illustration 7.
Examine, with reasons, whether the following statements are True or False.
(i) Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated as "transfer" for the purpose of capital gains.
(ii) Zero coupon bonds of eligible corporation, held for 14 months, will be long- term capital assets.
(iii) Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.

(i) False: As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as "transfer".

(ii) True: Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bonds held for more than 12 months will be a long-term capital asset.

(iii) True: As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.

Illustration 8.
Mr. A converts his capital asset acquired for an amount of ₹ 50,000 in June, 2004 into stock-in-trade in the month of November, 2024. The fair market value of the asset on the date of conversion is ₹ 4,50,000. The stock-in-trade was sold for an amount of ₹ 6,50,000 in the month of September, 2025. What will be the tax treatment?

The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. P.Y. 2024-25) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2025-26). Profits from business will also be taxable in the year of sale of the stock-in-trade (P.Y. 2025-26).

The LTCG and business income for A.Y.2026-27 are calculated as under:

Particulars	Rs	Rs
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	

Less: Cost of the stock-in-trade (FMV on the date of conversion)	(4,50,000)	**2,00,000**
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Cost of acquisition	(50,000)	**4,00,000**

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered. However, since capital asset is converted on or after 23.7.2024, no indexation benefit is allowed.

Illustration 9.
Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2024. The depreciation on these machines is charged@15%. The opening balance of these machines after providing depreciation for P.Y. 2024-25 was 8,50,000. Three of the old machines were sold on 10th June, 2025 for Rs 11,00,000.A second hand plant was bought for Rs8,50,000 on 30th November, 2025.You are required to:
(i) Determine the claim of depreciation for Assessment Year 2026-27.
(ii) compute the capital gains liable to tax for Assessment Year 2026-27.
(iii) If Singhania & Co. had sold the three machines in June, 2025 for Rs 21,00,000, will there be any difference in your above workings? Explain

i) Computation of depreciation for A.Y.2026-27

Particulars	Rs
Opening balance of the block as on 1.4.2025 [i.e., W.D.V. as on 31.3.2025 after providing depreciation for P.Y. 2024-25]	8,50,000
Add: Purchase of second-hand plant during the year	8,50,000
Gross Block Value	17,00,000
Less: Sale consideration of old machinery during the year	(11,00,000)
W.D.V of the block as on 31.03.2026	**6,00,000**

Since the value of the block as on 31.3.2026 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%.
Therefore, the depreciation allowable for the year is ₹ 45,000, being 7½% of ₹ 6,00,000.

ii) The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:
(a) When one or some of the assets in the block are sold for consideration more than the value of the block.
(b) When all the assets are transferred for a consideration more than the value of the block.
(c) When all the assets are transferred for a consideration less than the value of the block.
Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.
In the third case, since the written down value of the block exceeds the sale consideration, the resultant figure would be a short-term capital loss of the block.
In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

iii) If the three machines are sold in June, 2025 for ₹ 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	Rs	Rs
Sale consideration		21,00,000
Less: Opening balance of the block as on 1.4.2025	(8,50,000)	
[i.e., W.D.V. as on 31.3.2025 after providing		
depreciation for P.Y. 2024-25]		
Purchase of second plant during the year	(8,50,000)	(17,00,000)
Short term capital gains		**4,00,000**

Illustration 10.

Mr. A is a proprietor of Akash Enterprises, having 2 units. He transferred on 1.4.2025 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lakhs. The fair market value of capital assets of unit 1 on 1.4.2025 is ₹ 30 lakhs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were₹ 28,000. His Balance Sheet as on 31.3.2025 is as under:

Liabilities	Total (Rs)	Assets	Unit 1 (Rs)	Unit 2 (Rs)	Total (Rs)
Own Capital	15,00,000	Land	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for land of unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	1,50,000	Other assets	1,50,000	60,000	2,10,000
Total	21,50,000	Total	17,50,000	4,00,000	21,50,000

Other information:

(i) Revaluation reserve is created by revising upward the value of the land of Unit 1.

(ii) No individual value of any asset is considered in the transfer deed.

(iii) Other assets of Unit 1 include patents acquired on 1.7.2023 for ₹ 50,000 on which no depreciation has been charged.

(iv) The value of machinery represents the written down value as per the Income- tax Act, 1961.

Compute the capital gain for the assessment year 2026-27.

Computation of capital gains on slump sale of Unit 1

Particulars	Rs
Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2025 or FMV of monetary consideration received]	30,00,000
Less: Expenses for transfer	(28,000)
	29,72,000
Less: Net worth (See Note 1 below)	(12,50,625)
Long-term capital gain	**17,21,375**

Notes:

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

Particulars	Rs	Rs

Land (excluding ₹ 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (See Note 2 below)		28,125
Other assets (₹ 1,50,000 – ₹ 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors (25% of ₹ 1,50,000)	(37,500)	
Bank Loan (70% of ₹ 2,00,000)	(1,40,000)	(1,77,500)
Net worth		12,50,625

2. Written down value of patents as on 1.4.2025

Value of patents:	**Rs**
Cost as on 1.7.2023	50,000
Less: Depreciation @ 25% for Financial Year 2023-24	(12,500)
Balance as on 1.4.2024	37,500
Less: Depreciation for Financial Year 2024-25	(9,375)
Balance as on 1.4.2025	**28,125**

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

Illustration 11.
Mr. Cee purchased a residential house on July 20, 2023 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2023. He sold the house property in April 2025 for ₹ 20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2025.
What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y.2026-27?

The house is sold before 24 months from the date of purchase. Hence, the house is a short-term capital asset and no benefit of indexation would be available. [Remember House bought before 23.07.2024]

Particulars	₹
Sale consideration	20,00,000
Less: Cost of acquisition	(10,00,000)
Cost of improvement	(2,00,000)
Short-term capital gains	**8,00,000**

Note - The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption under section 54.
Thus, the amount of taxable short-term capital gains is ₹ 8,00,000.

Illustration 12.
Long term capital gain of ₹ 75 lakhs arising from transfer of building on 1.5.2025 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI under section 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act, 1961

False: The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAI or RECL or any other bond notified by Central Government in this behalf, redeemable after 5 years) to ₹ 50 lakhs, whether such investment is made during the relevant previous year or the subsequent previous year, or both.

Therefore, in this case, the exemption under section 54EC can be availed only to the extent of ₹ 50 lakhs, provided the investment is made before 1.11.2025 (i.e., within six months from the date of transfer).

Illustration 13.

Calculate the income-tax liability for the assessment year 2026-27 in the following cases

	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Status	Non-resident	Non-resident	Resident	Non-resident
Total income other than long-term capital gain	2,40,000	4,10,000	5,90,000	4,80,000
Long-term capital gain	85,000 from sale of vacant site	10,000 from sale of listed equity shares (STT paid on sale and purchase of shares)	60,000 from sale of agricultural land in rural area	Nil

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

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

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

Computation of income-tax liability for the A.Y.2026-27

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non-resident	Non-resident	Resident	Non- resident
Applicable basic exemption limit	Rs 4,00,000	Rs 4,00,000	Rs 4,00,000	Rs 4,00,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @12.5% u/s 112]	₹ 10,000 [Exempt u/s 112A since it is less than ₹ 1,25,000]	₹ 60,000 (Exempt – not a capital asset)	-
Other income	₹ 2,40,000	₹ 4,10,000	₹ 5,90,000	₹ 4,80,000
Tax liability				
On LTCG	₹ 10,625	-	-	-

On Other income	Nil	₹ 500	₹ 9,500	₹ 4,000
	₹ 10,625	₹ 500	₹ 9,500	₹ 4,000
Less: Rebate u/s 87A	-	-	(₹ 9,500)	-
	₹ 10,625	₹ 500	Nil	₹ 4,000
Add: Health & education cess (HEC) @4%	₹ 425	₹ 20	Nil	₹ 160
Total tax liability	**₹ 11,050**	**₹ 520**	**Nil**	**₹ 4,160**

Note: Since Mr. C is a resident whose total income does not exceed ₹ 12 lakhs, he is eligible for rebate of ₹ 60,000 or the actual tax payable, whichever is lower, under section 87A.

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

Computation of income-tax liability for the A.Y.2026-27

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non-resident	Non-resident	Resident	Non-resident
Applicable basic exemption limit	₹ 2,50,000	₹ 2,50,000	₹ 5,00,000	₹ 2,50,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @12.5% u/s 112]	₹ 10,000 [Exempt u/s 112A since it is less than ₹ 1,25,000]	₹ 60,000 (Exempt – not a capital asset)	-
Other income	₹ 2,40,000	₹ 4,10,000	₹ 5,90,000	₹ 4,80,000
Tax liability				
On LTCG	₹ 10,625	-	-	-
On Other income	Nil	₹ 8,000	₹ 18,000	₹ 11,500
	₹ 10,625	₹ 8,000	₹ 18,000	₹ 11,500
Less: Rebate u/s 87A	-	-	-	-
	₹ 10,625	₹ 8,000	₹ 18,000	₹ 11,500
Add: Health & education cess (HEC) @4%	₹ 425	₹ 320	₹ 720	₹ 460
Total tax liability	**₹ 11,050**	**₹ 8,320**	**₹ 18,720**	**₹ 11,960**

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

Test Your Knowledge

Question 1.

Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of Rs 1,000 per share in public issue of the company by paying securities transaction tax. Company allotted bonus shares in the ratio of 1:1 on 01.12.2024. He has also received dividend of₹ 10 per share on 01.05.2025. He has sold all the shares on 01.10.2025 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%. Compute his total income and tax liability for A.Y. 2026-27 if Mr. Mithun opts out of the default tax regime, assuming that he is having other income of₹ 8,00,000. Fair market value of each share of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

Computation of total income & tax liability of Mr. Mithun for A.Y. 2026-27

Particulars		Rs
Long term capital gains on sale of original shares		
Gross sale consideration (100 x ₹ 4,000)	4,00,000	
Less: Brokerage@1%	(4,000)	
Net sale consideration	3,96,000	
Less: Cost of acquisition (100 x ₹ 2,000) (Refer Note 1)	(2,00,000)	
Long term capital gains		**1,96,000**
Short term capital gains on sale of bonus shares		
Gross sale consideration (100 x ₹ 4,000)	4,00,000	
Less: Brokerage@1%	(4,000)	
Net sale consideration	3,96,000	
Less: Cost of acquisition of bonus shares [Nil as such shares are allotted after 1.04.2001]	(NIL)	
Short term capital gains [Since bonus shares are held for less than 12 months before sale]		**3,96,000**
Income from other sources		
Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share]	2,000	
Other income	8,00,000	**8,02,000**
Total Income		**13,94,000**
Tax Liability		
Tax on STCG u/s 111A 20% of ₹ 3,96,000		79,200
Tax on LTCG u/s 112A 12.5% of (₹ 1,96,000 - ₹ 1,25,000)		8,875
Tax on other income of ₹ 8,02,000		
₹ 2,50,000 to ₹ 5,00,000@5%	12,500	
₹ 5,00,000 to ₹ 8,02,000 @20%	60,400	72,900
		1,60,975
Add: Health and education cess @4%		6,439
Tax liability		**1,67,414**
Tax liability (rounded off)		**1,67,410**

Notes:

(1) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of A or B

A) Cost of acquisition i.e., ₹ 1,000 per share and

B) Lower of

- Fair market value on 31.01.2018 i.e., ₹ 2,000 per share and
- Full value of consideration i.e., ₹ 4,000 per share.

Therefore, the cost of acquisition of original share is ₹ 2,000 per share.

(2) Securities transaction tax is not allowable as deduction

Question 2.

Aarav converts his plot of land purchased in July, 2004 for ₹ 80,000 into stock-in-trade on 31st March, 2025. The fair market value as on 31.3.2025 was Rs 3,00,000. The stock-in-trade was sold for ₹ 3,25,000 in the month of January, 2026.

Find out the taxable income, if any, and if so under which head of income and for which Assessment Year?

Cost Inflation Index: F.Y. 2004-05:113; F.Y. 2024-25: 363; F.Y. 2025-26: 376;

- ✓ Conversion of a capital asset into stock-in-trade is a transfer within the meaning of section 2(47) in the previous year in which the asset is so converted. However, the capital gains will be charged to tax only in the year in which the stock-in-trade is sold.
- ✓ The fair market value on the date of conversion would be deemed to be the full value of consideration for transfer of the asset as per section 45(2). The sale price less the fair market value on the date of conversion would be treated as the business income of the year in which the stock-in-trade is sold.

Therefore, in this problem, both capital gains and business income would be charged to tax in the A.Y. 2026-27.

Particulars	Rs	
Profits & Gains of Business or Profession		
Sale price of stock-in-trade	3,25,000	
Less: Fair market value on the date of conversion	(3,00,000)	
Capital Gains		25,000
Full value of consideration (Fair market value on the date of conversion)	3,00,000	
Less: Cost of acquisition [No indexation benefit since conversion took place on or after 23.7.2024)	(80,000)	
Long-term capital gain		2,20,000
Taxable Income		**2,45,000**

Question 3.

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2024.

She started her real estate business on 21st March, 2024 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs. She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is Rs 10 lakhs. Construction was completed in February, 2026. She sold 10 flats at ₹ 30 lakhs per flat in March, 2026. The remaining 5 flats were held in stock as on 31st March, 2026. She invested Rs 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2026

and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2026. Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for A.Y. 2026-27 indicating clearly the reasons for treatment for each item.
[Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2023-24: 348; F.Y. 2025-26: 376].

Computation of capital gains and business income of Harshita for A.Y. 2026-27

Particulars	₹
Business Income	
Sale price of flats [10 × ₹ 30 lakhs]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [₹ 210 lakhs × 2/3]	(1,40,00,000)
Cost of construction of flats [10 × ₹ 10 lakhs]	(1,00,00,000)
Business income chargeable to tax for A.Y.2026-27	60,00,000
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [₹ 35,00,000 × 348/113]	(1,07,78,761)
	1,02,21,239
Proportionate capital gains arising during A.Y. 2026-27 [₹ 1,02,21,239 x 2/3]	68,14,159
Less: Exemption under section 54EC	(50,00,000)
Capital gains chargeable to tax for A.Y.2026-27	18,14,159

Notes:

(1) The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade (i.e., P.Y.2023-24, in this case).

(2) As per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.

(3) Since the capital asset is converted into stock in trade in P.Y. 2023-24 i.e., before 23.7.2024, the indexation benefit would be available. However, it will be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y.2023-24) and not up to the year of sale of stock-in-trade (i.e., P.Y.2025-26).

(4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.
In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2025-26, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2026-27.

(5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.

(6)

- ✓ In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC [CBDT Circular No.791 dated 2.6.2000].
- ✓ In this case, since the investment in bonds of NHAI has been made within 6 months of sale of

flats, the same qualifies for exemption under section 54EC.

- ✓ With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be ₹ 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.
- ✓ Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHAI during the P.Y. 2025-26 and investment of ₹ 50 lakhs has been made in bonds of RECL during the P.Y. 2026-27, both within the stipulated six month period, the maximum deduction allowable for A.Y. 2026-27, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2025-26, is only ₹ 50 lakhs.

Question 4.

Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident which occurred in December 2025.

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2025 (i.e., WDV as on 31.3.2025 after providing depreciation for P.Y. 2024-25) was ₹ 10,80,000.

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

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

(i) Towards loss of stock₹ 4,80,000

(ii) Towards damage of machinery₹ 6,00,000

(iii) Towards gold chain and diamond ring₹ 1,80,000

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

(i) Compensation towards loss of stock: Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt.

Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head "Profit and gains of business or profession".

Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head "Profits and gains of business or profession".

(ii) Compensation towards damage to machinery:

- ✓ The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist.
- ✓ Therefore, Rs 4,80,000 being the excess of written down value (i.e Rs 10,80,000) over the insurance compensation (i.e. Rs 6,00,000) will be assessable as a short-term capital loss.
- ✓ Further If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

(iii) Compensation towards loss of gold chain and diamond ring: Gold chain and diamond ring are capital

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

Question 5.

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2025 for ₹ 1,50,00,000.

The sale proceeds were to be paid in the following manner:

(iv) 20% through account payee bank draft on the date of agreement.

(v) 60% on the date of the possession of the property.

(vi) Balance after the completion of the registration of the title to the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2025 and the registration process was completed on 14.01.2026. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

(a) on 16.08.2025 was ₹ 1,70,00,000;

(b) on 15.12.2025 was ₹ 1,71,00,000; and

(c) on 14.01.2026 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000.

After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2026 and another in Delhi for ₹ 35,00,000 on 28.5.2026.

Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the Assessment Year 2026-27.

Cost Inflation Index for Financial Year(s): 2001-02 - 100; 2025-26 – 376

Computation of income chargeable under the head "Capital Gains" of Mr. Sarthak for A.Y. 2026-27

Particulars		Rs
Capital Gains on sale of residential house		
Actual sale consideration	₹ 1,50,00,000	
Value adopted by Stamp Valuation Authority on the date of agreement	₹ 1,70,00,000	
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement. In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]		
Full value of sale consideration [Stamp duty value on the date of agreement, since it		1,70,00,000

exceeds 110% of the actual sale consideration]	
Less: Cost of acquisition of residential house	(30,00,000)
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]	**1,40,00,000**
Less: Exemption u/s 54	(55,00,000)
Since, long-term capital gains does not exceed ₹ 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of ₹ 55,00,000 being ₹ 20,00,000 and ₹ 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.	
Long term capital gains chargeable to tax	**85,00,000**

Note: It may be noted that since Sarthak has transferred residential house which was acquired before 23.7.2024, he can opt to pay tax @20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to him while computing his tax liability.

Question 6.

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

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23.4.2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.05.2025 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14.07.2025 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

(i) Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2026 and 15.5.2026

(ii) Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2026.

(iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 30.11.2025 and for ₹ 40 lakhs on 9-1-2026.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2026-27. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007-08 – 129; F.Y. 2025-26 - 376.

Computation of Capital Gains of Mrs. Yuvika for AY 2026-27

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 810 lakhs		
Value adopted by Stamp Valuation Authority ₹ 890 lakhs		
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement.		
In this case, since advance of ₹ 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration]		
Full Value of Consideration (Actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration)		810.00
Less: Brokerage @1% of sale consideration (1% of ₹ 810 lakhs)		(8.10)
Net Sale consideration		801.90
Less: Cost of acquisition		
Cost of vacant land, Rs 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land	(88)	
Construction cost of residential building	(100)	(188.00)
Long-term capital gains		613.90
Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]		
Less: Exemption under section 54		(130.00)
Where long-term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e.,₹ 130 lakhs as exemption.		
Less: Exemption under section 54EC		(50.00)

Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.1.2026), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 90 lakhs, even if the both the investments are made on or before 13.1.2026 (i.e., within six months after the date of transfer).		
Long term capital gains chargeable to tax		**433.90**

Notes:

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

(2) It may be noted that since Yuvika has transferred residential building which was acquired before 23.7.2024, she can opt to pay tax @20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to her while computing her tax liability.

Question 7.

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

In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000. On November 15, 2025, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2026. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2025 was ₹ 39,00,000 and on 20th February, 2026 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2026-27. Also, compute the tax liability under section 112, assuming that the basic exemption limit has been fully exhausted against other income.

CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2025-26: 376

Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2026-27

Particulars	Amount (Rs)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement	39,00,000	

(Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of		
charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement. In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)		
Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]		39,00,000
Expenses on transfer (Brokerage @1% of ₹ 30,50,000)		(30,500)
Net sale consideration		38,69,500
Less: Cost of acquisition (Note 1)	(9,59,000)	
Less: Cost of improvement	(3,90,000)	(13,49,000)
Long term capital gain		**25,20,500**

Computation of tax liability u/s 112

Particulars		Amount (₹)
On LTCG of ₹ 25,20,500 x 12.5%		3,15,063
Add: Health and Education cess @4%		12,603
		3,27,666
On LTCG with indexation benefit		
Net Sale consideration	38,69,500	
Less: Indexed cost **of acquisition** (₹ 9,59,000 x 376/100)	36,05,840	
Less: Indexed cost **of Improvement** [₹ 3,90,000 x 376/254]	5,77,323	
Long-term capital loss	**(3,13,663)**	

Checking of Options of LTCG Tax:

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

Notes:

Computation of cost of acquisition

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition,		10,70,000
Being the higher of		
(i) lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	

(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000)	3,59,000	
Less: Advance money from Mr. Mohan and forfeited [Before 01.04.2014]		(1,11,000)
Cost of acquisition		**9,59,000**

- ✓ Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition.
- ✓ Accordingly, cost of acquisition after reducing the advance money forfeited would be ₹ 9,59,000 [i.e. ₹ 10,70,000-Rs 1,11,000 (being the advance money forfeited during the P.Y. 2008-09)].
- ✓ However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head "Income from Other Sources" and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, Rs 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head "Income from other sources" in the hands of Mr. Shiva in A.Y.2016-17

Question 8.

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.2026-27 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.2025-26 in respect of these assessees:

(i) Mr. Shagun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of₹ 400 per share. He sold all the shares of A Ltd. on 31.5.2025 for ₹ 1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows

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

(ii) Mr. Raj purchased 200 units of equity-oriented fund, Fund A on 1.2.2017 at a cost of ₹ 550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.4.2025 for ₹ 900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units are given hereunder:

Particulars	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

U/s 112A, the cost of acquisition in relation to the LTCA, 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 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) Computation of Long-Term Capital Gains of Shares

(a) Fair Market Value (FMV) as on 31.1.2018

Fair market value of listed equity shares as on 31.1.2018	Highest price quoted on the recognized stock exchange as on that date
FMV of shares of A Ltd.	₹700, being the highest price quoted on National Stock Exchange on 31.1.2018

(b) Cost of Acquisition

Actual cost	400
FMV as on 31.1.2018 [Highest Trading Price]	700
Sale consideration	1,200
Lower of FMV ₹700 and sale price ₹1,200	₹700
Cost of acquisition (higher of actual cost ₹400 and ₹700)	₹700

(c) Long-Term Capital Gain

Sale consideration per share	-	1,200
Less: COA per share	-	(700)
LTCG per share	1,200 – 700	500
No. of shares	-	300
Total LTCG	500 × 300	1,50,000

(d) Taxability Under Section 112A

Total long-term capital gain	1,50,000
Amount in excess of ₹1,25,000 (i.e., taxable portion)	25,000
Subject to tax @12.5% under section 112A (plus cess @4%)	-
Tax @13% (12.5% + 4%) (₹25,000 × 13%)	₹3,250

(ii) Computation of LTCG on EOMFs

(a) FMV as on 31.1.2018

If units are listed on 31.1.2018	FMV = Highest trading price on recognised stock exchange
If units are unlisted on 31.1.2018	FMV = Net Asset Value (NAV) as on 31.1.2018
FMV of units of Fund A as on 31.1.2018	₹750 (highest trading price, since units are listed)

(b) Cost of Acquisition

Actual cost per unit	550
FMV as on 31.1.2018 [Highest trading price]	750
Sale consideration per unit	900
Cost of acquisition (higher of actual cost 550 and lower of FMV 750 & sale price 900)	750

(c) Long-Term Capital Gain

Sale consideration per unit	-	900
Less: COA per unit	-	(750)
LTCG per unit	900 – 750	150
Total LTCG (150 × 200 units)	-	**30,000**

(d) Taxability Under Section 112A

Long-term capital gain	₹30,000
Since LTCG < ₹1,25,000	Not chargeable to tax under section 112A

Questions from MRP [MTPs, RTPs, Past Exam Papers]

Important Note to Students

[Why Past Exam Questions Are Not Included in the Capital Gains Chapter]

Dear Students,

You may notice that, unlike other chapters in this book, the Capital Gains chapter does not contain past examination questions, Mock Test Papers (MTP), Revision Test Papers (RTP), or revised answers from earlier years. In all other chapters, I have included fully updated past exam questions, MTPs, and RTPs with revised solutions.

However, Capital Gains is the only chapter where I have chosen not to include any such previous-year questions.

I want to clearly explain the reason behind this decision

From the Previous Year 2025-26 onwards, the Capital Gains provisions have undergone a complete structural shift:

1. Indexation benefits have been removed, fundamentally altering the computation mechanism.
2. Holding periods for capital assets have been revised, which directly changes the classification of STCG and LTCG.
3. Multiple rules, exemptions, and computational steps that were earlier applicable have either been modified or completely replaced.
4. As a result, the nature, pattern, and logic of old questions no longer align with the amended law.

Because of these sweeping changes, older questions—whether from past exams, RTPs, or MTPs—are no longer relevant or useful for your preparation. In fact, practicing them may lead to conceptual confusion, because the underlying provisions on which they were based no longer exist in the same form. For this reason, I have intentionally avoided including any old exam questions in this chapter.

Instead, I strongly encourage you to focus on the following:

- ICAI's new Model Test Papers and Mock Test Papers applicable for May 2026 onwards, which are aligned with the revised law.
- ICAI Illustrations and Try-Yourself (TYK) Questions that I have already incorporated in this Question Bank. These are fully relevant under the updated framework and will guide you correctly.
- Stay updated with the regular explanations and clarifications I will continue to give on my YouTube channel – CA Ram Harsha, where I will break down the new law and exam patterns from time to time.

My objective is simple: To ensure that you study only what is relevant, updated, and accurate under the new Capital Gains regime.

Thank you for understanding this approach. It is designed to protect you from outdated concepts and to help you prepare confidently for the May 2026 exams and beyond.

7. Income from Other Sources

Illustrations

Illustration 1.

Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of ₹ 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹ 4,00,000. The company is engaged in some manufacturing activity.

(i) Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?

(ii) What would be your answer, if the lending company is a private limited company (i.e. which is not a company in which the public are substantially interested)?

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2(22)(e), to the extent the company possesses accumulated profits.

(i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.

(ii) However, if the loan is taken from a private company (i.e., a company in which the public are not substantially interested), which is a not a company where lending of money is a substantial part of the business of the company, the provisions of section 2(22)(e) would be attracted.

In this case, since the company is a manufacturing company and not a lending company and Rahul holds more than 10% of the equity shares in the company, the provisions of section 2(22)(e) would be attracted.

The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., ₹ 4,00,000 and not the amount of loan which is ₹ 5,00,000.

Illustration 2.

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2025-26 from his friend Mr. B, -

(1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2025.

(2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2025.

(3) A plot of land at Faridabad on 1st July, 2025, the stamp value of which is Rs 5 lakh on that date. Mr. B had purchased the land in April, 2009.Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2025, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2025.Further, on 1st November, 2025, Mr. A took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2025 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking. On 1st March, 2026, he sold the plot of land at Faridabad for ₹ 7

lakh. **Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2026-27.**

Computation of Income from Other Sources for A.Y. 2026-27

Particulars		₹
(1)	Cash gift is taxable under section 56(2)(x), since it exceeds Rs 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 Rs 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 Rs 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.2026-27

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. [Not covered u/s 49(1)]

Illustration 3.
Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -
(i) Akhil HUF received ₹ 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
(ii) Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.
(iii) Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹ 100 per share. He also received jewellery worth ₹ 45,000 (FMV) from his nephew on the same day.
(iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000.

	Taxable/ Non-taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	75,000	Sum of money exceeding ₹ 50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non- taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹ 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (Rs 10,000) and jewellery (Rs 45,000) exceeds ₹ 50,000. Hence, the entire amount of ₹ 55,000 shall be taxable.
(iv)	Non- taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

Illustration 4.

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2026 when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2025 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12th July, 2024.

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

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

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in- trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque	Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, ₹ 60 lakh, being the difference

or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised. Therefore, ₹ 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., ₹ 150 lakh, and the purchase price i.e., Rs 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration	between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

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

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock- in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Thus, ₹ 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., ₹ 150 lakh) and the purchase price (i.e., ₹ 75 lakh) would be chargeable as short-term capital gains. It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the	There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker. The answer remains same as Case 1.

date of agreement. In this case, since the down payment of ₹ 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.	

Illustration 5.
Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.

SOLUTION:

The statement is not correct. As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

Illustration 6.
Interest on enhanced compensation received by Mr. G during the previous year 2025-26 is ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2020-21, ₹ 1,65,000 relates to previous year 2021-22 and ₹ 1,85,000 relates to previous year 2022-23. Discuss the tax implication, if any, of such interest income for A.Y.2026-27.

The entire interest of ₹ 5,00,000 would be taxable in the year of receipt, namely, P.Y. 2025-26

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) @50%	(2,50,000)
Interest chargeable under the head "Income from other sources"	**2,50,000**

Test Your Knowledge

Question 1: Examine under which heads the following incomes are taxable:

(i) Rental income in case property held as stock-in-trade for 3 years

(ii) Salary received by a partner from his partnership firm

(iii) Rental income of machinery

(iv) Winnings from lotteries by a person having the same as business activity

(v) Salaries received by a Member of Parliament

(vi) Receipts without consideration

(vii) In case of retirement, interest on employee's contribution if provident fund is unrecognized.

(viii) Rental income in case of a person engaged in the business of letting out of commercial properties.

Head under which following incomes are taxable:

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iii)	Rental income of machinery (See Note below)	Profits and gains of business or profession / Income from other sources
(iv)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(v)	Salaries payable to a Member of Parliament	Income from other sources
(vi)	Receipts without consideration	Income from other sources
(vii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(viii)	Rental income in case of a person engaged in the business of letting out of commercial properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession

Question 2: Examine whether the following are chargeable to tax and the amount liable to tax:

(i) A sum of ₹ 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.

(ii) Interest on enhanced compensation of ₹ 96,000 received on 12.3.2026 for acquisition of urban land, of which 40% relates to P.Y.2024-25

Answer:

Taxability of Receipts

S. No.	Taxable/ Not Taxable	Answer Amount liable to tax (Rs)	Reason
(i)	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a

			relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x).
(ii)	Taxable	48,000	As per section 145B(1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of ₹ 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2025-26 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, ₹ 48,000 is chargeable to tax under the head "Income from other sources".

Question 3: On 10.10.2025, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2017-18 Out of this interest, ₹ 1,50,000 relates to the financial year 2018-19 ₹ 1,65,000 to the financial year 2019-20; and ₹ 1,85,000 to the financial year 2020-21. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation. How much of interest on enhanced compensation would be chargeable to tax in the A.Y.2026-27?

Repeated Question and Covered in Illustrations [Refer Illustration 6]

Question 4: The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2026:

(i) Cash gift of ₹ 51,000 received from her friend on the occasion of her "Shastiaptha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.

(ii) On the above occasion, a diamond necklace worth ₹ 2 lakhs was presented by her sister living in Dubai.

(iii) When she celebrated her daughter's wedding on 21.2.2026, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 52,000.

Compute the income, if any, assessable as "Income from other sources" for A.Y.2026-27.

(i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.
The gift of ₹ 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds ₹ 50,000.

(ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property

received from a relative. Thus, the gift of diamond necklace received from her sister, being a relative, is not taxable under section 56(2)(x), even though jewellery falls within the definition of "property".

(iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds ₹ 50,000 in a year. "Sum of money" has, however, not been defined under section 56(2)(x). Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Hemali –

(1) The first view is that fixed deposit does not fall within the meaning of "sum of money" and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of "property".

(2) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of "sum of money" received. Income assessable as "Income from other sources" If the first view is taken, the total amount chargeable to tax as "Income from other sources" would be ₹ 51,000, being cash gift received from a friend on her Shastiaptha Poorthi. This is Most Accurate Interpretation.

Question 5: Examine the following transactions in the context of Income-tax Act, 1961:

1. **Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2025 for ₹ 3,00,000 when the fair market value was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at Rs 4,45,000. The transfer was not subjected to securities transaction tax. Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.**
2. **Mr. Chezian is employed in a company with taxable salary income of Rs 5,00,000. He received a sum of ₹ 1,00,000 from Atma Charitable Trust (registered under section 12AB) by account payee cheque in December 2024 for meeting his medical expenses. Is the sum of money so received from the trust chargeable to tax in the hands of Mr. Chezian?**

(i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000. Thus, share received by M/s B. Co. (P) Ltd. from Mr. B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000. As per section 50CA, since the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares.

The full value of consideration (Rs 5,00,000) less the indexed cost of acquisition (Rs 4,45,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. B.

(ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the sum of ₹ 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.

Questions from MRP [MTPs, RTPs, Past Exam Papers]

Question 1:

From the following calculate the taxable amount under the proper head of income for the Financial Year 2025-26 of Mr L, who is resident and 56 years old. The reasons should form part of your answer [Assume Optional Tax Regime]

(i) Dividend of Rs. 50,000 received in April 2025. The dividend was declared by the company - LMN Limited at its annual general meeting held in October 2024.

(ii) Advance forfeited amounting to Rs. 1,00,000 on 01.05.2025 as the negotiation for transfer of capital asset did not result in transfer of Capital Asset.

(iii) Cash Gift received from non-relative on the occasion of marriage of son Rs. 51,000.

(iv) During the Financial Year 2025-26, he received Rs. 99,000 as pension from employer of deceased wife.

(PEP Nov 23 4M)

Computation of taxable amount of Mr. L for the A.Y.2023-24

Particulars	Rs.
Income from other Sources	
(i) Dividend from LMN Ltd. would be chargeable to tax under the head "Income from Other Sources". Since dividend was declared by LMN Ltd. at its annual general meeting held in October 2024, the amount of dividend was taxable in the A.Y. 2025-26. Accordingly, the dividend of Rs. 50,000 would not be taxable in the current A.Y. 2026-27.	-
Alternative: Since the exact amount of dividend to be taxable can be determined only at the time of payment or distribution of dividend, alternate view is possible to tax such dividend on receipt basis. Consequently, the amount of dividend received in April, 2025, would be chargeable to tax in the current A.Y. 2026-27. Accordingly, the total income of Mr. L for A.Y. 2023-24 would be Rs. 2,85,000	
(ii) Advance of Rs. 1,00,000 forfeited on 1.5.2025 - The advance received and forfeited on or after 1.4.2014 would be subject to tax under section 56(2)(ix) under the head "Income from Other Sources".	1,00,000
(iii) Cash gifts from non-relative on marriage of son of Rs. 51,000 – Since gift is received by Mr. L from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x) under the head "Income from Other Sources".	51,000
(iv) Pension from employer of deceased wife of Rs. 99,000 - Pension after deducting lower of Rs. 33,000 i.e., 1/3 of such income or Rs. 15,000, is chargeable to tax under the head "Income from Other Sources". [Rs. 99,000 – Rs. 15,000]	84,000
Taxable amount	**2,35,000**

Question 2:

Mr. Ravi received an advance of Rs. 2,00,000 on 10.5.2023 from a closely held manufacturing company (private company in which the public are not substantially interested) in which he holds 22% shareholding. The company had an accumulated profit of Rs. 1,00,000 at the time of giving

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the advance. Compute the amount of income to be included in the hands of Mr. Ravi for the assessment year 2024-25 and also state the head under which it is to be included.

(PEP May 2024 2M)

In the present case, the amount of advance of Rs. 2,00,000 received by Mr. Ravi from closely held manufacturing company would be deemed as dividend to the extent of accumulated profit of Rs. 1,00,000, since Mr. Ravi holds 22% shareholding in the company which is not less than 10% of the voting power in the company.

Accordingly, deemed dividend of Rs. 1,00,000 would be taxable in the hands of Mr. Ravi under the head "Income from Other Sources" for the A.Y. 2024-25.

Question 3:

Mr. Soham, a builder, entered into an agreement on 1.4.2025 with Mr. Aman to transfer 4th Floor in Tower A of a new project for Rs.1,50,00,000. He received Rs.25 lakhs as advance in cash on 1.4.2025. The stamp duty value of such floor on that date was Rs.1,70,00,000. The sale deed was executed and registered on 15.6.2025 for the agreed consideration. However, the stamp duty value on that date was Rs.1,75,00,000.

Discuss the tax consequences of above, in the hands of Mr. Soham and Mr. Aman.

(MTP 2 Jan 25 5M)

I	**Tax consequences in the hands of Mr. Soham**
	As per section 43CA, where the consideration received or accruing is less than the stamp duty value of an asset (other than capital asset), being land or building or both and such stamp duty value exceeds 110% of the consideration received or accruing, then the stamp duty value shall be deemed to be the full value of the consideration. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided whole or part of the considered is received by way of account payee cheque/ bank draft/ ECS or through any other prescribed modes on or before the date of agreement. In this case, since Rs. 25 lakhs is received by cash on the date of agreement, stamp duty value on the date of registration is to be considered. Since such stamp duty value (Rs. 1.75 crores) exceed 110% of the consideration received (Rs. 1.50 crores), business income would be computed in the hands of Mr. Soham, for A.Y.2026-27, taking sale consideration of Rs. 1,75,00,000 as the full value of consideration arising on transfer.
II	**Tax consequences in the hands of Mr. Aman**
	In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of Rs. 50,000 and 10% of actual sales consideration. Where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided whole or part of the considered is received by way of account payee cheque/ bank draft/ ECS or through any other prescribed modes on or before the date of agreement. In this case, since Rs. 25 lakhs is received by cash on the date of agreement, stamp duty value on the date of registration is to be considered. Accordingly, Rs. 25,00,000 would be taxable in the hands of Mr. Aman under the head "Income from Other Sources" in A.Y.2026-27 since the

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	difference of Rs.25,00,000 exceed Rs. 15,00,000, being the higher of Rs. 50,000 and Rs. 15,00,000 (10% of consideration).

Question 4:

Discuss the taxability with reason in the hands of recipient for the assessment year 2026-27 in respect of following receipts or income:

(i) Mr. Ram received a sum of ₹ 5,00,000 from his father on Ram's wedding anniversary.

(ii) Mr. Govind sold his house property to Mrs. Radha for ₹ 1,25,00,000, whereas value determined by stamp valuation authority was ₹ 1,75,00,000.

(iii) Ms. Agastha got a gift of car worth ₹ 7,00,000 from her friend on her wedding anniversary.

(PYP May 25 4M)

	Taxable/ Non-taxable	Reason
(i)	Non-taxable	Sum of money exceeding ₹ 50,000 received without consideration by Mr. Ram from his father is not taxable under section 56(2)(x) since the sum is received from a relative i.e., father of Mr. Ram.
(ii)	Taxable	The difference of ₹ 50 lakhs between stamp duty value of ₹ 1,75,00,000 and actual consideration of ₹ 1,25,00,000 is taxable under section 56(2)(x) in the hands of Mrs. Radha since the difference exceeds ₹ 12,50,000, being the higher of ₹ 50,000 and 10% of consideration. ₹ 50 lakhs is taxable in the hands of Mrs. Radha. ₹ 175 lakhs is to be considered as deemed sale consideration for the purpose of computing capital gain in the hands of Mr. Govind.
(iii)	Non-taxable	Car is not included in the definition of property for the purpose of section 56(2)(x). Therefore, the car received by Ms. Agastha from her friend is not taxable.

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Question 5:

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

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

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

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

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

(RTP Sep 25)

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

	Particulars	₹	₹
I	**Salaries**		
	Salary from Nishchay Ltd. [₹ 90,000 x 12]	10,80,000	
	Less: Deduction under section 16 - Standard deduction upto ₹ 75,000	(75,000)	10,05,000
II	**Capital Gains**		
	On buy back of equity shares of Alpha Ltd.		
	Consideration received on buy back of shares	Nil	
	Less: Cost of acquisition	20,00,000	
	Higher of		
	- Actual cost of acquisition of ₹ 20 lakhs [10,000 shares @ ₹ 200 per share]		
	- Lower of FMV as on 31.1.2018 i.e., ₹ 19 lakhs and full value of consideration i.e., Nil		
	Long term capital loss on buy back of shares	(20,00,000)	
	On sale of plot		
	Sale consideration	70,00,000	
	Less: Brokerage @1%	(70,000)	
	Net sale consideration	**69,30,000**	
	Less: Cost of acquisition [Indexation benefit is not available on transfer which took place on or after 23.7.2024]	(22,00,000)	
		47,30,000	
	Less: Exemption under section 54F	(27,30,159)	
	Amount invested in residential house within 2 years would qualify for exemption against long term capital gain arising from transfer of plot.		
	Since the amount invested is less than the net consideration, proportionate capital gains is exempt [₹ 47,30,000 x ₹ 40,00,000/₹ 69,30,000]		
	Long term capital gain on transfer of plot	**19,99,841**	
	Less: Set off of long term capital loss on buy back of original shares against long term capital gain on transfer of plot to the extent of	19,99,841	Nil
	Balance long term capital loss of ₹ 159 on buy back of original shares is to be carried forward to A.Y. 2026-27		
III	**Income from Other Sources**		
	Dividend on buy back of shares [10,000 x 250]		25,00,000
	Total Income		**35,05,000**

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8. Income of Other Persons included in Assessee's Total Income

Illustrations

Illustration 1.
Mr. Vatsan has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

Section 60 expressly states that where there is transfer of income from an asset without transfer of the asset itself, such income shall be included in the total income of the transferor. Hence, the rental income derived from the godown shall be clubbed in the hands of Mr. Vatsan

Illustration 2.
Mr. A holds shares carrying 25% voting power in X (P) Ltd. Mrs. A is working as a computer software programmer in X (P) Ltd. at a salary of Rs. 30,000 p.m. She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are Rs. 7,00,000 & Rs. 4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the A.Y.2026-27 if they are paying tax under default tax regime

Mr. A holds shares carrying 25% voting power in X (P) Ltd i.e., a substantial interest in the company. His wife is working in the same company without any professional qualifications for the same. Thus, by virtue of the clubbing provisions of the Act, the salary received by Mrs. A from X (P) Ltd. will be clubbed in the hands of Mr. A.

Computation of Gross total income of Mr. A

Particulars	Rs	Rs
Salary received by Mrs. A (Rs 30,000 × 12)	3,60,000	
Less: Standard deduction under section 16(ia)	(75,000)	2,85,000
Other Income		7,00,000
Gross total income		**9,85,000**

The gross total income of Mrs. A is Rs 4,00,000.

Illustration 3.
Will your Answer: be different if Mrs. A was qualified for the job?

If Mrs. A possesses professional qualifications for the job, then the clubbing provisions shall not be applicable.

- ✓ Gross total income of Mr. A = Rs 7,00,000 [Other income].
- ✓ Gross total income of Mrs. A = Salary received by Mrs. A [Rs 30,000×12]
  Less Rs 75,000, being the standard deduction under section 16(ia) plus other income [Rs 4,00,000]
  = Rs 6,85,000

Illustration 4.

Mr. B holds shares carrying 30% voting power in Y (P) Ltd. Mrs. B is working as accountant in Y (P) Ltd. getting income under the head salary (computed) of Rs 3,44,000 without any qualification in accountancy. Mr. B also receives Rs 30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is Rs 6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the A.Y.2026-27

Since Mrs. B is not professionally qualified for the job, the clubbing provisions shall be applicable

Computation of Gross total income of Mr. B

Particulars	Rs
Income under the head "Salary" of Mrs. B (Computed)	3,44,000
Income from other sources	
- Interest on securities	30,000
Gross total income	**3,74,000**

Computation of Gross total income of Mrs. B

Particulars	Rs	Rs
Income from Salary [Clubbed in the hands of Mr. B]		Nil
Income from house property		
Gross Annual Value [Rs 6,000 × 12]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	72,000	
Less: Deductions under section 24		
- 30% of NAV i.e., 30% of Rs 72,000	(21,600)	
- Interest on loan	-	50,400
Gross total income		**50,400**

Illustration 5.

Mr. Vaibhav started a proprietary business on 01.04.2024 with a capital of Rs 5,00,000. He incurred a loss of Rs 2,00,000 during the year 2024-25. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of Rs 5,00,000 on 01.04.2025, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of Rs 4,00,000 during the year 2025-26. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2026-27. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

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 Rs 5,00,000 on 1.4.2025 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2026-27 is computed as follows

Particulars	Mr. Vaibhav's capital contribution (Rs)	Capital contribution out of gift from Mrs. Vaishaly (Rs)	Total (Rs)
Capital as on 1.4.2025	3,00,000 (5,00,000 – 2,00,000)	5,00,000	8,00,000
Profit for P.Y.2025-26 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2025 (3:5)	1,50,000 $4,00,000 \times \frac{3}{8}$	2,50,000 $4,00,000 \times \frac{5}{8}$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2026-27 is Rs 2,50,000.

In case Mrs. Vaishaly gave the said amount of Rs 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 Rs 50,000 without consideration from a relative i.e., his wife.

Illustration 6.

Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of Rs 36,000 per annum shall be utilized for the benefit of her son's wife.Mrs. Kasturi claims that the amount of Rs 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property.

Examine with reasons whether the contention of Mrs. Kasturi is valid in law.

- ✓ The clubbing provisions under section 64(1)(viii) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual.
- ✓ Therefore, income of Rs 36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi in this case. The contention of Mrs. Kasturi is, hence, not valid in law.
- ✓ In this case, it is presumed that the transfer is otherwise than for adequate consideration and therefore, the clubbing provisions are attracted.
- ✓ Also, the provisions of section 56(2)(x) would also get attracted in the hands of ABC Co Ltd., if the conditions specified thereunder are satisfied.

Note – If the transfer was for adequate consideration, the provisions of section 64(1)(viii) would not be attracted.

Illustration 7.

Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is Rs. 2,000 p.a. each and that of the son is Rs. 1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2025 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is Rs. 10,000 p.m. Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s

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

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

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

Note – As per section 27(i), Mrs. A is the deemed owner of house property transferred to her minor son. Natural love and affection do not constitute adequate consideration for this purpose. Accordingly, the income from house property of Rs 84,000 [i.e., Rs 1,20,000 (-) Rs 36,000, being 30% of Rs 1,20,000) would be taxable directly in her hands as the deemed owner of the said property.
Consequently, clubbing provisions under section 64(1A) would not be attracted in respect of income from house property, owing to which exemption u/s 10(32) cannot be availed by her.

Illustration 8.
Compute the gross total income of Mr. A & Mrs. A from the following information assuming both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A):

	Particulars	Rs
(a)	Salary income (computed) of Mrs. A	2,30,000
(b)	Income from profession of Mr. A	3,90,000
(c)	Income of minor son B from company deposit	15,000
(d)	Income of minor daughter C from special talent	32,000
(e)	Interest from bank received by C on deposit made out of her special talent	3,000
(f)	Gift received by C on 30.09.2025 from friend of Mrs. A	2,500

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

As per the provisions of section 64(1A) of the Income-tax Act, 1961, all the income of a minor child has to be clubbed in the hands of that parent whose total income (excluding the income of the minor) is greater. The income of Mr. A is Rs 3,90,000 and income of Mrs. A is Rs 2,30,000. Since the income of Mr. A is greater than that of Mrs. A, the income of the minor children have to be clubbed in the hands of Mr. A. It is assumed that this is the first year when clubbing provisions are attracted.
Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be clubbed. Hence, the income of minor child C from exercise of special talent will not be clubbed. However, interest from bank deposit has to be clubbed even when deposit is made out of income arising from application of special talent
The Gross Total Income of Mrs. A is Rs 2,30,000. The total income of Mr. A giving effect to the provisions of section 64(1A) is as follows:

Computation of gross total income of Mr. A for the A.Y. 2026-27

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

Illustration 9.

Mr. Vasudevan gifted a sum of Rs 6 lakhs to his brother's wife on 14-06-2025. On 12-07-2025, his brother gifted a sum of Rs 5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-08-2025 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother

- ✓ In the given case, Mr. Vasudevan gifted a sum of Rs 6 lakhs to his brother's wife on 14.06.2025 and simultaneously, his brother gifted a sum of Rs 5 lakhs to Mr. Vasudevan's wife on 12.07.2025. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife.
- ✓ These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.
- ✓ If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142.
- ✓ Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per section 64(1), to the extent of amount of cross transfers i.e., Rs 5 lakhs.
- ✓ This is because both Mr. Vasudevan and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation.
- ✓ However, the interest income earned by his spouse on fixed deposit of Rs 5 lakhs alone would be included in the hands of Mr. Vasudevan's brother and not the interest income on the entire fixed deposit of Rs 6 lakhs, since the cross transfer is only to the extent of Rs 5 lakhs

Test Your Knowledge

Question 1: Mr. Sharma has four minor children - 2 daughters and 2 sons. The annual income of 2 daughters were Rs 9,000 and Rs 4,500 and of sons were Rs 6,200 and Rs 4,300, respectively. The daughter who has income of Rs 4,500 was suffering from a disability specified under section 80U.Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified under section 80U should not be clubbed with the income of Mr. Sharma.

Under section 10(32), income of each minor child includible in the hands of the parent under section 64(1A) would be exempt to the extent of the actual income or ₹ 1,500, whichever is lower. Mr. Sharma would be eligible for exemption u/s 10(32) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma

	Particulars	₹
(i)	**Income of one daughter**	9,000
	Less: Income exempt under section 10(32)	(1,500)
	Total (A)	7,500
(ii)	**Income of two sons (₹ 6,200 + ₹ 4,300)**	10,500
	Less: Income exempt under section 10(32) (₹ 1,500 + ₹ 1,500)	(3,000)
	Total (B)	7,500
	Total Income to be clubbed as per section 64(1A) (A+B)	**15,000**

Note: It has been assumed that:

(1) The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience

(2) The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and

(3) This is the first year in which clubbing provisions are attracted.

Question 2: During the previous year 2025-26, the following transactions occurred in respect of Mr. A.

(a) Mr. A had a fixed deposit of Rs 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% p.a. from 1-4-2025 to 31-3-2026 to the savings bank account of Mr. B, son of his brother, to help him in his education.

(b) Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of Rs 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.

(c) Mr. A gifted a flat to Mrs. A on April 1, 2025. During the previous year 2025-26, Mrs. A's "Income from house property" (computed) was Rs 52,000 from such flat.

(d) Mr. A gifted Rs 2,00,000 to his minor son who invested the same in a business and he derived income of Rs 20,000 from the investment.

(e) Mr. A's minor son derived an income of Rs 20,000 through a business activity involving application of his skill and talent.

During the year, Mr. A got a monthly pension of Rs 10,000. He had no other income. Mrs. A received salary of Rs 20,000 per month from a part time job.

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

Particulars	Mr. A		Mrs. A	Minor Son
Income under the head "Salaries"	(₹)	(₹)	(₹)	(₹)
Salary income (of Mrs. A)		-	2,40,000	-
Pension income (of Mr. A) (₹ 10,000×12)		1,20,000	-	
Less: Standard deduction under section 16(ia)		(50,000)	(50,000)	
		70,000	1,90,000	
Income from House Property [See Note (3) below]		52,000	-	-
Income from other sources				
1. Interest on Mr. A's fixed deposit with Bank of India (₹ 5,00,000×9%) [See Note (1) below]	45,000		-	-
2. Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [See Note (2) below]	25,000	70,000	-	-
Income before including income of minor son [under section 64(1A)]		1,92,000	1,90,000	-
3. Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [See Note (4) below]		18,500	-	-
4. Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below]		-	-	20,000
Total Income		**2,10,500**	**1,90,000**	**20,000**

Notes:

(1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.

(2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In this case, the commission income of ₹ 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% profit share in the firm.

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

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

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

Therefore, the income of ₹ 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of ₹ 1,92,000 (before including the income of the minor child) is greater than Mrs. A's income of ₹ 1,90,000. Therefore, ₹ 18,500 (i.e., ₹ 20,000 – ₹ 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his father.

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

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

Question 3: Mr. A has gifted a house property valued at Rs 50 lakhs to his wife, Mrs. B, who in turn has gifted the same to Mrs. C, their daughter-in-law. The house was let out at Rs 25,000 per month throughout the year. Compute the total income of Mr. A and Mrs. C.
Will your Answer: be different if the said property was gifted to his son, husband of Mrs. C?

First Scenario:

- ✓ As per section 27(i), an individual who transfers otherwise than for adequate consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred.
- ✓ Therefore, in this case, Mr. A would be the deemed owner of the house property transferred to his wife Mrs. B without consideration.
- ✓ As per section 64(1)(vi), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.

- ✓ Income from let-out property is ₹ 2,10,000 [i.e., ₹ 3,00,000, being the actual rent calculated at ₹ 25,000 per month less ₹ 90,000, being deduction under section 24 @30% of ₹ 3,00,000]
- ✓ In this case, income of ₹ 2,10,000 from let-out property arising to Mrs. C, being Mr. A's son's wife, would be included in the income of Mr. A, applying the provisions of section 27(i) and section 64(1)(vi). Such income would, therefore, not be taxable in the hands of Mrs. C.

Second Scenario:

- ✓ In case the property was gifted to Mr. A's son, the clubbing provisions under section 64 would not apply, since the son is not a minor child. Therefore, the income of ₹ 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.
- ✓ It may be noted that the provisions of section 56(2)(x) would not be attracted in the hands of the recipient of house property, since the receipt of property in each case was from a "relative" of such individual. Therefore, the stamp duty value of house property would not be chargeable to tax in the hands of the recipient of immovable property, even though the house property was received by her or him without consideration.

Note - The first part of the question can also be Answered by applying the provisions of section 64(1)(vi) directly to include the income of ₹ 2,10,000 arising to Mrs. C in the hands of Mr. A. [without first applying the provisions of section 27(i) to deem Mr. A as the owner of the house property transferred to his wife Mrs. B without consideration], since section 64(1)(vi) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her husband's parent, without consideration. Gift of house property by Mr. A to Mrs. C, via Mrs. B, can be viewed as an indirect transfer by Mr. A to Mrs. C.

Question 4: A proprietary business was started by Smt. Rani in the year 2023. As on 1.4.2024 her capital in business was Rs 3,00,000. Her husband gifted Rs 2,00,000 on 10.4.2024 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial Year 2024-25, Rs 1,50,000 and Financial Year 2025-26, Rs 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2026-27 with reasons

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of ₹ 2,00,000 from her husband which she invested in her business.

The income to be clubbed in the hands of Smt. Rani's husband for A.Y.2026-27 is computed as under:

Particulars	Smt. Rani's Capital Contribution	Capital Contribution Out of gift from husband	Total
	₹	₹	₹
Capital as at 1.4.2024	3,00,000	[Beginning date is Zero]	3,00,000
Investment on 10.04.2024 out of gift received from her husband		2,00,000	2,00,000
	3,00,000	2,00,000	5,00,000
Profit for F.Y. 2024-25 to be apportioned on the basis of capital employed on the 1st day of the previous year i.e., on 1.4.2024	1,50,000	[Beginning date is Zero and hence NO clubbing]	1,50,000

Capital employed as at 1.4.2025	4,50,000	2,00,000	6,50,000
Profit for F.Y.2025-26 to be apportioned on the basis of capital employed as at 1.4.2025 (i.e., 45 : 20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y.2026-27 is ₹ 1,20,000

Question 5: Mr. B is the Karta of a HUF, whose members derive income as given below:

	Particulars	₹
(i)	Income from B' s profession	45,000
(ii)	Mrs. B' s salary as fashion designer	76,000
(iii)	Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle)	10,000
(iv)	Minor daughter P's earnings from sports	95,000
(v)	D's winnings from lottery (gross)	1,95,000

Examine the tax implications in the hands of Mr. and Mrs. B.

Clubbing of income and other tax implications

As per the provisions of section 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. B and Mrs. B subsists.

Further, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

Tax implications

(i) Income of ₹ 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".

(ii) Salary of ₹ 1,000 (₹ 76,000 less standard deduction under section 16(ia) of ₹ 75,000) shall be taxable as "Salaries" in the hands of Mrs. B. However, if Mrs. B exercises the option of shifting out of default tax regime, salary of ₹ 26,000 (₹ 76,000 less standard deduction under section 16(ia) of ₹ 50,000) shall be taxable as "Salaries".

(iii) Income from fixed deposit of ₹ 10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as "Income from other sources", since Mr. B's income is greater than income of Mrs. B before including the income of the minor child.

As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child if such parent exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The balance income would be clubbed in the hands of the parent as "Income from other sources".

(iv) Income of ₹ 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.

(v) Income of ₹ 1,95,000 arising to minor son D from lottery shall be included in the hands of Mr. B as "Income from other sources", since Mr. B's income is greater than the income of Mrs. B before including the income of minor child.

Note – Mr. B can reduce the tax deducted at source from such lottery income while computing his net tax liability.

Question 6: Nishant gifted Rs 10 lakhs to his wife, Nisha on her birthday on 1st January, 2025. Nisha lent Rs 5,00,000 out of the gifted amount to Krish on 1st April, 2025 for six months on which she received interest of Rs 50,000. The said sum of Rs 50,000 was invested in shares of a listed company on 15th October, 2025, which were sold for Rs 75,000 on 30th December, 2025. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital by Nisha in a newly business started on 1.4.2025. She suffered loss of Rs 15,000 in the business in Financial Year 2025-26.
In whose hands the above income and loss shall be included in Assessment Year 2026-27? Support your Answer: with brief reasons

- ✓ 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 includible in the total income of Mr. Nishant, since such loan was given by her out of the sum of money received by her as gift from her husband.
- ✓ Since the capital was invested in business by Ms. Nisha on 1st April, 2025, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹ 15,000 from the business carried on by Ms. Nisha would also be includible in the total income of Mr. Nishant.
- ✓ Since income includes loss as per Explanation 2 to section 64, clubbing provisions would be attracted even if there is loss and not income.
- ✓ The short-term capital gain of ₹ 25,000 (₹ 75,000, being the sale consideration less ₹ 50,000, being the cost of acquisition) arising in the hands of Ms. Nisha from sale of shares acquired by investing the interest income of ₹ 50,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Nishant.
- ✓ Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the hands of Ms. Nisha. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable@20% in the hands of Ms. Nisha

Question 7: Mrs. and Mr. Naresh Yadav have two minor children Mahi and Nonu. The following are the receipts in the hands of Mahi and Nonu during the year ended 31-3-2026:
(i) Mahi received a gift of Rs 85,000 from her friend's father on the occasion of her birthday.
(ii) Nonu won a prize money of Rs 3,00,000 in National Sports competition. This was invested in debentures of a company, from which interest of Rs 25,000 (gross) accrued during the year.
Mr. Naresh's income before considering clubbing provisions is higher than that of his wife and he has opted out of the default tax regime.
Explain how these items will be considered for taxation under the provisions of the Income Tax Act, 1961. Detailed computation of income is not required.

(i) Gift received from non-relative by minor daughter Mahi

Gift of ₹ 85,000 received by minor daughter Mahi, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Naresh Yadav, since his income before considering clubbing provisions is higher than that of his wife.

Exemption of ₹ 1,500 would be allowed in respect of the aggregate income of minor daughter Mahi so included in the hands of Mr. Naresh Yadav under section 10(32)

(ii) **Prize money of ₹ 3,00,000 in National Sports Competition/Interest on debentures received by minor son Nonu**

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be included in the hands of parent. Hence, the prize money of ₹ 3,00,000 won in National Sports Competition by minor son Nonu from exercise of special talent would not be included in the income of either parent.

However, interest of ₹ 25,000 on debentures has to be included in the hands of her father, Mr. Naresh Yadav, even if the investment is made out of income arising from application of special talent.

Exemption of ₹ 1,500 would be allowed in respect of the aggregate income of minor son Nonu so included in the hands of Mr. Naresh Yadav under section 10(32).

Question 8: Mr. Mahadev, a noted bhajan singer of Rajasthan and his wife Mrs. Dariya furnish the following information relating to the Assessment Year 2026-27.

		Rs
1	Income of Mr. Mahadev-professional bhajan singer (computed)	5,65,000
2	Salary income of Mrs. Dariya (computed)	3,80,000
3	Loan received by Mrs. Dariya from Ramu & Jay (Pvt) Ltd. (Mrs. Dariya holds 35% shares of the Co. The Co. has incurred losses since its inception 2 years back)	2,50,000
4	Income of their minor son Golu from winning singing reality show on T.V.	2,50,000
5	Cash gift received by Golu from friend of Mr. Mahadev on winning the show	21,000
6	Interest income received by minor married daughter Gudia from deposit with Ramu & Jay Pvt Ltd.	40,000

Compute total taxable income of Mr. Mahadev & Mrs. Dariya for the Assessment Year 2026-27 if both of them are paying tax under default tax regime.

(May 25 10 MARKS)

Computation of Taxable income of Mr. Mahadev for A.Y. 2026-27

Particulars	₹
Professional income (bhajan singer)	5,65,000
Income of minor son – Golu	
Income from winning singing reality show on T.V. Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of parent. Hence, ₹ 2,50,000 earned by minor son Golu from reality show on TV would not be included in the income of either parent.	Nil
Cash gift received by Golu from friend of Mr. Mahadev on winning the show The cash gift received by his minor son Golu (not on account of her skill) from his friends would not be taxable, since its value does not exceed ₹ 50,000.	Nil

Income of minor married daughter Gudia		
Interest income on deposit with Ramu & Jay Pvt Ltd.	40,000	
Less: Exemption under section 10(32) [Not allowable under DTR]	Nil	40,000
[Income of minor daughter would be included in the hands of Mr. Mahadev, since his income, before including minor daughter's income, is higher than his wife's income.]		
Taxable Income		**6,05,000**

Computation of Taxable income of Mrs.Dariya for A.Y. 2026-27

Particulars	₹
Salary income (computed)	3,80,000
Loan received from Ramu & Jay (Pvt) Ltd. [Such loan amount would not be considered as deemed dividend under section 2(22)(e), even though Mrs. Dariya has substantial interest (holding 20% shares or more) in the Ramu & Jay (Pvt) Ltd., a closely held company, since the company does not have any accumulated profits on account of losses incurred in last 2 years from inception]	Nil
Taxable Income	**3,80,000**

Questions from MRP [MTPs, RTPs, Past Exam Papers]

Question 1:

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

(i) Mr. Chaman's salary income - Rs. 11,00,000

(ii) Mrs. Chaman's income from Kathak performances - Rs. 2,50,000. She is a professional Kathak dancer and pursue dancing as her profession.

(iii) Mrs. Chaman earned long-term capital gains of Rs. 5,50,000 from sale of shares.

(iv) Mrs. Chaman gifted Rs. 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2025, Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of Rs. 5,10,000

(v) Miss Naina, their minor daughter, earned Rs. 3,56,000 by performing in various quiz competitions held online during the year 2025-26. She kept that amount in savings bank account and earned interest of Rs. 15,000 during the year 2025-26.

(vi) Master Neelabh, their minor son earned Rs. 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned under section 80U. The medical certificate shows a disability of up to 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the Assessment Year 2026-27. Ignore section 115BAC pertaining to alternative tax regime.

(PEP May 23 6M)

Computation of total income of Mr. Chaman, Mrs. Chaman and their minor children for the A.Y.2026-27

Particulars	Mr. Chaman	Mrs. Chaman	Naina, minor daughter	Neelabh, minor son
	Rs.	Rs.	Rs.	Rs.
Income under the head "Salaries"				
Salaries (computed)	11,00,000			
Profits and gains from business or profession				
Income from Kathak performances		2,50,000		
Capital Gains				
Long term capital gains from sale of shares		5,50,000		
Less: Set off of short-term capital loss from long term capital gain [Short term capital loss to the extent of Rs. 2 lakhs would be included in the income of Mrs. Chaman, since the shares are purchased by Mr. Chaman from the amount of Rs. 2 lakhs gifted by Mrs. Chaman out of her Stridhan. Clubbing provisions would		(2,00,000)		

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be attracted even if it is a loss and not income] **[Refer Note 1 and 2 below]**				
The balance short-term capital loss of Rs. 3,10,000 has to be carried forward by Mr. Chaman, since it cannot be set-off against salary income.		3,50,000		
Income [before considering income of minor son and minor daughter]	**11,00,000**	**6,00,000**		
Income of Naina, minor daughter, from performances in various quiz competitions would not be included in the hands of either parent, since such income arises from her own skills/talent.			3,56,000	
However, interest of Rs. 15,000 on saving bank account [after providing for deduction of Rs. 1,500, being exempt under section 10(32)] is to be included in the hands of Mr. Chaman, since his income is higher than that of his wife [Rs. 15,000 -Rs. 1,500]	13,500			
Income of Neelabh, minor son suffering from disability u/s 80U, from fixed deposits would not be included in the income of parent but would be taxable in his hands.				35,000
Gross Total Income	**11,13,500**	**6,00,000**	**3,56,000**	**35,000**
Less: Deductions under Chapter VI-A				
- **Under section 80TTA** In respect of interest on saving bank account to the extent of	(10,000)			
- **Under section 80U** Flat deduction of Rs. 75,000 to a person with disability. However, deduction would be restricted to gross total income				(35,000)
Total Income	**11,03,500**	**6,00,000**	**3,56,000**	**Nil**

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Note:

1) The question mentions that Mrs. Chaman gifted Rs. 2 lakh to Mr. Chaman out of her Stridhan on 1.4.2025 and that Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of Rs. 5,10,000.

It is not possible to invest Rs. 2 lakhs and incur short-term capital loss of Rs. 5.10 lakhs. Accordingly, in the above , it has been assumed that the remaining Rs. 3,10,000 is invested by Mr. Chaman and hence the same would be a short-term capital loss to be carried forward by him.

Due to the use of the words "invested the entire amount in the stock market" in the question, it is

possible to take a view that the entire capital loss of Rs. 5,10,000 has to be set off against long-term capital gains of Rs. 5,50,000 in the hands of Mrs. Chaman. In which case the total income of Mrs. Chaman would be Rs. 2,90,000 instead of Rs. 6,00,000. Also, there would be no short-term capital loss in the hands of Mr. Chaman.

Question 2:

Mr. Jain and his wife Mrs. Jain are partners in a partnership firm holding 25% share each. During the F.Y. 2025-26, the firm paid Rs.2,50,000 to each of them as remuneration. Apart from this, they provide you the following information in respect of F.Y. 2025-26:

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(i) Salary received by Mr. Jain from his employer Rs.12,50,000.

(ii) Interest on fixed deposit earned by Mrs. Jain Rs.14,00,000. (The fixed deposit was opened by using her "Stridhan")

(iii) Income of their three minor children Neeta, Meeta and Seeta was Rs.15,000; Rs.10,000 and Rs.2,000 respectively.

You are required to compute the gross total income of Mr. and Mrs. Jain as per the provisions of Income-tax Act for the A.Y. 2026-27 assuming that they have shifted out of the default tax regime.

(MTP 1 Sept 24 4M)

Computation of Gross Total Income of Mr. Jain and Mrs. Jain for A.Y. 2024-25

Particulars	Mr. Jain		Mrs. Jain	
	Rs.	Rs.	Rs.	Rs.
Salary	12,50,000		-	
Less: Standard deduction under section 16(ia)	(50,000)			
		12,00,000		
Interest on Fixed Deposit earned by Mrs. Jain	-			14,00,000
Total income (before including remuneration from firm and minor's income)		**12,00,000**		**14,00,000**
Remuneration from firm (assumed that the same is fully deductible in the hands of the firm)			2,50,000	
Remuneration of Rs. 2,50,000 received by Mr. Jain has to be included in the total income of Mrs. Jain, since both of them have substantial interest in the concern (i.e., each having 25% share in the firm, in the present case), and her total income of Rs.14 lakh exceeds the total income of her spouse excluding this income (i.e., Rs. 12 lakh). It is assumed that such remuneration is fully deductible in the hands of the firm.			2,50,000	5,00,000
Total Income (before including minor's income)		**12,00,000**		**19,00,000**
Income of three minor children to be included in Mrs. Jain's income[1], since her total income before including minor's income is higher than that of her husband.		-		

- Neeta - Meeta - Seeta			15,000 10,000 2,000	
			27,000	
Less: Exemption of Rs. 1,500 u/s 10(32) in respect of the income each child so included.			(4,500)	22,500
Gross Total Income		**12,00,000**		**19,22,500**

Question 3:

On 14th June 2025, Mr. Rajesh Kumar gifted a sum of ₹ 3,00,000 to his brother's wife (Mrs. Neha). On 12th July 2025, Mr. Rajesh Kumar's brother (Mr. Rakesh) gifted ₹ 5,00,000 to the minor son of Mr. Rajesh Kumar. Both Mrs. Neha and minor son invested the gifted amounts in fixed deposits on 1st August 2025 at an interest rate of 9% per annum. Assume Mrs. Anjali (wife of Mr. Rajesh Kumar) has a higher income than of Mr. Rajesh Kumar's income and she has opted out of the default tax regime.

Examine the consequences of the above under the provisions of the Income-tax Act,1961.

What would be your Answer: if Mr. Rajesh Kumar's brother (Mr. Rakesh) gifted ₹ 5,00,000 to Mrs. Anjali instead of minor son.

(MTP 1 Sept 25 6M)

Scenario 1

- ✓ In the given case, Mr. Rajesh kumar gifted a sum of ₹ 3 lakhs to his brother's wife on 14.06.2024 and simultaneously, his brother gifted a sum of ₹ 3 lakhs to Mr. Rajesh kumar's minor son on 12.07.2024. The gifted amounts were invested as fixed deposits in banks by Mr. Rajesh kumar' son and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.
- ✓ If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142.
- ✓ Accordingly, the interest income on fixed deposits arising to Mrs. Neha of ₹ 18,000 [₹ 3,00,000 x 9% x 8/12] would be included in the total income of Mr. Rakesh Kumar. However, as per section 64(1A), all the income of a minor son is, in any case, to be included in the income of the parent, whose total income before including minor's income, is higher. Therefore, ₹ 30,000 [₹ 5,00,000 x 9% x 8/12] would be included in the total income of Mrs. Anjali since her income before including minor's income, is higher than of Mr. Rajesh's income.
- ✓ Additionally, Mrs. Anjali is entitled to exemption of ₹ 1,500 under section 10(32) with respect to income included in her hands on account of minor's income.

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Scenario 2

If Mr. Rakesh gifted ₹ 5,00,000 to Mrs. Anjali instead of minor son, then the interest income includible in the hands of Mr. Rajesh would be restricted to the extent of cross transfer. Accordingly, only interest ₹ 18,000 [₹ 3,00,000 x 9% x 8/12] would be includible in the hands of Mr. Rajesh since the cross transfer is only to the extent of ₹ 3 lakhs.

Question 4:

Mr. Rajeev is working as a General Manager at Zenith Pvt. Ltd. in Mumbai. He has shared the following information for the financial year 2025-26:

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(i) Basic salary of Rs. 56,000 per month.

(ii) Medical treatment facility received in the company's own hospital – Rs. 9,000

(iii) On his work anniversary, he received a gift voucher worth Rs. 4,500 from the company.

(iv) A four-seater dining table was provided to Mr. Rajeev at his residence. This was purchased by the company on 1.5.2023 for Rs. 90,000 and sold to Mr. Rajeev on 1.8.2025 for Rs. 50,000.

(v) Personal expenses of Rs. 10,000 made using the company credit card were paid by the company. No part of the amount was recovered from Mr. Rajeev.

(vi) A Maruti Suzuki car which was purchased by the company on 16.7.2022 for Rs. 2,50,000 was sold to Mr. Rajeev on 14.7.2025 for Rs. 80,000.

Other income received by the assessee during the previous year 2025-26:

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

Compute the gross total income of Mr. Rajeev for the Assessment year 2026-27 assuming he opts out of the default tax regime under section 115BAC. Mr. Rajesh's wife is a housewife

(MTP 2 Sep 25 5M)

Computation of gross total income of Mr. Rajeev for the A.Y. 2026-27 under normal provisions of the Act

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

	Value as on 14.07.2024 - being the date of sale to employee	1,60,000	80,000	
	Less: Amount received from the assessee on 14.07.2024	(80,000)		
	Gross Salary		**7,87,000**	
	Less: Standard deduction under section 16(ia)		(50,000)	
	Taxable Salary			**7,37,000**
II	**Income from Other Sources**			
	Interest on fixed deposit with a company		5,000	
	Income from specified mutual fund		3,000	
	Interest on Fixed Deposit received by minor daughter (Rs. 3,000 - Rs. 1500)		1,500	**9,500**
	Gross Total Income			**7,46,000**

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9. Aggregation of Income, Set-Off and Carry Forward of Losses

Illustrations

Illustration 1.

Mr. A, aged 35 years, submits the following particulars pertaining to the A.Y.2026-27:

Particulars	₹
Income from salary (computed)	**4,00,000**
Loss from let-out property	**(-) 2,20,000**
Business loss	**(-)1,00,000**
Bank interest (FD) received	**80,000**

Compute the total income of Mr. A for the A.Y.2026-27, assuming that

(i) He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(ii) He pays tax under the default tax regime

Computation of total income of Mr. A for the A.Y.2026-27 under normal provisions of the Act

Particulars	Amount (₹)	Amount (₹)
Income from salary	4,00,000	
Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of section 71(3A)	(2,00,000)	2,00,000
Balance loss of ₹ 20,000 from house property to be carried forward to next assessment year		
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(80,000)	-
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income [See Note below]		**2,00,000**
Less: Deduction under Chapter VI-A		Nil
Total income		**2,00,000**

Notes:

(i) Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year

(ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

Computation of total income of Mr. A for the A.Y.2026-27 under default tax regime

Particulars	Amount (₹)	Amount (₹)
Income from salary		4,00,000
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-

Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income/ Total Income		**4,00,000**

Notes:

(i) Under the default tax regime, loss from house property of ₹ 2,20,000 cannot be set off against income under any other head and cannot be carried forward to next assessment year. [I strongly disagree with Carry forward point – Reason discussed in Class]

(ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income

Illustration 2.

Mr. B, a resident individual, furnishes the following particulars for the P.Y.2025-26:

Particulars	₹
Income from salary (computed)	**45,000**
Income from house property	**(24,000)**
Income from non-speculative business	**(22,000)**
Income from speculative business	**(4,000)**
Short-term capital losses	**(25,000)**
Long-term capital gains taxable u/s 112	**19,000**

What is the total income chargeable to tax for the A.Y.2026-27, assuming that he pays tax under section 115BAC?

Total income of Mr. B for the A.Y. 2026-27

Particulars	Amount (₹)	Amount (₹)
Income from salaries		45,000
Income from house property		
Loss from house property can neither be set-off nor can be carried forward, since Mr. B is paying tax under the default tax regime u/s 115BAC	Nil	
Profits and gains of business and profession		
Business loss to be carried forward [Note (i)]	(22,000)	
Speculative loss to be carried forward [Note (ii)]	(4,000)	
Capital Gains		
Long term capital gain taxable u/s 112	19,000	
Short term capital loss ₹ 25,000 set off against long-term capital gains to the extent of ₹ 19,000 [Note (iii)]	(19,000)	
	Nil	
Balance short term capital loss of ₹ 6,000 to be carried forward [Note (iii)]		
Taxable income		**45,000**

Notes:

(i) Business loss cannot be set-off against salary income. Therefore, loss of ₹ 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set- off against business profits, if any.

(ii) Loss of ₹ 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.

(iii) Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short-term capital loss of ₹ 25,000 can be set- off against long-term capital gains to the extent of ₹ 19,000. The balance short term capital loss of ₹ 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.

Illustration 3.

During the P.Y. 2025-26, Mr. C has the following income and the brought forward losses:

Particulars	₹
Short term capital gains on sale of shares	**1,50,000**
Long term capital loss of A.Y.2024-25	**(96,000)**
Short term capital loss of A.Y.2025-26	**(37,000)**
Long term capital gain u/s 112	**75,000**

What is the capital gain taxable in the hands of Mr. C for the A.Y.2026-27?

Taxable capital gains of Mr. C for the A.Y. 2026-27

Particulars	₹	₹
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short-term capital loss of the A.Y.2025-26	(37,000)	**1,13,000**
Long term capital gain	75,000	
Less: Brought forward long-term capital loss of A.Y.2024-25 ₹ 96,000 set off to the extent of ₹ 75,000 [See Note below]	(75,000)	**Nil**
Taxable short-term capital gains		**1,13,000**

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of A.Y.2024-25 of ₹ 21,000 (i.e. ₹ 96,000 – ₹ 75,000) can be carried forward to the next year to be set-off against long-term capital gains of that year

Illustration 4.

Mr. D has the following income for the P.Y.2025-26:

Particulars	₹
Income from the activity of owning and maintaining the race horses	**75,000**
Income from textile business	**85,000**
Brought forward textile business loss (relating to A.Y. 2025-26)	**50,000**
Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y.2023-24)	**96,000**

What is the total income in the hands of Mr. D for the A.Y. 2026-27?

Total income of Mr. D for the A.Y. 2026-27

Particulars	₹	₹
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss of ₹ 96,000 from the activity of owning and maintaining race horses set-off to the extent of ₹ 75,000	(75,000)	
	Nil	

Balance loss of ₹ 21,000 (₹ 96,000 – ₹ 75,000) from the activity of owning and maintaining race horses to be carried forward to A.Y.2027-28		
Income from textile business	85,000	
Less: Brought forward business loss from textile business	(50,000)	35,000
Total income		**35,000**

Note: Loss from the activity of owning and maintaining race horses cannot be set- off against any other source/head of income

Illustration 5.

Mr. E has furnished his details for the A.Y.2026-27 as under:

Particulars	₹
Income from salaries (computed)	**1,50,000**
Income from speculation business	**60,000**
Loss from non-speculation business	**(40,000)**
Short term capital gain	**80,000**
Long term capital loss of A.Y.2024-25	**(30,000)**
Winning from lotteries (Gross)	**20,000**

Compute the total income of Mr. E for the A.Y.2026-27.

Computation of total income of Mr. E for the A.Y.2026-27

Particulars	₹	₹
Income from salaries		1,50,000
Income from speculation business	60,000	
Less: Loss from non-speculation business	(40,000)	20,000
Short-term capital gain		80,000
Winnings from lotteries		20,000
Taxable income		**2,70,000**

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the next assessment year

Test Your Knowledge

Question 1: Compute the gross total income of Mr. F for the A.Y. 2026-27 from the information given below –

Particulars	₹
Income from house property (computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of unlisted shares	56,000
Long term capital loss from sale of property (brought forward from A.Y. 2025-26)	(90,000)
Income from tea business	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

Gross Total Income of Mr. F for the A.Y. 2026-27

Particulars	₹	₹
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	(26,000)	
Less: Brought forward business loss	(45,000)	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short-term capital gains		56,000
Income from Other Sources		
Dividend income (taxable in the hands of shareholders)		80,000
Gross Total Income		**3,73,000**

Notes:

(1) Dividend from Indian companies is taxable at normal rates of tax in the hands of resident shareholders.

(2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;

(3) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 90,000 brought forward from A.Y.2025-26 cannot be set-off in the A.Y.2026-27, since there is no long-term capital gains in that year. It has to be carried forward for set- off against long-term capital gains, if any, during A.Y.2027-28

Question 2: Mr. Soohan submits the following details of his income for the A.Y.2026-27:

Particulars	₹
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business for P.Y. 2020-21 (discontinued in P.Y. 2021-22)	(-) 1,20,000

Short term capital loss	**(-) 60,000**
Long term capital gain	**40,000**
Dividend	**5,000**
Income received from lottery winning (Gross)	**50,000**
Winnings from card games (Gross)	**6,000**
Agricultural income	**20,000**
Short-term capital loss under section 111A	**(-) 10,000**
Bank interest on Fixed deposit	**5,000**

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

Computation of Gross Total Income of Mr. Soohan for the A.Y.2026-27

Particulars	₹	₹
Salaries		
Income from salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71	(40,000)	2,60,000
Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss of ₹ 1,20,000 from iron- ore business set-off as per section 72(1) to the extent of ₹ 50,000	(50,000)	Nil
Balance business loss of ₹ 70,000 of P.Y.2020-21 to be carried forward to A.Y.2027-28		
Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss of ₹ 60,000 set-off to the extent of ₹ 40,000	(40,000)	Nil
Balance short-term capital loss of ₹ 20,000 to be carried forward		
Short-term capital loss of ₹ 10,000 u/s 111A also to be carried forward		
Income from other sources		
Dividend (fully taxable in the hands of shareholders)	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank FD interest	5,000	66,000
Gross Total Income		**3,26,000**
Losses to be carried forward to A.Y.2027-28		
Loss of iron-ore business (₹ 1,20,000 – ₹ 50,000)	70,000	
Short term capital loss (₹ 20,000 + ₹ 10,000)	30,000	

Note: Agricultural income is exempt under section 10(1).

Question 3: Mr. Batra furnishes the following details for year ended 31.03.2026:

Particulars	₹
Short term capital gain	**1,40,000**
Loss from speculative business	**60,000**

Long term capital gain on sale of land	30,000
Long term capital loss on sale of unlisted shares	1,00,000
Income from business of textile (after allowing current year depreciation)	50,000
Income from activity of owning and maintaining race horses	15,000
Income from salary (computed)	1,00,000
Loss from house property	40,000

Following are the brought forward losses:

(i) Losses from activity of owning and maintaining race horses-pertaining to A.Y.2023-24 - ₹ 25,000.

(ii) Brought forward loss from business of textile ₹ 60,000 - Loss pertains to A.Y. 2018-19.

Compute gross total income of Mr. Batra for the Assessment Year 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Also determine the losses eligible for carry forward to the A.Y. 2027-28.

Computation of total income and tax liability of Mr. A for the A.Y. 2026-27

Particulars	₹	₹
Salaries	1,00,000	
Less: Current year loss from house property	(40,000)	60,000
Profit and gains of business or profession		
Income from textile business	50,000	
Less: Loss of ₹ 60,000 from textile business b/f from .Y. 2018-19 set-off to the extent of ₹ 50,000 [See Note 1]	(50,000)	NIL
Income from Other Sources		
Income from the activity of owning and maintaining race horses	15,000	
Less: Loss of ₹ 25,000 from activity of owning and maintaining race horses b/f from A.Y. 2023-24 set- off to the extent of ₹ 15,000	(15,000)	NIL
Balance loss of ₹ 10,000 to be carried forward to A.Y. 2027-28 [See Note 2]		
Capital Gain		
Short term capital gain		1,40,000
Long term capital gain on sale of land	30,000	
Less: Long term capital loss of ₹ 1,00,000 on sale of unlisted shares set-off to the extent of ₹ 30,000	(30,000)	NIL
Balance loss of ₹ 70,000 to be carried forward to A.Y. 2027-28 [See Note 3]		
Gross Total Income		**2,00,000**

Losses to be carried forward to A.Y. 2027-28

Particulars	₹
Current year loss from speculative business [See Note-4]	60,000
Current year long term capital loss on sale of unlisted shares	70,000
Loss from activity of owning and maintaining of race horse pertaining to A.Y.2023-24	10,000

Note:

(1) As per section 72(3), business loss can be carried forward for a maximum of 8 assessment years

immediately succeeding the assessment year for which the loss was first computed. Since the 8 year period for carry forward of business loss of A.Y. 2018-19 expired in the A.Y. 2026-27, the balance unabsorbed business loss of ₹ 10,000 cannot be carried forward to A.Y. 2027-28.

(2) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.

(3) Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of ₹ 70,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of 8 assessment years.

(4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of 4 years as per section 73(4) to be set-off against income from speculation business.

Question 4: Mr. A furnishes you the following information for the year ended 31.03.2026:

		(₹)
(i)	Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicles throughout the year)	3,20,000
(ii)	Income from retail trade of garments (Computed as per books) (Sales turnover ₹ 1,35,70,000)	7,50,000
	Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y.2026-27. Assume 10% of the turnover during the P.Y.2025-26 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.	
(iii)	He has brought forward depreciation relating to A.Y. 2024-25	1,00,000

Compute taxable income of Mr. A and his tax liability for the A.Y. 2026-27 with reasons for your computation, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of total income and tax liability of Mr. A for the A.Y. 2026-27

Particulars	₹
Income from retail trade – as per books (See Note 1 below)	7,50,000
Income from plying of vehicles – as per books (See Note 2 below)	3,20,000
	10,70,000
Less : Set off of b/f depreciation relating to A.Y. 2024-25	(1,00,000)
Total income	**9,70,000**
Tax liability	1,06,500
Add: Health and Education cess@4%	4,260
Total tax liability	**1,10,760**

Note:

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

7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books.

However, if he does not declare profits as per presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore (the enhanced limit of ₹ 10 crore would not be available, since more than 5% of the turnover is received in cash). Also, his case would be falling under section 44AD(4) and hence, tax audit is mandatory. It may further be noted that he cannot declare income under presumptive provisions under section 44AD for next five assessment years, if he does not declared profits as per presumptive provisions under section 44AD this year.

2. **Income from plying of light goods vehicles:** Income calculated under section 44AE(1) would be ₹ 7,500 x 12 x 5 which is equal to ₹ 4,50,000. However, the income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. ₹ 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.
3. It is to be further noted that in both the above cases, if income is declared under presumptive provisions, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If income is declared as per presumptive provisions, his total income would be as under:

Particulars	₹
Income from retail trade under section 44AD [₹ 13,57,000@ 8% plus ₹ 1,22,13,000 @6%]	8,41,340
Income from plying of light goods vehicles under section 44AE [₹ 7,500 x 12 x 5]	4,50,000
	12,91,340
Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off	Nil
Total income	**12,91,340**
Tax thereon	1,99,902
Add: Health and Education cess @4%	7,996
Total tax liability	2,07,898
Total tax liability (rounded off)	**2,07,900**

Question 5: Mr. Aditya furnishes the following details for the year ended 31-03-2026:

Particulars	Amount (₹)
Loss from speculative business A	**25,000**
Income from speculative business B	**5,000**
Loss from specified business covered under section 35AD	**20,000**
Income from salary (computed)	**3,00,000**
Loss from let out house property	**2,50,000**
Income from trading business	**45,000**
Long-term capital gain from sale of urban land	**2,00,000**
Long-term capital loss on sale of shares (STT not paid)	**75,000**
Long-term capital loss on sale of listed shares in recognized stock exchange	**1,02,000**

(STT paid at the time of acquisition and sale of shares)	

Following are the brought forward losses:

(1) Losses from owning and maintaining of race horses pertaining to A.Y. 2024-25 ₹ 2,000.

(2) Brought forward loss from trading business ₹ 5,000 relating to A.Y.2021-22.

Compute the total income of Mr. Aditya and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of total income of Mr. Aditya for the A.Y.2026-27

Particulars	₹	₹
Salaries		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71(3A) [Loss from house property to the extent of ₹ 23,000 can be set off first against remaining capital gain of and then balance ₹ 1,77,000 against Salaries]	(1,77,000)	1,23,000
Loss from house property to the extent not set off i.e. ₹ 50,000 (₹ 2,50,000 – ₹ 2,00,000) to be carried forward to A.Y. 2027-28		
Profits and gains of business or profession		
Income from trading business	45,000	
Less: Brought forward loss from trading business of A.Y. 2021-22 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 set-off is permitted, has not expired.	(5,000)	40,000
Income from speculative business B	5,000	
Less: Loss of ₹ 25,000 from speculative business A set-off as per section 73(1) to the extent of ₹ 5,000	(5,000)	Nil
Balance loss of ₹ 20,000 from speculative business A to be carried forward to A.Y.2027-28 as per section 73(2)		
Loss of ₹ 20,000 from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A.		
Capital Gains		
Long term capital gain on sale of urban land	2,00,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)]	(75,000)	
Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A	(1,02,000)	
Less: Set-off of loss from house property to the extent of	(23,000)	Nil
Total Income		**1,63,000**

Items eligible for carried forward to A.Y.2027-28

Particulars	₹
Loss from House property	50,000
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 since Mr. Aditya is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A). As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of 8 assessment years i.e., up to A.Y.2034-35, in this case.	
Loss from speculative business A Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of 4 assessment years i.e., up to A.Y.2030-31, in this case, as specified under section 73(4).	20,000
Loss from specified business Loss from specified business under section 35AD can be set-off 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. Mr. Aditya is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). He can, accordingly, carry forward loss from such business indefinitely for set off against profits of any other specified business.	20,000
Loss from the activity of owning and maintaining race horses Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of 4 assessment years, i.e., up to A.Y.2028-29, in this case, as specified under section 74A(3).	2,000

Question 6: Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the P.Y. 2025-26:

	Particulars	₹
(1)	Income from Salary (computed)	15,000
(2)	Income from business	66,000
(3)	Long term capital gain on sale of land	10,800
(4)	Loss on maintenance of race horses	15,000
(5)	Loss from gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to A.Y. 2025-26 are as follows:

	Particulars	₹
(1)	Unabsorbed depreciation	11,000
(2)	Loss from Speculative business	22,000
(3)	Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the A.Y. 2026-27 and the amount of loss, if any that can be carried forward or not.

Computation of Gross Total Income of Mr. Garg for the A.Y. 2026-27

Particulars	₹	₹
(i) Income from salary		15,000
(ii) Profits and gains of business or profession	66,000	
Less: Unabsorbed depreciation brought forward from A.Y.2025-26 (Unabsorbed depreciation can be set-off against any head of income other than "salary")	(11,000)	55,000
(iii) Capital gains		
Long-term capital gain on sale of land	10,800	
Less: Brought forward short-term capital loss [Short- term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)]	(9,800)	1,000
Gross Total Income		**71,000**

Amount of loss to be carried forward to A.Y.2027-28

	Particulars	₹
(1)	**Loss from speculative business [to be carried forward as per section 73]** [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y.2025-26 has to be carried forward to A.Y. 2027-28 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of 4 years as per section 73(4), i.e., up to A.Y.2029-30]	22,000
(2)	**Loss on maintenance of race horses [to be carried forward as per section 74A]** [As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of 4 assessment years i.e., up to A.Y.2030-31]	15,000
(3)	**Loss from gambling can neither be set-off nor be carried forward.**	

Question 7: **The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2026:**

Particulars	₹
Income from salaries (computed)	**2,20,000**
Loss from house property	**1,90,000**
Loss from cloth business	**2,40,000**
Income from speculation business	**30,000**
Loss from specified business covered by section 35AD	**20,000**
Long-term capital gains from sale of urban land	**2,50,000**
Loss from card games	**32,000**
Income from betting (Gross)	**45,000**
Life Insurance Premium paid (10% of the capital sum assured)	**45,000**

Compute the total income and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of total income of Mr. Srivatsan for the A.Y.2026-27

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Set off of balance loss of ₹ 1,50,000 from house property	(1,50,000)	70,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business of ₹ 2,40,000 set off to the extent of ₹ 30,000	(30,000)	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Set-off of balance loss of ₹ 2,10,000 from cloth business	(2,10,000)	
Less: Set-off of loss from house property to the extent of	(40,000)	Nil
Income from other sources		
Income from betting		45,000
Gross Total Income		**1,15,000**
Less: Deduction under section 80C (life insurance premium paid)		(45,000)
Total income		**70,000**

Losses to be carried forward:

Particulars	₹
(1) Loss from cloth business (₹ 2,40,000 – ₹ 30,000 – ₹ 2,10,000)	Nil
(2) Loss from specified business covered by section 35AD	20,000

Notes:

(i) 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. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year. Mr. Srivatsan is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Therefore, he can carry forward loss of ₹ 20,000 from specified business referred u/s 35AD indefinitely for set off against profits of any specified business.

(ii) Business loss cannot be set off against salary income. However, the balance business loss of ₹ 2,10,000 (₹ 2,40,000 – ₹ 30,000 set-off against income from speculation business) can be set-off against long-term capital gains of ₹ 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 40,000.

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

(iv) Income from betting is chargeable at a flat rate of 30% 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 8: Mr. Rajat submits the following information for the financial year ending 31st March, 2026. He decides to pay tax under the default tax regime u/s 115BAC. He desires that you should:

(a) Compute the total income;and

(b) Ascertain the amount of losses that can be carried forward.

	Particulars	₹
(i)	He has two let out house property:	
	(a) House No. I – Income after all statutory deductions	72,000
	(b) House No. II – Current year loss	(30,000)
(ii)	He has three proprietary businesses:	
	(a) Textile Business:	
	(i) Discontinued from 31st October, 2025 – Current year loss	40,000
	(ii) Brought forward business loss of A.Y.2021-22	95,000
	(b) Chemical Business:	
	(i) Discontinued from 1st March, 2023 – hence no profit/loss	Nil
	(ii) Bad debts allowed in earlier years recovered during this year	35,000
	(iii) Brought forward business loss of A.Y. 2022-23	50,000
	(c) Leather Business: Profit for the current year	1,00,000
	(d) Share of profit in a firm in which he is partner since 2009	16,550
(iii)	(a) Short-term capital gain	60,000
	(b) Long-term capital loss	35,000
(iv)	Contribution to LIC towards premium	10,000

Computation of total income of Mr. Rajat for the A.Y. 2026-27

Particulars	₹	₹
1. Income from house property		
House No.1	72,000	
House No.2	(30,000)	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
Bad debts recovered taxable under section 41(4)	35,000	
	1,35,000	
Less: Current year loss of textile business	(40,000)	
	95,000	
Less: Brought forward business loss of textile business for A.Y.2021-22 set off against the business income of current year	(95,000)	Nil
3. Capital Gains		
Short-term capital gain		60,000
Gross Total Income		1,02,000
Less: Deduction under Chapter VI-A		
Under section 80C – LIC premium paid (not available since he is paying tax under the default tax regime)		-
Total Income		**1,02,000**

Statement of losses to be carried forward to A.Y. 2027-28

Particulars	₹
Brought forward chemical business loss of A.Y. 2022-23 to be carried forward u/s 72	50,000

Long term capital loss of A.Y. 2026-27 to be carried forward u/s 74	35,000

Notes:

(1) Share of profit from firm of ₹ 16,550 is exempt under section 10(2A).

(2) Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set- off against long-term capital gains of that year.

Question 9: Ms. Geeta, a resident individual, provides the following details of her income/ losses for the year ended 31.3.2026:

(i) Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.

(ii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.

(iii) Long-term capital gain on sale of land ₹ 5,00,000.

(iv) ₹ 51,000 received in cash from friends in party.

(v) ₹ 55,000, being dividend income on listed equity shares of domestic companies.

(vi) Brought forward business loss of A.Y. 2024-25 ₹ 12,50,000.

Compute gross total income of Ms. Geeta for the A.Y. 2026-27 and ascertain the amount of loss that can be carried forward.

Computation of Gross Total Income of Ms. Geeta for the A.Y. 2026-27

Particulars		₹
Profits and gains of business and profession		
Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession"		7,50,000
Less: B/f business loss of A.Y. 2024-25 ₹ 12,50,000 to be set- off to the extent of ₹ 7,50,000		(7,50,000)
(Balance b/f business loss of ₹ 5,00,000 can be carried forward to the next year)		Nil
Capital Gains		
Long term capital gain on sale of land	5,00,000	
Less: Long-term capital loss on shares on STT paid (See Note 2 below)	(3,00,000)	2,00,000
Income from other sources		
Cash gift received from friends - since the value of cash gift exceeds ₹ 50,000, the entire sum is taxable	51,000	
Dividend income from a domestic company is fully taxable in the hands of shareholders	55,000	1,06,000
Gross Total Income		**3,06,000**

Notes:

1. Balance brought forward business loss of assessment year 2024-25 of ₹ 5,00,000 has to be carried forward to the next year.
2. Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against long- term capital gain on sale of land as per section 70.

Question 10: Mr. P, a resident individual, furnishes the following particulars of his income and other details for the previous year 2025-26:

Sl. No.	Particulars	₹
(i)	Income from salary (computed)	18,000
(ii)	Net annual value of house property	70,000
(iii)	Income from business	80,000
(iv)	Income from speculative business	12,000
(v)	Long term capital gain on sale of land	15,800
(vi)	Loss on maintenance of race horse	9,000
(vii)	Loss on gambling	8,000

Depreciation allowable under the Income-tax Act, 1961, comes to ₹ 8,000, for which no treatment is given above. The other details of unabsorbed depreciation and brought forward losses (pertaining to A.Y. 2024-25) are:

Sl. No.	Particulars	₹
(i)	Unabsorbed depreciation	9,000
(ii)	Loss from speculative business	16,000
(iii)	Short term capital loss	7,800

Compute the gross total income of Mr. P for the A.Y. 2026-27, and the amount of loss that can or cannot be carried forward.

Computation of Gross Total Income of Mr. P for the A.Y. 2026-27

Particulars	₹	₹
(i) **Income from salary**		18,000
(ii) **Income from House Property**		
Net Annual Value	70,000	
Less: Deduction under section 24 (30% of ₹ 70,000)	(21,000)	49,000
(iii) **Income from business and profession**		
(a) Income from business	80,000	
Less: Current year depreciation	(8,000)	
	72,000	
Less: Unabsorbed depreciation	(9,000)	63,000
(b) Income from speculative business	12,000	
Less: B/f loss of ₹ 16,000 from speculative business set-off to the extent of ₹ 12,000	(12,000)	Nil
(Balance loss of ₹ 4,000 (i.e. ₹ 16,000 – ₹ 12,000) can be carried forward to the next year)		
(iv) **Income from capital gain**		
Long-term capital gain on sale of land	15,800	
Less: Brought forward short-term capital loss	(7,800)	8,000
Gross total income		**1,38,000**

Amount of loss to be carried forward to the next year

Particulars	₹
Loss from speculative business (to be carried forward as per section 73)	4,000

Loss on maintenance of race horses (to be carried forward as per section 74A)	9,000

Notes:

(i) Loss on gambling can neither be set-off nor be carried forward.

(ii) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.

(iii) Brought forward speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2027-28. It may be noted that speculative business loss can be carried forward for a maximum of 4 years as per section 73(4).

Question 11: Mr. Prakash furnishes the following information for the financial year 2025-26:

Particulars	₹
Loss from speculation business-X	**85,000**
Profit from speculation business-Y	**45,000**
Interest on borrowings in respect of self-occupied house property	**3,18,000**
Income from let out house property	**1,20,000**
Presumptive Income from trading and manufacturing business under section 44AD	**1,00,000**
Salary from XYZ (P) Ltd.	**5,25,000**
Interest on PPF deposit	**75,000**
Long term capital gain on sale of Vacant site	**1,25,000**
Short term capital loss on sale of Jewellery	**65,000**
Investment in tax saver deposit on 31-03-26	**60,000**
Brought forward loss of business of assessment year 2020-21	**1,00,000**

Compute the total income of Mr. Prakash for the assessment year 2026-27 also show the loss eligible to be carried forward. Assume that he has opted out of the default tax regime

Computation of total income of Mr. Prakash for A.Y.2026-27

Particulars	₹	₹
Income from Salary from XYZ (P) Ltd.	5,25,000	
Less: Standard Deduction u/s 16(ia)	50,000	
	4,75,000	
Less: Loss from house property of ₹ 20,000 [₹ 80,000 - ₹ 60,000, being the loss set-off against long-term capital gains]	(20,000)	4,55,000
Income from house property		
Income from let out house property	1,20,000	
Less: Loss from self-occupied house property to the extent of ₹ 2 lakhs, allowable as deduction u/s 24(b) in respect of interest on borrowings	(2,00,000)	
	(80,000)	
Profits and gains from business or profession		
Profit from speculation business Y	45,000	
Less: Loss of ₹ 85,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(45,000)	Nil
Presumptive Income from trading and manufacturing business	1,00,000	
Less: Brought forward business loss of A.Y. 2020- 21 set-off since the period		

of eight assessment years has not expired	(1,00,000)	Nil
Capital Gains		
Long term capital gain on sale of vacant site	1,25,000	
Less: Short term capital loss on sale of jewellery	(65,000)	
	60,000	
Less: Loss from house property to be set-off to the extent of LTCG	(60,000)	Nil
Income from Other Sources		
Interest on PPF deposit	75,000	
Less: Exempt	(75,000)	Nil
Gross Total Income		**4,55,000**
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Investment in tax saver deposit on 31.3.2026	(60,000)	(60,000)
Total Income		**3,95,000**

Losses to be carried forward to A.Y.2027-28

Particulars	₹
Loss from speculation business X (₹ 85,000 - ₹ 45,000) Loss from speculation business can be set-off only against profits of any other speculation business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from speculation business, if any, in that year.	40,000

Question 12: Mr. Jaji is a chartered accountant and his income from profession for the year 2025-26 is ₹ 10,00,000. He provides you with the following information for the year 2025-26.

Particulars	₹
Income of minor son Biju from company deposit	**1,50,000**
Income of minor daughter Chitra (professional dancer)	**20,00,000**
Interest from SBI received by Chitra on deposit made in 2024 out of her special talent	**20,000**
Gift received by Chitra on 30-09-2025 from friends of Mr. Jaji on winning National award	**45,000**
Short term capital loss of Mr. Jaji	**6,00,000**
Long term capital gain of Mr. Jaji	**4,00,000**
Long term capital gains from shares (STT paid) of Mr. Jaji	**10,00,000**
Short term capital loss under section 111A of Mr. Jaji	**10,00,000**

Compute the total income of Mr. Jaji for A.Y. 2026-27 and the losses to be carried forward. Mr. Jaji has opted out of the default tax regime

Computation of Total Income of Mr. Jaji for A.Y. 2026-27

Particulars	₹	₹	₹
Profits and gains from business and profession			
Income from chartered accountancy profession			10,00,000
Capital gains			
Long term capital gains from STT paid shares		10,00,000	
Long term capital gain (other than above)		4,00,000	

		14,00,000	
Less: Short term capital loss set off against long-term capital gain as per section 74		(6,00,000)	
Less: Short term capital loss u/s 111A set off against long-term capital gain as per section 74 to the extent of		(8,00,000)	Nil
Income from other sources			
Income of minor son Biju			
Income from company deposit includible in the hands of Mr. Jaji as per section 64(1A)	1,50,000		
Less: Exemption in respect of income of minor child u/s 10(32)	(1,500)	1,48,500	
Income of minor daughter Chitra			
- Income of ₹ 20,00,000 of minor daughter Chitra (professional dancer) not includible in the hands of parent, since such income is earned on account of her special skills	Nil		
- Interest received on deposit with SBI made out of amount earned on account of her special talent is includible as per section 64(1A), since interest income arises out of deposit made and not on account of her special skills	20,000		
Less: Exemption in respect of income of minor child u/s 10(32)	(1,500)	18,500	
Other incomes: - Gift of ₹ 45,000 received by her from friends of Mr. Jaji is not taxable under section 56(2)(x), since the aggregate amount from non-relatives does not exceed ₹ 50,000		Nil	1,67,000
Total Income			**11,67,000**

Losses to be carried forward to A.Y.2027-28

Particulars	₹
Short term capital loss under section 111A	2,00,000

Note – Short-term capital loss under section 111A can be set-off against long-term capital gains first. In such a case, the losses to be carried forward to A.Y.2027-28 would be as under –

Particulars	₹
Short term capital loss (other than u/s 111A)	2,00,000

Questions from MRP [MTPs, RTPs, Past Exam Papers]

Question 1:

Mr. Jai, a resident individual, furnishes the following particulars of his income and other details for the previous year 2025-26:

	Rs.
Income from the activity of owning and maintaining race horses	40,000
Income from crossword puzzle solving	30,000
Income from Agricultural land in Haryana	25,000
Dividend Income from domestic company (gross)	15,000
(Expenditure incurred in collecting the aforesaid dividend)	2,500
Income from cycling business	1,50,000
Loss from warehousing facility for storage of edible oils	1,00,000
Share of loss form PR associates, a firm (having 4 equal partners) in which he is a partner	23,000
The following items have been brought forward from the assessment year 2023-24:	
Brought forward loss form house property	1,00,000
Loss from the activity of owning and maintaining race horses	37,000
Loss from gambling	10,000
Unabsorbed depreciation	15,000
Speculation Loss	20,000

Mrs. Jai (wife of Mr Jai) got a salary of Rs. 1,20,000 from PR associates during the year 2025-26. She is not qualified for the job.

Compute the gross total income of Mr Jai for the assessment year 2026 -27 ignoring the provisions of section 115BAC.

(PEP Nov 23 7M)

Computation of gross total income of Mr. Jai for the A.Y.2023-24

Particulars	Rs.	Rs.
Income under the head "Salaries"		
Salary of Mrs. Jai from PR associates	1,20,000	
Less: Standard deduction under section 16	(50,000)	70,000
[Salary of Mrs. Jai would be includible in the income of Mr. Jai, since Mr. Jai has a substantial interest in PR associates by having 25% share of profit in it and Mrs. Jai is not qualified for the job]		
Profits and gains from business and profession		
Income from cycling business	1,50,000	
Share of loss from PR associate [Exempt under section 10(2A)]	-	
Less: Set off of loss from warehousing facility for storage of edible oils	(1,00,000)	
	50,000	
Less: Set off of unabsorbed depreciation of A.Y. 2023-24	(15,000)	35,000
[**Note** - Alternatively, unabsorbed depreciation can be set-off against income from other sources other than income from crossword puzzle]		
Income from Other Sources		

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Income from crossword puzzle solving		30,000	
Income from agricultural land in Haryana [Exempt under section 10(1)]		-	
Dividend from domestic company (gross)		15,000	
[No deduction is allowed from dividend income other than interest expenses]			
Income from the activity of owning and maintaining race horses	40,000		
Less: Set off of brought loss from the activity of owning and maintaining race horses of A.Y. 2023-24, since 4 years has not lapsed	(37,000)	3,000	48,000
Gross Total Income			1,53,000

Notes:

(i) Brought forward loss from house property can be set off only against income of house property. Hence, such loss has to be carried forward to A.Y. 2027-28.

(ii) Loss from gambling can neither be set-off nor be carried forward.

(iii) Brought forward loss from speculative business can be set off against income of any other speculative business. Hence, such loss has to be carried forward to A.Y. 2027- 28.

Question 2:

Mr. Joshi, resident Indian, aged about 58 years, furnished the following details of his income for the previous year 2025-26:

(i) Income from House property (computed) Rs. 2,00,000.

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(ii) Income from Proprietary Business Rs. 3,00,000.

(iii) Short Term Capital Gain on sale of Land Rs. 2,00,000.

(iv) Short Term Capital loss on sale of equity shares listed in recognized stock exchange (STT paid) Rs. 75,000.

(v) Interest on Bank fixed deposit Rs. 50,000 received by his son, aged 21 years, out of money gifted by Mr. Joshi in 2024.

(vi) Loss from Speculation Business Rs. 40,000.

(vii) Loss from Owning and Maintenance of Race Horses Rs. 50,000. Following are the brought forward losses:

- **(a) Brought forward House property loss of assessment year 2023 -24 Rs. 2,50,000.**
- **(b) Brought forward business loss of Proprietary business from assessment year 2015-16 Rs. 50,000.**
- **(c) Unabsorbed Depreciation relating to assessment year 2016 -17 Rs. 1,00,000.**
- **(d) Brought forward Long Term Capital Loss from assessment year 2020-21 Rs. 90,000. Return of income for that year was filed on 31.01.2021, after due date of filing the return.**

Compute the total income of Mr. Joshi for the assessment year 2026-27 and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under Section 115BAC(1A).

(PEP May 2024 6M)

Computation of total income of Mr. Joshi for the A.Y.2026-27

Particulars	Rs.	
Income from house property	2,00,000	

Less: Set-off of brought forward loss from house property of A.Y. 2023-24 is allowed, since 8 years period not yet lapsed	2,00,000	Nil
Profits and gains from business or profession		
Income from proprietary business	3,00,000	
Less: Set off of brought forward business loss of A.Y. 2015-16 not allowable as 8 years' time has already lapsed in the A.Y. 2023-24	Nil	
Less: Set off of unabsorbed depreciation of A.Y. 2016-17	(1,00,000)	2,00,000
[**Note** – Alternatively, unabsorbed depreciation can be set-off against short-term capital gains]		
Capital Gains		
Short-term capital gain on sale of land	2,00,000	
Less: Set-off of short-term capital loss on sale of listed equity shares	(75,000)	1,25,000
Brought forward long-term capital loss is not allowed to be carried forward and set-off, since return of income for the A.Y. 2020-21 was filed after the due date of filing return of income.		
Income from Other Sources		
Interest on fixed deposit not includible in the hands of Mr. Joshi since his son is major		Nil
Gross Total Income		**3,25,000**
Less: Deduction under Chapter VI-A		Nil
Total Income		**3,25,000**

Items eligible for carried forward

(i)	Loss from speculation business of Rs. 40,000 can be set-off against income from speculation business only. Hence, such loss would be carried forward to subsequent assessment year.
(ii)	Loss from owning and maintenance of race horses Rs. 50,000, can be set-off against income from income from owning and maintenance of race horses only. Thus, such loss would be carried forward to subsequent assessment year.
(iii)	Brought forward loss from house property can be set off only against income of house property. Hence, remaining loss of Rs. 50,000 has to be carried forward to subsequent assessment year.

Question 3:

Mr. Suraj, (39 years), his wife Megha (35 years) and minor son Dev (12 years), provide the following details of their income/losses for the previous year 2025-26:

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Mr. Suraj

(i) Salary received as a partner from a partnership firm - Rs.6,15,000

He is a working partner in the firm and the salary is as per the limits prescribed under section 40(b).

(ii) Income (loss) from house property:

Brought forward loss from House -A (let out) - Rs.96,000 Current year loss from House B (let out) - Rs.2,30,000

(iii) Interest received on enhanced compensation - Rs.2,00,000

It relates to transfer of a piece of land in the financial year 2018-19.

Out of the above Rs.35,000 relates to previous year 2025-26 and the balance relate to preceding previous year.

(iv) Gift from grandfather's younger sister by cheque - Rs.1,25,000
(v) Dividend on listed equity shares of domestic companies (Gross) - Rs.50,000
(vi) On 1st December 2025, Mr. Suraj received Rs.75 lakhs as maturity proceeds from his life insurance policy which was taken on 1st May 2014. He paid Rs.6,00,000 as annual premium and the sum assured was Rs.65 lakhs.

Mrs. Megha
(i) Current year loss from business. (She carried on this business with funds which Mr. Suraj gifted to her) - Rs.8,10,000.
(ii) Mrs. Megha purchased a house property from her "Stridhan" and gifted the same to her minor son, Dev on 1st April, 2025 out of love and affection. The FMV of the house on the date of transfer was Rs.51 lakhs.

Master Dev
Rent received from house property received from Mrs. Megha - Rs.35,000 p.m.

Compute total income of Mr. Suraj, Mrs. Megha and Dev for the assessment year 2026-27 assuming Mr. Suraj has decided to pay tax under default tax regime provided under section 115BAC, whereas Mrs. Megha and Dev have opted out of the default tax regime. Briefly explain the reasons for the treatment of each item.

(PEP Sept 24 6M)

Computation of total income of Mr. Suraj, Mrs. Megha and minor son Dev for A.Y. 2024-25

Particulars	Mr. Suraj [Under DTR] Rs.	Mrs. Megha [Under OTR] Rs.	Dev [Under OTR] Rs.
Income from house property			
Annual Value [As per section 27, Mrs. Megha is the deemed owner of the house property transferred to minor son, Dev without consideration though such property is acquired from her "Stridhan"] [Rs.35,000 x12]		4,20,000	
Less: Deduction @30% of NAV		(1,26,000)	
		2,94,000	
Brought forward loss from House A [Not allowed to be set-off against income from other heads]	-		
Current year loss of Mr. Suraj from House – B [Not allowed to be set-off against income from other heads since Mr. Suraj is paying tax under default tax regime]	-		
Profits and gains from business or profession			
Salary from partnership firm	6,15,000		
Less: As per section 70, set off of current year loss from business of Rs.8,10,000 to the extent of [Current year loss from business of his wife is allowed to be set off in the hands of Mr. Suraj since funds for business is gifted by him]	(6,15,000)		

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Income from Other Sources	-		
Interest on enhanced compensation [Taxable in the year it is received]	2,00,000		
Less: Deduction @50%	(1,00,000)		
	1,00,000		
Gift from grandfather's sister [Taxable under section 56(2)(x), since grandfather's sister is not a relative and the amount of gift exceeds Rs.50,000]	1,25,000		
Dividend on shares (gross)	50,000		
Maturity proceeds from LIC [Exempt under section 10(10D) since the annual premium payable does not exceed 10% of sum assured]	-		
	2,75,000		
Less: Set off of remaining business loss of Rs.1,95,000	(1,95,000)		
Gift of house property from Mrs. Megha to Dev [Exempt since the gift is from a relative i.e., from his mother]	80,000		Nil
Taxable Income	**80,000**	**2,94,000**	**-**

Question 4:

Mr. Vishal, aged 33 years, submits the information of following transaction/income during the P.Y. 2025-26

(i) Mr. Vishal had a house in Delhi. During financial year 2024-25, he had transferred the said house to Ms. Deepika, daughter of his brother without any consideration. House would go back to Mr. Vishal after the life time of Ms. Deepika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Vishal. Rent received by Ms. Deepika during the previous year 2025-26 from such house property is Rs. 5,50,000.

(ii) Mr. Vishal holds preference shares in M/s A Pvt. Ltd. He instructed the company to pay dividends to Ms. Chandni, daughter of his servant. The transfer is irrevocable for the lifetime of Chandni. Dividend received by Ms. Chandni during the previous year 2025-26 is Rs. 4,50,000.

(iii) Mr. Vishal 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.

(iv) Other income/loss of Mr. Vishal includes

- **Interest from saving bank account of Rs. 1,75,000**
- **Cash gift of Rs. 75,000 received from daughter of his sister on his birthday.**
- **Income from betting of Rs. 25,000**
- **Income from card games of Rs. 46,000**
- **Loss on maintenance of race horses of Rs. 14,600**

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Compute the total income of Mr. Vishal for the Assessment Year 2026-27 if he has opted out of the default tax regime and the losses to be carried forward.

(MTP 1 May 24 6M)

Computation of Total Income of Mr. Vishal for A.Y. 2026-27

Particulars	Amount (Rs.)	Amount (Rs.)
Income from house property		
House in Delhi [Since Mr. Vishal receives direct or indirect benefit from income arising to his brother's daughter, Ms. Deepika, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Vishal, even though the transfer may not be revocable during lifetime of Ms. Deepika]		
Gross Annual Value	5,50,000	
Less: Municipal taxes	-	
Net Annual Value	5,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	(1,65,000)	
(b) Interest on loan	0	3,85,000
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. Short term capital loss of Rs. 16,000 set off against long-term capital gains to the extent of Rs.15,000. Balance short term capital loss of Rs. 1,000 to be carry forward to A.Y.2027-28	(15,000)	
Income from other sources		
Dividend on preference shares [Taxable in the hands of Mr. Vishal as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	4,50,000	
Interest from saving bank account	1,75,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding Rs. 50,000 is received from his niece, who is not a relative]	75,000	
Income from betting [No loss is allowed to be set off against such income]	25,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	7,71,000
Gross Total Income		**11,56,000**
Less: **Deduction under Chapter VI-A**		
Deduction under section 80TTA [Interest from savings bank account]	(10,000)	(10,000)
Total Income		**11,46,000**

Losses to be carried forward to A.Y. 2025-26

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

Question 5:

Vijay Prasad, a non-resident aged 50 years furnishes the following information of the income from India for the year ended on 31-03-2026:

Income by way of salary (computed)	2,75,000
Short term capital loss	(1,85,000)
Business income - Retail business	1,20,000
Business income - whole sale business	(1,00,000)
Brought forward business loss (A.Y. 2023-24)	(1,35,000)
Long term capital gain from sale of building	2,00,000
Lottery winnings (gross)	45,000
Contribution to provident fund and NSC	1,50,000
Income of minor daughter Manisha from special talent	2,00,000

Compute his income tax liability assuming that he opts out of the default tax regime under section 115BAC

(MTP 1 Jan 25 6M)

Computation of tax liability of Mr. Vijay Prasad for A.Y.2026-27

Particulars	Rs.	Rs.
Salary		
Income by way of salary (computed)		2,75,000
Profits and gains from business and profession		
Business Income- Retail business	1,20,000	
Less: Set-off of business loss of Rs. 1,00,000 from wholesale business	1,00,000	
	20,000	
Less: Set-off of brought forward business loss of Rs. 1,35,000 of A.Y.2023-24 allowable to the extent of Rs. 20,000 by virtue of section 72(1)	20,000	Nil
[Balance brought forward business loss of Rs.1,15,000 (i.e., Rs. 1,35,000 - Rs.20,000) to be carry forward to A.Y. 2027-28 for set-off against business income of that year]		
Capital Gains		
Long-term capital gain on sale of building	2,00,000	
Less: Set-off of short term capital loss	(1,85,000)	15,000
Income from Other Sources		
Lottery winnings		45,000
Income of minor daughter from special talent [Not included in Vijay Prasad's income since it is earned from special talent]		-
Gross Total Income		**3,35,000**
Less: Deduction under section 80C		
Contribution to provident fund and NSC Rs. 1,50,000		(150,000)
Total Income		**1,85,000**
Tax on Rs. 1,85,000		
Tax on lottery income of Rs. 45,000 @30% [Unexhausted basic exemption limit can not be reduced from lottery income]	13,500	

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Tax on LTCG of Rs. 15,000 @20% [Unexhausted basic exemption limit can not be reduced from LTCG as Mr. Vijay is a non resident]	3,000	
Tax on other income of Rs. 1,25,000 (since it does not exceed basic exemption limit)	-	16,500
Add: Health and education cess @4%		660
Tax liability		**17,160**

Question 6:

The following are the details relating to Mr. Roshan, a resident Indian, relating to the year ended 31.03.2026

Particulars	Amount (Rs.)
Short term capital gain	**1,50,000**
Loss from house property [let out property]	**2,50,000**
Loss from speculative business	**50,000**
Loss from card games	**20,000**
Brought forward long term capital loss of A.Y. 2022-23	**86,000**
Dividend from ABC Ltd.	**11,00,000**
Loss from tea business	**1,06,000**

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

You are required to compute taxable income of Mr. Roshan for the A.Y. 2026-27 if he has exercised the option to shift out of the default tax regime under section 115BAC. Ascertain the amount of losses which can be carried forward.

(MTP 2 May 24 6M)

Computation of Taxable Income of Mr. Roshan for the A.Y. 2026-27 under OTR

Particulars	Rs.	Rs.
Salaries		
Shamita's salary (Rs. 25,000 x 12) **[See Note 1]**	3,00,000	
Less: Standard deduction under section 16(ia) upto Rs. 50,000	(50,000)	
	2,50,000	
Less: Loss from house property set off against salary income as per section 71(3A) **[See Note 2]**	(2,00,000)	50,000
Capital Gains		
Short term capital gain	1,50,000	
Less: Loss from tea business (Rs. 1,06,000 x 40%) **[See Note 3 & 4]**	(42,400)	1,07,600
Income from Other Sources		
Dividend income		11,00,000
Taxable Income		**12,57,600**

The following losses can be carried forward for subsequent assessment years:

(i) Loss from house property to be carried forward and set-off against income from house property	Rs. 50,000

(ii) Long-term capital loss of A.Y. 2022-23 can be carried forward and set-off against long-term capital gains	Rs. 86,000
(iii) Loss from speculative business to be carried forward and set-off against income from speculative business	Rs. 50,000

Notes:

(1) As per section 64(1)(ii), all the income which arises directly or indirectly, to the spouse of any individual by way of salary, commission, fees or any other form of remuneration from a concern in which such individual has a substantial interest shall be included in the total income of such individual. However, where spouse possesses technical or professional qualification and the income is solely attributable to the application of such knowledge and experience, clubbing provisions will not apply. Since, Mrs. Shamita is not adequately qualified for the post and Mr. Roshan has substantial interest in Ray Ltd by holding 21% of the shares of the Ray Ltd., the salary income of Mrs. Shamita to be included in Mr. Roshan's income.

(2) As per section 71(3A), loss from house property can be set off against any other head of income to the extent of Rs. 2,00,000 only.

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(3) 60% of the losses from tea business is treated as agricultural income and therefore exempt under section 10(1). Loss from an exempt source cannot be set off against profits from a taxable source.

(4) As per section 71(2A), business loss cannot be set off against salary income. Hence, 40% of the losses from tea business i.e., Rs. 42,400 can be set off against short term capital gains or dividend income.

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

(6) Loss of Rs. 50,000 from speculative business can be set-off only against the income from the speculative business. Hence, such loss has to be carried forward.

(7) As per section 74(1), brought forward long-term capital loss can be set-off only against long-term capital gain. Such loss can be carried forward for eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since, 8 assessment years has not expired, such loss can be carried forward to A.Y. 2027-28 for set-off against LTCGs.

Question 7:

Mr. Mohit submits the following information for the previous year 2025-26:

		(Amount in Rs.)
(i)	Income from salary	6,50,000
(ii)	Income from House-I	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 2026-27 under regular provisions of the Act. Mr. Mohit has filed his return of income on 25.07.2026.

(MTP 2 Sept 24 6M)

Gross Total Income of Mr. Mohit for A.Y. 2024-25

Particulars		Rs.	Rs.
Salaries			
Income from salary		6,50,000	
Less: Loss from house property of Rs. 2,60,000, restricted to		(2,00,000)	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		2,00,000	
Loss to be carried forward to A.Y. 2027-28		(60,000)	
Profits and gains of business or profession			
Profit from cloth business		1,70,000	
Less: Loss from leather business		(68,000)	1,02,000
Capital Gains			
Short term capital loss in equity-oriented funds on which STT is paid Rs. 35,000 to be carried forward to A.Y. 2027-28 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 Rs. 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. 2027-28.		Nil	
Income from crossword puzzles		12,000	
Dividend from foreign company		8,500	29,500
Gross Total Income			**5,81,500**

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Losses to be carried forward to A.Y.2027-28

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

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

Question 8:

Mr. Mayank, a resident individual, furnished the following information in respect of income earned and losses incurred by him for the F.Y. 2025-26

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

The other details of losses and unabsorbed depreciation pertaining to A.Y. 2025-26 are as follows:

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

Mr. Mayank filed his return of income for A.Y. 2025-26 on 28.7.2025 and opted for section 115BAC. Compute the Gross total income of Mr. Mayank for the A.Y. 2026-27 and the amount of loss, if any, that can be carried forward if he wants to continue with the provisions under section 115BAC.

(RTP Jan 25)

Computation of gross total income of Mr. Mayank for A.Y. 2024-25

Particulars	Amount (Rs.)	Amount (Rs.)
Income from Salary (Computed)		27,40,000
Income from house property		
Income from let out property in Kanpur	5,50,000	
Less: Set off of loss from let out property in Delhi	(3,75,000)	
Less: Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Mayank is paying tax under section 115BAC]	-	
Less: Loss from let out property in Delhi of A.Y. 2025-26 cannot be set off against income from house property of A.Y. 2026-27 since Mr. Mayank has paid tax under section 115BAC during the A.Y. 2025-26 and no deduction in respect of loss of house property of that year will be allowed in any subsequent year.	-	
		1,75,000
Profits and gains from business or profession		
Profits from manufacturing business	36,86,000	
Add: Additional depreciation not allowable in case of section 115BAC	50,000	
	37,36,000	

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Less: Brought forward business loss of A.Y. 2025-26	(5,35,000)	
Less: Unabsorbed normal depreciation	(2,10,000)	29,91,000
Capital Gains		
Long term capital loss on sale of shares of Reliance Ltd. on which STT has been paid can be set off only against long term capital gains. Hence, it has to be carried forward	(1,25,000)	-
Income from Other Sources		
Net winnings from online games [Rs.35,000/70%]		50,000
Gross Total Income		**59,56,000**

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Losses to be carried forward to A.Y. 2025-26

Particulars	Amount (Rs.)
Brought forward loss from the activity of owning and maintaining the race horses of A.Y. 2025-26 can be set off only against the income from the activity of owning and maintaining race horses. Hence, it has to be carried forward.	1,50,000
Long term capital loss on sale of shares of Reliance Ltd. on which STT has been paid	1,25,000

Question 9:

Mr. Rakesh furnishes the following details for year ended 31.03.2026:

Particulars	₹
Short Term Capital Gain	2,80,000
Loss from Speculative Business	1,20,000
Long Term Capital Gain on Sale of Land	60,000
Long Term Capital Loss on Sale of shares (STT not paid)	2,00,000
Income From Business of Textile (after allowing current year Depreciation)	1,00,000
Income From Salary (Computed)	2,00,000
Loss from Let - Out House Property	80,000
Share of Loss from Firm	1,60,000
Investment in PPF	21,000
Medical Insurance Premium for self paid by Cheque	24,000
Preventive Health Check-up fees for wife paid by Cheque	5,000

Following are the Carry Forward Losses:

Carry Forward Loss from Business of Textile ₹ 1,20,000 - this being the 8th year from the year of Loss.

Compute Total Income of Mr. Rakesh for the A.Y. 2026-2027 if he has exercised the option of shifting out of default tax regime provided under section 115BAC(1A). Also state the eligible Carry Forward losses.

(PYP Jan 25)

Computation of Total Income of Mr. Rakesh for the A.Y. 2026-27

	₹	₹
Income from Salary (computed)	2,00,000	
Less: Loss from let-out house property	(80,000)	
		1,20,000

Profit and gains of business or profession		
Income from textile business	1,00,000	
Less: Loss of ₹ 1,20,000 from textile business set-off to the extent of ₹ 1,00,000	(1,00,000)	
		Nil
Share of loss from firm - not allowed to be set-off		Nil
Capital Gain		
Short term capital gain		2,80,000
Long-term capital gain on sale of land	60,000	
Less: Long term capital loss of ₹ 2,00,000 on sale of shares set-off to the extent of ₹ 60,000	(60,000)	Nil
Balance loss of ₹ 1,40,000 to be carried forward to A.Y 2027-28		
Gross Total Income		**4,00,000**
Less: Deduction under Chapter VI-A		
- **Under section 80C** – Investment in PPF	(21,000)	
- **Under section 80D** – Medical insurance premium for self of ₹ 24,000 and preventive health checkup fees for wife of ₹ 5,000 restricted to	(25,000)	(46,000)
Total Income		**3,54,000**

Losses to be carried forward to A.Y. 2027-28	
Loss from speculative business Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward to A.Y. 2027-28 as per section 73(4) for set-off against income from speculation business of that year.	1,20,000
Long term capital loss on sale of shares Balance loss cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year.	1,40,000
Balance brought forward loss of ₹ 20,000 from textile business Such business loss cannot be carried forward since business loss can be carried forward for a maximum of 8 assessment years immediately succeeding the assessment year for which the loss was first computed and A.Y. 2026-27, is the 8th year.	

Question 10:

Mr. Sanju, an individual assessee, aged 32 years, furnishes the following details for the year ended on 31st March, 2026:

(i) Loss from Future & Option: ₹ 75,000

(ii) Profit from restaurant business (computed): ₹ 2,21,000

(iii) Share of profit in partnership firm M/s XL & Co. (19% share): ₹ 38,000

(iv) Income from salary (computed): ₹ 3,15,000

(v) Interest on loan paid for self-occupied house property: ₹ 1,75,000 (Principal amount paid: ₹ 1,20,000)

(vi) Short-term capital gain: ₹ 82,000
(vii)Long-term capital gain u/s 112A: ₹ 1,10,000 (viii)Long-term capital loss u/s 112: ₹ 68,000
(ix) His wife received salary of ₹ 2,40,000 from a partnership firm XL & Co., where she is an accountant. She does not have any professional qualification related to accounting.
(x) He paid ₹ 21,000 for medical insurance premium and ₹ 9,000 for preventive health check-up.
Brought forward speculative business loss: ₹ 26,000 (this being 3rd year from the year of loss) and brought forward short-term capital loss: ₹ 52,000 (this being the 4th year from the year of loss).
Compute total income of Mr. Sanju for the A.Y. 2026-27 if he exercises the option to shift out of default tax regime u/s 115BAC(1A). Also state the losses eligible to carry-forward.

(PEP May 25 6M)

Computation of Total Income of Mr. Sanju for the A.Y. 2026-27 as per the optional tax regime under the Income-tax Act, 1961

Particulars	₹	₹
Income from Salary		
Salary (computed)	3,15,000	
Add: Salary received by his wife from M/s XL & Co., partnership firm of ₹ 2,40,000 shall not to be clubbed in the income of Mr. Sanju even if his wife does not have any professional qualification since he does not have substantial interest in the firm as his share of profit in such firm is less than 20%	Nil	
	3,15,000	
Less: Loss from self-occupied house property	(1,75,000)	1,40,000
Income from House Property (Self-occupied Property)		
Annual Value		
Less: Deductions under section 24	-	
Interest on loan paid for self-occupied property	(1,75,000)	
	(1,75,000)	
Profit and gains of business or profession		
Profit from restaurant business	2,21,000	
Less: Loss from Future & Option	(75,000)	
	1,46,000	
Share of profit from M/s XL & Co., partnership firm [Exempt under section 10(2A)]	Nil	1,46,000
Capital Gain		
Short term capital gain	82,000	
Less: Brought forward short-term capital loss	(52,000)	30,000
Long-term capital gain u/s 112A	1,10,000	
Less: Long term capital loss u/s 112	(68,000)	42,000
Gross Total Income		**3,58,000**
Less: Deduction under Chapter VI-A		
- Under section 80C – Repayment of housing loan	(1,20,000)	
- Under section 80D – Medical premium for self of ₹ 21,000 and preventive health checkup fees of ₹ 9,000 restricted to ₹ 5,000 subject to overall limit of ₹ 25,000	(25,000)	1,45,000

Total Income	2,13,000

Losses to be carried forward to A.Y. 2026-27	
Loss from speculative business As per section 73(4), brought forward loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward to A.Y. 2027-28 for set-off against income from speculation business of that year.	26,000

Question 11:

Mr. Akshay, a resident individual, provides the following details of his income/losses for the year ended 31.03.2026:

	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 01.04.18 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. 2025-26

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 2026-27 and the amount of loss that can be carried forward. Mr. Akshay has opted out of the default tax regime.

(RTP May 25)

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

Particulars	₹	₹	₹

Income from salary (computed)			35,20,000
Income from house property			
(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		
Less: Deduction u/s 24			
30% of NAV	(96,000)	2,24,000	
(iii) House property at Mumbai (Self-occupied)			
Annual Value of self-occupied property	Nil		
Less: Deduction u/s 24(b)			
Interest on loan for repairs (to be restricted to ₹ 30,000)	(30,000)	(30,000)	
Loss from house property		(2,31,000)	
As per section 71(3A), loss from house property to be set-off against salary income to the extent of [Against Salary]			(2,00,000)
[Balance 31,000/- be carry forwarded]			**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		50,000	
		2,80,000	
Less: Set-off of loss from textile business to the extent of		(2,80,000)	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.			Ignore
Capital Gains			
Long-term capital gains on sale of equity shares on which STT is paid		7,95,000	
Less: Set-off of brought forward short-term capital loss			
Brought forward short-term capital loss on sale of gold	(2,75,000)		
Brought forward short-term capital loss u/s 111A	(25,000)	(3,00,000)	
		4,95,000	
Less: Set-off of balance loss of textile business [₹ 7,50,000 – ₹ 2,80,000 – ₹ 73,000]		(3,97,000)	98,000

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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	75,000	75,000
Gross Total Income		**34,93,000**
Less: Deduction under Chapter VI-A		
Under section 80C		
1. 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)	
2. Repayment of housing loan		
₹ 8,25,000 for house property in Delhi, not allowable since loan is taken from a friend	Nil	(15,000)
Total Income		**34,78,000**

Loss to be carried forward to A.Y.2027-28	
Particulars	**₹**
Loss from house property (₹ 2,31,000 - ₹ 2,00,000)	31,000

Question 12:

Mr. Shitij has earned the following incomes and incurred losses for the previous year 2025-26:

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

The other details of brought forward losses and unabsorbed depreciation pertaining to A.Y. 2025-26 are as follow:

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

You are required to compute the total income of Mr. Shitij for the assessment year 2026-27 under default tax regime, showing clearly the manner of set-off and the items eligible for carry forward. The return of income has been filed on 30-7-2026.

(MTP 2 Sep 25 6M)

Computation of total Income of Mr. Shitij for the A.Y. 2025-26 under default tax regime

Particulars	Amount (Rs.)	Amount (Rs.)
Income from Salary		3,40,000
Income from house property		
Loss from let out property	(75,000)	
Self-occupied property [Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Shitij is paying tax under default tax regime]	-	
Loss from house property is not allowed to be set off against any other head of income under default tax regime and it cannot be carried forward	75,000	-
Profit and gains from business or profession		
Profit and gains from manufacturing business	96,000	
Add: Additional depreciation not allowable in case of section 115BAC	4,000	
	1,00,000	
Less: Brought forward loss from manufacturing business	(35,000)	
Less: Unabsorbed normal depreciation	(10,000)	55,000
Capital Gains		
Long term capital gains on sale of house property	1,40,000	
Less: Long term capital loss on sale of shares on which STT is paid can also be set-off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	(1,15,000)	25,000
Income from Other Sources		
Winnings from lottery tickets [As per section 58, no expenditure is allowed against winnings from lottery tickets]		40,000
Gross Total Income		**4,60,000**

Losses to be carried forward to A.Y. 2027-28

Particulars	Amount (Rs.)
Loss from the activity of owning and maintaining the race horses [As per section 74A(3), loss from the activity of owning and maintaining the race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horse.]	50,000

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Question 13:

Surbhi, a resident individual aged 35 years, is a working partner in two firms (A and B) engaged in the retail business of garments. She provides the following details of her income/losses for the year ended 31st March 2026:

i. **Remuneration received as a partner from partnership firm "A" - ₹ 9.7 lakhs (Deductible while computing the income of the firm).**
ii. **Loss from intra-day trading in shares of Indian companies listed on a recognised stock exchange (no delivery of shares was taken) - ₹ 4 lakhs.**
iii. **Income from the activity of owning and maintaining race horses - ₹ 7 lakhs.**
iv. **Long term capital gains on sale of property (computed as per the provisions of the Income-tax Act, 1961) - ₹ 9.2 lakhs.**

v. Interest paid on loan taken for repair of self-occupied house property - ₹ 1.2 lakhs.
vi. Amount received as advance towards sale of a shop which was later forfeited as the buyer could not comply with the conditions specified in agreement of sale - ₹ 5 lakhs.
vii. Share of loss from partnership firm "B" - ₹ 1.1 lakhs.
viii. Loss on betting -₹ 0.20 lakhs.
ix. Interest on fixed deposit (gross) - ₹ 0.80 lakhs. The fixed deposit of ₹ 10 lakhs was gifted to her by her father-in-law on 01.04.2024.

Following are the losses bought forward:
(i) Long term capital loss on sale of unlisted shares (pertaining to A.Y. 2025-26) - ₹ 3.8 lakhs.
(ii) Loss from the activity of owning and maintaining race horse (pertaining to A.Y. 2025-26) - ₹ 25,000.

Compute gross total income of Surbhi for assessment year 2026-27 under appropriate heads of income and the amount of loss that can/cannot be carried forward assuming that she has opted out of default tax regime.

Will your answer be different in case she does not opt out from default tax regime.

There is no need to compute the tax payable under any of the regimes.

(PEP Sep 25)

Computation of Gross Total Income of Mrs. Surbhi for the A.Y. 2025-26 under OTR

Particulars	₹	₹
Income from House Property (Self-occupied Property)		
Annual Value		-
Less: Deductions under section 24(b)		
Interest on loan for repair of self-occupied property (Restricted to ₹ 30,000)	(30,000)	
Profit and gains of business or profession		
Remuneration from partnership firm	9,70,000	
Share of loss from partnership firm [Not allowed for set-off as it is from exempt source]		-
Less: Set off of loss from House Property	(30,000)	9,40,000
[Alternatively, loss from house property can be set off from advance forfeited.]		
Capital Gain		
Long-term capital gain on sale of property	9,20,000	
Less: Brought forward long-term capital loss on sale of unlisted shares	(3,80,000)	5,40,000
Income from Other Sources		
Income from owning and maintaining race horse	7,00,000	
Less: Brought forward loss of owning and maintaining race horse	(25,000) 6,75,000	
Advance forfeited as the buyer could not comply with the conditions of the sale agreement	5,00,000	
FD received from Father-in-Law [Sine Father-in-law falls within the definition of relative, the gift will not be taxable in her hands]	-	

As per section 64(1)(vi), interest on fixed deposit (Since fixed deposit was gifted by father-in law, interest on FD will be clubbed in the hands of Father-in-law)	-	11,75,000
Gross Total Income		**26,55,000**
Losses to be carried forward to A.Y. 2027-28		
Loss from speculative business Loss from speculation business (intra day trading in shares) cannot be set off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward to A.Y. 2027-28 for set off against income from speculation business of that year.		4,00,000
Loss on betting Loss from betting cannot be set off or carried forward for future years.		-

Computation of Gross Total Income of Mrs. Surbhi for the A.Y. 2025-26 under DTR

Particulars	₹	₹
Gross Total Income as per optional tax regime	**26,55,000**	
Add: Loss from House Property [Interest under section 24(b) is not allowable in respect of self-occupied house property while computing total income as per section 115BAC]	30,000	
Gross Total Income as per default tax regime		**26,85,000**

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10. Deductions from Gross Total Income

Illustrations

Illustration 1.

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

(a) For grant of deduction under section 80JJAA, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.

(b) Filing of belated return under section 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction under section 80QQB if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (i.e., he pays tax under the optional tax regime).

(a) The statement is not correct. Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing the benefit of deduction, inter alia, under section 80JJAA.

(b) The statement is correct. As per section 80AC, the assessee has to furnish his return of income on or before the due date specified under section 139(1), to be eligible to claim deduction, inter alia, under section 80QQB.

Illustration 2.

Compute the eligible deduction under section 80C for A.Y.2026-27 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2025-26, the details of which are given hereunder, if Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) –

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2025-26 (₹)
(i)	30/3/2012	Self	9,00,000	48,000
(ii)	1/5/2019	Spouse	1,50,000	20,000
(iii)	1/6/2022	Handicapped son (Section 80U disability)	4,00,000	80,000

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2025-26 (₹)	Deduction u/s 80C for A.Y.2026- 27 (₹)	Remark (restricted to % of sum assured) (₹)
(i)	30/3/2012	Self	9,00,000	48,000	48,000	20%
(ii)	1/5/2019	Spouse	1,50,000	20,000	15,000	10%
(iii)	1/6/2022	Handicapped	4,00,000	80,000	60,000	15%

		son (Section 80U disability)				
	Total				**1,23,000**	

Illustration 3.
What would your answer if Mr. Ganesh pays tax under default tax regime under section 115BAC?

If Mr. Ganesh pays tax under default tax regime under section 115BAC, he would not be eligible for deduction under section 80C.

Illustration 4.
An individual assessee, resident in India, has made the following deposit/payment during the previous year 2025-26:

Particulars	₹
Contribution to the public provident fund	1,50,000
Insurance premium paid on the life of the spouse (policy taken on 1.4.2019) (Assured value ₹ 2,20,000)	25,000

What is the deduction allowable under section 80C for A.Y.2026-27 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

Computation of deduction under section 80C for A.Y.2026-27

Particulars	₹
Deposit in public provident fund	1,50,000
Insurance premium paid on the life of the spouse (Maximum 10% of the assured value ₹ 2,20,000, as the policy is taken after 31.3.2012)	22,000
Total	**1,72,000**
However, the maximum permissible deduction u/s 80C is restricted to	**1,50,000**

Illustration 5.
The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr. A if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). What would be your answer if Mr. A pays tax under the default tax regime under section 115BAC?

(i) Tax treatment in the hands of Mr. A under the normal provisions of the Act:

(a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.

(b) Mr. A's contribution to pension scheme is allowable as deduction under section 80CCD(1). However, the deduction is restricted to 10% of salary.

Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, "salary" for the purpose of deduction under section 80CCD for Mr. A would be –

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 =	12,00,000
Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	
50% of Dearness Allowance forms part of pay = 50% of₹ 4,80,000	2,40,000
Salary for the purpose of deduction under section 80CCD	14,40,000
1. Deduction U/s 80CCD (1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
2. U/s 80CCD(1B), a further deduction of up to ₹ 50,000 is allowable. Therefore, deduction under section 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).	36,000

₹ 1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000 under section 80CCE. ₹ 36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of ₹ 1,50,000 under section 80CCE. In the alternative, ₹ 50,000 can be claimed as deduction under section 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000- ₹ 50,000) can be claimed as deduction under section 80CCD(1).

(c) Employer's contribution to pension scheme would be allowable as deduction under section 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction under section 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary under section 17(1)(viii).

However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

(ii) Where Mr. A pays tax under the default tax regime under section 115BAC

Mr. A would not be eligible for deduction under section 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime under section 115BAC.

However, he would be allowed deduction of up to ₹ 2,01,600, being 14% of salary [₹ 14,40,000, computed in (i) above] under section 80CCD(2) in respect of employer's contribution to pension scheme. Accordingly, entire employer's contributions of ₹ 1,80,000 would be allowed as deduction under section 80CCD(2).

Illustration 6.

The gross total income of Mr. X for the A.Y.2026-27 is ₹ 8,00,000. He has made the following investments/payments during the F.Y.2025-26 –

	Particulars	₹
(1)	Contribution to PPF	1,10,000
(2)	Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
(3)	Repayment of housing loan taken from Standard Chartered Bank	25,000
(4)	Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deduction under Chapter VI-A for the A.Y.2026-27 if Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of deduction under Chapter VI-A for the A.Y.2026-27

Particulars		₹
Deduction under section 80C		
-	Contribution to PPF	1,10,000
-	Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
-	Repayment of housing loan	25,000
		1,80,000
Restricted to ₹ 1,50,000, being the maximum permissible deduction u/s 80C		1,50,000
Deduction under section 80CCC		
-	Contribution to approved pension fund of LIC	1,05,000
		2,55,000
As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD (1) has to be restricted to ₹ 1,50,000		
Deduction allowable under Chapter VIA for the A.Y. 2026-27		**1,50,000**

Illustration 7.

Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the P.Y. 2025-26 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2026-27 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Deduction allowable under section 80D for the A.Y.2026-27

	Particulars	Actual Payment ₹	Maximum deduction allowable ₹
A.	**Premium paid and medical expenditure for self and spouse**		
(i)	Medical insurance premium paid for self and spouse	20,000	20,000
(ii)	Contribution to CGHS	3,600	3,600
(iii)	Exp. on preventive health check-up of self & spouse	3,000	1,400
		26,600	25,000
B.	**Premium paid or medical expenditure for father (senior citizen)**		
(i)	Mediclaim premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction under section 80D (₹ 25,000 + ₹ 50,000)		**75,000**

Notes:

(1) The total deduction under A. (i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,400, being (₹ 25,000 – ₹ 20,000 – ₹ 3,600).

(2) The total deduction under B. (i) and (ii) above should not exceed ₹ 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 – ₹ 47,000).

(3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 4,400 (i.e., ₹ 1,400 + ₹ 3,000), which is within the maximum permissible limit of ₹ 5,000.

Illustration 8.

Mr. Y, aged 40 years, paid medical insurance premium of ₹ 22,000 during the P.Y. 2025-26 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of ₹ 20,000 on his father, aged 71 years, who is not covered under mediclaim policy. His father is also not dependent upon him. He contributed ₹ 6,000 to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y. 2026-27 if Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Deduction allowable under section 80D for the A.Y.2026-27

	Particulars	₹	₹
(i)	**Medical insurance paid for self, spouse and dependent children**	22,000	
(ii)	Contribution to CGHS	6,000	
	restricted to	28,000	25,000
(iii)	**Mediclaim premium paid for mother, who is over 60 years of age**	33,000	
(iv)	**Medical expenditure incurred for father**, who is over 60 years of age and not covered by any insurance	20,000	
		53,000	
			50,000
Max Deduction restricted to			**75,000**

Illustration 9.

Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 80DD for the A.Y. 2026-27, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a "dependant"

disabled person. Grandfather does not come within the meaning of "dependant" as defined under section 80DD.

Illustration 10.
What will be the deduction if Mr. X had made this deposit for his dependant father?

Since the expense was incurred for a dependant disabled person, Mr. X will be entitled to claim a deduction of ₹ 75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹ 1,25,000.

Illustration 11.
Mr. B has taken three education loans on April 1, 2025, the details of which are given below:

	Loan 1	Loan 2	Loan 3
For whose education loan was taken	B	Son of B	Daughter of B
Purpose of loan	MBA	B. Sc.	B.A.
Amount of loan (₹)	5,00,000	2,00,000	4,00,000
Annual repayment of loan (₹)	1,00,000	40,000	80,000
Annual repayment of interest (₹)	20,000	10,000	18,000

Compute the amount deductible under section 80E for the A.Y.2026-27 if Mr. B has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- ✓ Deduction under section 80E is available to an individual assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children.
- ✓ Higher education means any course of study pursued after senior secondary examination.
- ✓ Therefore, interest repayment in respect of all the above loans would be eligible for deduction.
- ✓ Deduction under section 80E = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = ₹ 48,000.

Illustration 12.
Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India@11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.2026-27 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), assuming that the entire loan was outstanding as on 31.3.2026 and he does not own any other house property.

	Particulars	₹
	Interest deduction for A.Y.2026-27	
(i)	Deduction allowable while computing income under the head "Income from house property"	
	Deduction under section 24(b) ₹ 3,85,000 [₹ 35,00,000 × 11%]	
	Restricted to	2,00,000
(ii)	**Deduction under Chapter VI-A from Gross Total Income**	

	Deduction under section 80EE ₹ 1,85,000 (₹ 3,85,000 – ₹ 2,00,000) Restricted to	50,000

Illustration 13.

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2026-27

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019
Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	₹ 45 lakhs	₹ 48 lakhs	-	-
Cost of electric vehicle	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2026-27 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans up to 31.3.2026.

	Particulars	₹
	Interest deduction for A.Y.2026-27 of Mr. A	
(i)	Deduction allowable while computing income under the head "Income from house property"	
	Deduction u/s 24(b) ₹ 3,87,000 [₹ 43,00,000 × 9%]	
	Restricted to	2,00,000
(ii)	Deduction under Chapter VI-A from Gross Total Income	
	Deduction u/s 80EEA ₹ 1,87,000 (₹ 3,87,000 – ₹ 2,00,000) **Restricted to**	**1,50,000**
	Interest deduction for A.Y.2026-27 of Mr. B	
(i)	Deduction allowable while computing income under the head "Income from house property"	
	Deduction u/s 24(b) ₹ 4,05,000 [₹ 45,00,000 × 9%]	
	Restricted to	2,00,000
(ii)	Deduction under Chapter VI-A from Gross Total Income	
	Deduction u/s **80EEA is not permissible since:**	**Nil**

	(i) loan is taken from NBFC (ii) stamp duty value exceeds ₹ 45 lakh. Deduction under section 80EEA would not be permissible due to either violation listed above.	
Deduction under Chapter VI-A from Gross Total Income of Mr. C		
Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs x 10% = ₹ 2,00,000, restricted to ₹ 1,50,000, being the maximum permissible deduction]		1,50,000
Deduction under Chapter VI-A from Gross Total Income of Mr. D		
Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.		Nil

Illustration 14.

Mr. Shiva aged 58 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

i. **Premium paid to insure the life of her major daughter (policy taken on 1.4.2019) (Assured value ₹ 1,80,000) – ₹ 20,000.**
ii. **Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.**
iii. **Donation to a public charitable institution ₹ 50,000 by way of cheque.**
iv. **LIC Pension Fund – ₹ 60,000.**
v. **Donation to National Children's Fund - ₹ 25,000 by way of cheque**
vi. **Donation to Prime Minister's Drought Relief Fund - ₹ 25,000 by way of cheque**
vii. **Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque**
viii. **Deposit in PPF – ₹ 1,00,000**

Compute the total income of Mr. Shiva for A.Y. 2026-27 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of Total Income of Mr. Shiva for A.Y. 2026-27

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

Working Note: Computation of deduction under section 80G

	Particulars of donation	Amount donated (₹)	% of deduction	Deduction u/s 80G (₹)
(i)	National Children's Fund	25,000	100%	25,000
(ii)	Prime Minister's Drought Relief Fund	25,000	50%	12,500
(iii)	Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
(iv)	Public Charitable Trust	50,000	50% subject to	
			qualifying limit	10,000
			(See Note below)	
				87,500

Note:

- ✓ Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 80G i.e., ₹ 6,00,000, in this case.
- ✓ ₹ 60,000, being 10% of adjusted total income is the qualifying limit, in this case.
- ✓ Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount.
- ✓ Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 50,000 to public charitable trust is restricted to 20,000 (being, ₹ 60,000 - ₹ 40,000), 50% of which would be the deduction under section 80G.
- ✓ Therefore, the deduction under section 80G in respect of donation to public charitable trust would be ₹ 10,000, which is 50% of ₹ 20,000

Illustration 15.

Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2026-27 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 80GG for A.Y.2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

The deduction under section 80GG will be computed as follows:

i) Actual rent paid less 10% of total income ₹ .1,44,000. $(-)\frac{(10\times4,60,000)}{100}$ = ₹ 98,000

ii) 25% of total income = $\frac{25\times4,60,000}{100}$ = 1,15,000

iii) Amount calculated at ₹ 5,000 p.m = ₹ 60,000

Deduction allowable u/s 80GG [least of (i), (ii) and (iii)] = ₹ 60,000

Illustration 16.

During the P.Y. 2025-26, ABC Ltd., an Indian company,

(1) contributed a sum of ₹ 2 lakh to an electoral trust; and

(2) incurred expenditure of ₹ 25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? ABC Ltd. does not opt for section 115BAA/115BAB.

- ✓ An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust.
- ✓ Further, the word "contribute" in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.
- ✓ Therefore, ABC Ltd. is eligible for a deduction of ₹ 2,25,000 under section 80GGB in respect of sum of ₹ 2 lakh contributed to an electoral trust and ₹ 25,000 incurred by it on advertisement in a brochure of a political party.
- ✓ It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of ₹ 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

Illustration 17.

Mr. A has commenced the business of manufacture of computers on 1.4.2025. He employed 350 new employees during the P.Y. 2025-26, the details of whom are as follows

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2025	Regular	24,000
(ii)	125	1.5.2025	Regular	26,000
(iii)	50	1.8.2025	Casual	24,500
(iv)	100	1.9.2025	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2026-27, if the profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2025?

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2026-27 and he has employed "additional employees" during the P.Y. 2025-26.

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

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

Deduction under section 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

Working Note:

Number of additional employees

Particulars		No. of workmen	
Total number of employees employed during the year			350
Less:	Casual employees employed on 1.8.2025 who do not participate in recognized provident fund	(50)	

	Regular employees employed on 1.5.2025, since their total monthly emoluments exceed ₹ 25,000	(125)	
Regular employees employed on 1.9.2025 since they have been employed for less than 240 days in the P.Y.2025-26.		(100)	(275)
Number of "additional employees"			**75**

Notes 1:

- ✓ Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees.
- ✓ Further, 125 regular employees employed on 1.5.2025 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000.
- ✓ Also, 100 regular employees employed on 1.9.2025 do not qualify as additional employees for the P.Y.2025-26, since they are employed for less than 240 days in that year.
- ✓ Therefore, only 75 employees employed on 1.4.2025 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2025-26 is deemed to be the additional employee cost.
- ✓ As regards 100 regular employees employed on 1.9.2025, they would be treated as additional employees for previous year 2025-26, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2026-27.

II If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2025, since they have been employed for more than 150 days in the previous year 2025-26.

Additional employee cost = ₹ 2,16,00,000 + ₹ 24,000 × 7 × 100 = ₹ 3,84,00,000

Deduction under section 80JJAA = 30% of ₹ 3,84,00,000 = ₹ 1,15,20,000.

Illustration 18.

Mr. Aakash earned royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2026 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2027. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 80QQB if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

The net royalty of ₹ 2,48,000 (i.e., royalty of ₹ 2,88,000 less ₹ 40,000, being expenditure to earn such income) is includible in gross total income.

Deduction u/s 80QQB would be ₹ 1,90,000 as calculated hereunder

Particulars	₹
Royalty ₹ 2,88,000 x 15/18 = ₹ 2,40,000, Restricted to Amount brought into India in convertible foreign exchange within the prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	(40,000)
Deduction u/s 80QQB	**1,90,000**

Illustration 19.

Mr. A, a resident individual aged 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the P.Y. 2025-26. He also has interest on Fixed Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

Computation of total income of Mr. A for A.Y.2026-27

Particulars	₹	₹
Profits and gains of business or profession		1,35,000
Income from other sources		
- Interest on Fixed Deposit with banks		30,000
- lottery income		1,20,000
Gross Total Income		**2,85,000**
Less: Deductions under Chapter VIA [See Note below]		
Under section 80C		
- Deposit in Public Provident Fund	(1,50,000)	
Under section 80TTB		
- Interest on fixed deposits with banks	(30,000)	
Restricted to	(1,80,000)	**(1,65,000)**
Total Income		**1,20,000**

Note:

- ✓ In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction up to ₹ 50,000 under section 80TTB.
- ✓ Though the aggregate of deductions under Chapter VI-A is ₹ 1,80,000, however, the maximum permissible deduction cannot exceed the gross total income exclusive of long term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings from lotteries of the assessee.
- ✓ Therefore, the maximum permissible deduction under Chp. VI-A = ₹ 2,85,000 - ₹ 1,20,000 = ₹ 1,65,000.

Illustration 20.

Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the previous year ended 31.03.2026. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2026-27 from the following particulars, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

(i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2021 and the sum assured on life of his dependent parents is ₹ 2,00,000.

(ii) Life insurance premium of ₹ 19,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 3,50,000 and the life insurance policy was taken on 30.3.2012.

(iii) Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2020 and the sum assured is ₹ 2,00,000.
(iv) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
(v) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
(vi) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
(vii) A sum of ₹ 5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

Computation of total income of Mr. Gurnam for the Assessment Year 2026-27

Particulars	₹	₹	₹
Income from salary			5,50,000
Interest on saving bank deposit			14,500
Gross Total Income			**5,64,500**
Less: Deduction under Chapter VIA			
Under section 80C (See Note 1)			
- major son	(19,500)		
- self ₹ 22,500 restricted to 10% of ₹ 2,00,000	(20,000)	(39,500)	
Under section 80D (See Note 2)			
Premium paid for ₹ 26,000 health insurance of self and wife by cheque, restricted to	(25,000)		
Payment made for health check-up for parents	(4,500)	(29,500)	
Under section 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		(6,500)	
Under section 80TTA (See Note 4)			
Interest on savings bank account ₹ 14,500 restricted to		(10,000)	(85,500)
Total Income			**4,79,000**

Notes:

(1) As per section 80C:

Premium paid for parents

- No deduction is allowed for life insurance premium paid for parents — whether dependent or not.
- So, the ₹25,000 premium for Gurnam's dependent parents is not deductible.

Policies issued before 01.04.2012

- Deduction allowed up to 20% of the sum assured.
- Gurnam's son's policy was issued before 01.04.2012.
- Premium paid = ₹19,500; 20% of ₹3,50,000 = ₹70,000.
- Since ₹19,500 < ₹70,000 → full deduction of ₹19,500 is allowed.

Policies issued on or after 01.04.2012

- Deduction allowed only up to 10% of the sum assured.
- Gurnam's own policy was issued after 01.04.2012.
- 10% of ₹2,00,000 = ₹20,000.
- Premium exceeds this limit → deduction restricted to ₹20,000.

(2) As per section 80D

Basic deduction limits under Section 80D

- For health insurance + health check-up of self, spouse, and children → maximum ₹25,000.
- For parents' health check-up (whether dependent or not) → included in the overall ₹5,000 limit for preventive health check-up.
- Health insurance premium must be paid in any mode except cash.
- Health check-up can be paid in cash or any mode.

Premium for self + wife (₹26,000)

- The limit for this category is ₹25,000.
- Premium exceeds the limit → deduction restricted to ₹25,000.
- Since the entire ₹25,000 limit is used up, no deduction can be claimed for their preventive health check-up.

Parents' health check-up (₹4,500)

- Allowed within the ₹5,000 overall check-up limit.
- ₹4,500 ≤ ₹5,000 → full deduction of ₹4,500 is allowed.

(3) No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding ₹ 2,000. Therefore, deduction under section 80G is not allowable in respect of cash donation of ₹ 5,000 made to an institution approved for the purpose of section 80G for promotion of family planning.

(4) As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of ₹ 10,000.
Therefore, deduction of ₹ 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is ₹ 14,500.

Illustration 21. **Mr. Y furnishes you the following information for the year ended 31.3.2026**

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A received in India in convertible foreign exchange on or before 30.9.2026	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction under section 10AA for the A.Y. 2026-27, assuming that Mr. Y commenced operations in SEZ and DTA in the year 2019-20 and Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

50% of the profits from exports is eligible for deduction u/s 10AA, since F.Y. 2025-26 is the 7th year commencing from the year of manufacture or production provision of services by the Unit A in SEZ.

$$\text{Deduction u/s 10AA} = \text{Export Profit} = \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 50\%$$

$$= ₹\ 30 \text{ lakhs} \times \frac{50}{100} \times 50\% = \textbf{₹ 7.5 lakhs is allowed as Deduction}$$

No deduction under section 10AA is allowable in respect of profits of business of Unit B located in DTA.

Test Your Knowledge

Question 1: Prakash is retired Government Officer aged 65 years, resides in Cochin, derived following income:

	₹
Pension	6,60,000
Interest from bank on fixed deposits (Gross)	55,000

Compute the total income of Mr. Prakash for the assessment year 2026-27 under normal provisions of the Act from the following particulars:

(i) Life insurance premium paid by cheque ₹ 22,500 for insurance of his life. The insurance policy was taken on 08-09-2019 and the sum assured is ₹ 2,00,000.

(ii) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.

(iii) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid through cheque for preventive health check-up of his parents, who are senior citizens.

(iv) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.

(v) A sum of ₹ 15,000 donated in cash to an institution approved for the purpose of section 80G for promoting family planning

Computation of total income of Mr. Prakash for A.Y.2026-27

Particulars	₹	₹	₹
Income under the head "Salaries"			
Pension	6,60,000		
Less: Standard deduction u/s 16(ia) [Max 50,000]	(50,000)		6,10,000
Income from Other Sources			
Interest from bank on fixed deposit (Gross)			55,000
Gross Total Income			**6,65,000**
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
LIC premium of ₹ 22,500 (restricted to 10% of ₹ 2,00,000, being the sum assured, as the policy is taken after 31.3.2012)		(20,000)	
Deduction under section 80D			
Premium for health insurance for self and his wife paid by cheque, allowed up to ₹ 50,000 since Mr. Prakash is a senior citizen	26,000		
Preventive health check-up for self, ₹ 1,500, and for his parents, ₹ 4,500, restricted to ₹ 5,000 (deduction allowed even if the same is paid in cash)	5,000	(31,000)	
Deduction under section 80E			
Interest on loan taken from bank for MBA course of daughter		(6,500)	
Deduction under section 80G			
Donation to an approved institution for promoting family planning not allowed since the amount exceeding ₹ 2,000 is paid in cash		Nil	
Deduction under section 80TTB [Only for Senior Citizens]			
Interest on fixed deposit - deduction up to ₹ 50,000		(50,000)	1,07,500
Total Income			**5,57,500**

Question 2: Examine the following statements with regard to the provisions of the Income- tax Act, 1961:

(i) During the financial year 2025-26, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.

(ii) Subscription to notified bonds of NABARD would qualify for deduction under section 80C.

(iii) In order to be eligible to claim deduction under section 80C, investment/ contribution/ subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.

(iv) Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is ₹ 44,000 irrespective of the tax regime.

(v) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs on 1.5.2025, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y.2026-27.

(vi) Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(i) The statement is correct. The deduction under section 80E is available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). For this purpose, relative means, inter alia, spouse and children of the individual.

Therefore, Mr. Amit will get the deduction under section 80E in respect of interest on loan availed by him for his son's higher education, if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.

(ii) The statement is correct. Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C, if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(iii) The statement is not correct. There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.

(iv) The statement is not correct. An individual would not be eligible for deduction u/s 80E if he pays tax under default tax regime under section 115BAC. If he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), deduction under section 80E would be available in respect of interest paid on education loan. Hence, the deduction will be limited to interest of ₹ 14,000, if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(v) The statement is not correct. The proviso to section 80CCD(3) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2026-27.

(vi) The statement is not correct. Contribution to Tier II account of NPS would qualify for deduction under section 80C and not section 80CCD

Question 3: Examine the allowability of the following if the assessees have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

1. **Rajan, a resident individual, has to pay to a hospital for treatment ₹ 62,000 and spent nothing for life insurance or for maintenance of dependent disabled.**
2. **Varun, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of dependant disabled.**
3. **Hari, a resident individual, has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of dependant disabled.**

i. The deduction of ₹ 75,000 under section 80DD is allowable to Rajan, irrespective of the amount of expenditure incurred or paid by him. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is ₹ 1,25,000.

ii. The assessee Varun has deposited ₹ 25,000 for maintenance of dependent disabled. He is, however, eligible to claim ₹ 75,000 since the deduction of ₹ 75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is ₹ 1,25,000.

iii. Section 80DD allows a deduction of ₹ 75,000 irrespective of the actual amount spent on maintenance of a dependent disabled and/or actual amount deposited with LIC. Therefore, the deduction will be ₹ 75,000 even though the total amount incurred/deposited is only ₹ 45,000. If the dependant is a person with severe disability the quantum of deduction is ₹ 1,25,000.

Question 4: Ms. Jyoti purchased a house property costing ₹ 42 lakhs on 1st May, 2021. The property is used exclusively for her residential purpose. For this purpose, she obtained loan from DHFL of ₹ 35 lakhs bearing interest @ 14% p.a. on 1st April, 2021. She does not own any other house. State with brief reasons the deductions that can be claimed by Ms. Jyoti in respect of interest on loan for Assessment Year 2026-27 if she has opted out of the default tax regime. No repayment of loan has been made so far.

Ms. Jyoti can claim the following deductions for the A.Y. 2026-27 in respect of the interest of ₹ 4,90,000 (₹ 35,00,000 x 14%) payable on loan taken for acquisition of residential house property for self-occupation:

Deduction under section 24 while computing income under the head "Income from house property": Interest on housing loan taken for acquisition of residential house property for self-occupation, would be eligible for deduction under section 24 while computing income from house property, subject to a maximum of ₹ 2,00,000	2,00,000
Deduction under section 80EEA (while computing deduction under Chapter VI-A from gross total income): Interest payable on housing loan taken by Ms. Jyoti qualifies for deduction	1,50,000

under section 80EEA, subject to a maximum of ₹ 1,50,000, since –	
(i) The loan is sanctioned by the Financial Institution between 1.4.2019 to 31.3.2022 **(ii)** Stamp duty value of the house (₹ 42 lakhs) does not exceed ₹ 45 lakhs **(iii)** She is not eligible to claim deduction u/s 80EE **(iv)** She does not own any residential house on the date of sanction of loan	
Therefore, out of the interest of ₹ 4,90,000, ₹ 2 lakhs is allowable as deduction under section 24; and out of the balance of ₹ 2,90,000, ₹ 1,50,000 is allowable as deduction under section 80EEA from gross total income.	

Question 5: For the A.Y. 2026-27, the Gross total income of Mr. Chaturvedi, a resident in India, was ₹ 15,18,240 which includes long-term capital gain of ₹ 2,45,000 taxable under section 112 and Short-term capital gain of ₹ 58,000. The Gross total income also includes interest income of ₹ 12,000 from savings bank deposits with banks and ₹ 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹ 1,20,000 and also paid a medical insurance premium ₹ 51,000. Mr. Chaturvedi also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2026, in a tax efficient manner.

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2026-27 under default tax regime

Particulars	₹
Gross total income incl. long term capital gain	15,18,240
Less: Deductions under Chapter VI-A	-
No deduction would be available under default tax regime u/s 115BAC	
Total income	**15,18,240**
Tax on total income	
LTCG ₹ 2,45,000 x 12.5%	30,625
Balance total income ₹ 12,73,240	70,986
	1,01,611
Add: Health and Education cess @4%	4,064
Total tax liability	1,05,675
Total tax liability (Rounded off)	1,05,680

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2026-27 under the optional tax regime

Particulars	₹	₹
Gross total income incl. long term capital gain		15,18,240
Less: Long term capital gain		(2,45,000)
		12,73,240
Less: **Deductions under Chapter VI-A**		
Under section 80C in respect of PPF deposit	(1,20,000)	
Under section 80D (it is assumed that premium of ₹ 51,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 50,000, since Mr. Chaturvedi is a senior citizen)	(50,000)	

Under section 80G (See Notes 1 & 2 below)	(25,000)	
Under section 80TTB (See Note 3 below)	(50,000)	(2,45,000)
Total income (excluding long term capital gains)		**10,28,240**
Total income (including long term capital gains)		**12,73,240**
Tax on total income (including long-term capital gains of ₹ 2,45,000)		
LTCG ₹ 2,45,000 x 12.5%		30,625
Balance total income ₹ 10,28,240 (See Note 4 below)		1,18,472
		1,49,097
Add: Health and Education cess @4%		5,964
Total tax liability		1,55,061
Total tax liability (Rounded off)		1,55,060

Since the tax liability is lower under the default tax regime as compared to the optional tax regime, Mr. Chaturvedi should not exercise the option of shifting out of the default tax regime provided under section 115BAC(1A)

Note:

1. **Computation of deduction under section 80G:**

Particulars	₹
Gross total income (excluding long term capital gains)	12,73,240
Less: Deduction under section 80C, 80D & 80TTB	2,20,000
Adjusted Total Income	**10,53,240**
10% of the above	1,05,324
Contribution made	50,000
Lower of the two eligible for deduction under section	50,000
Deduction under section 80G – 50% of ₹ 50,000	25,000

2. Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
3. Deduction of up to ₹ 50,000 under section 80TTB is allowed to a senior citizen if gross total income includes interest income on bank deposits, both fixed deposits and savings account.
4. Mr. Chaturvedi, being a senior citizen is eligible for a higher basic exemption of ₹ 3,00,000

Question 6: Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2025-26, furnishes you the following information:

(i) Repayment of loan taken from SBI for acquisition of residential house (self-occupied) - ₹ 50,000.

(ii) Five-year post-office time deposit - ₹ 20,000.

(iii) Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction under section 80G at the applicable rate.

(iv) Interest on loan taken for higher education of spouse paid during the year ₹ 10,000.

Compute the total income of Mr. Rajmohan for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation the total income of Mr. Rajmohan for the A.Y. 2026-27

Particulars		₹	₹
Gross Total Income			6,40,000
Less:	Deduction under Chapter VI-A		
	Under section 80C		
	Repayment of loan taken for acquisition of residential house	(50,000)	
	Five-year time deposit with Post Office	(20,000)	
		(70,000)	
	Under section 80E		
	Interest on loan taken for higher education of spouse, being a relative.	(10,000)	
	Under section 80G (See Note below)		
	Donation to recognized charitable trust (50% of ₹ 25,000)	(12,500)	(92,500)
Total Income			**5,47,500**

Note: In case of deduction under section 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore, ₹ 5,60,000 (i.e. 6,40,000 – ₹ 80,000), 10% of which is ₹ 56,000, which is higher than the actual donation of ₹ 25,000. Therefore, the deduction under section 80G would be ₹ 12,500, being 50% of the actual donation of ₹ 25,000.

Question 7: Compute the eligible deduction under Chapter VI-A for the A.Y. 2026-27 of Ms. Roma, aged 40 years, who has a gross total income of ₹ 15,00,000 for the A.Y. 2026-27 and has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). She provides the following information about her investments/payments during the P.Y. 2025-26:

S.No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 31-03-2012 and sum assured is ₹ 4,70,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaim Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2026-27

Particulars	₹	₹
Deduction under section 80C		
Life insurance premium paid ₹ 35,000 (allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2012)	(35,000)	
Public Provident Fund	(1,50,000)	

Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	(20,000)	
	(2,05,000)	
Restricted to a maximum of ₹ 1,50,000	(1,50,000)	
Deduction under section 80CCC for payment towards LIC pension fund	(1,40,000)	
	(2,90,000)	
As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to		(1,50,000)
Deduction under section 80D		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and dependent children restricted to	(25,000)	
Medical insurance premium paid ₹ 52,000 for parents, being senior citizens, restricted to	(50,000)	(75,000)
Eligible deduction under Chapter VI-A		**2,25,000**

Question 8: **Mr. Rudra has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2025-26.**

Particulars	Mr. Rudra (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	5,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2026 is ₹ 3,00,00,000. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2026-27 if both the units were set up and start manufacturing from 22-05-2016.

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

- ✓ **Deduction Pattern under Section 10AA:** SEZ units starting operations between 01.04.2006 and 01.04.2021 get 100% export profit deduction for 5 years, followed by 50% for the next 5 years.
- ✓ **Tax Regime Eligibility:** Since Mr. Rudra has opted out of the default 115BAC(1A) regime, he can claim deduction u/s 10AA.
- ✓ **Mandatory Compliance:** He must submit the CA report before the Section 44AB due date and file the return within the Section 139(1) due date.
- ✓ **Applicable Year:** Operations began in P.Y. 2016-17 (A.Y. 2017-18). Hence, A.Y. 2026-27 is the 10th year, making the unit eligible for 50% deduction of export profits, subject to conditions being met.

$$= \text{Profits of unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of unit in SEZ}} \times 50\%$$

$$= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\% = .₹ 22.50 \text{ lakhs}$$

Export turnover of Unit in SEZ is the export sales in SEZ received in convertible foreign exchange by 30.9.2026 which is ₹ 3,00,00,000

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

Working Note:

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

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,00,00,000	2,00,00,000	4,00,00,000
Export Sales	4,60,00,000	1,60,00,000	3,00,00,000
Net Profit	**80,00,000**	**20,00,000**	**60,00,000**

Questions from MRP [MTPS, RTPS, PAST EXAM PAPERS]

Question 1:

Mr. Ray, a resident individual, aged 37 years gives the following information with respect to various loans taken by him from scheduled banks for various purposes-

(i) A housing loan of Rs. 36,00,000/- taken on 15th March, 2022 for the purchase of a house to be used for self-residence at a cost of Rs. 47,00,000/-. The stamp duty value of the house was Rs. 42,00,000/- at the time of purchase. Amount of re-payment of loan during P.Y.2025-26 was:

(A) towards principal - Rs. 1,25,000/-

(B) towards interest - Rs. 3,65,000/-

This is the first and only residential house owned by Mr. Ray.

(ii) A vehicle loan of Rs. 16,00,000/- taken on 31st October, 2021 for the purchase of electric vehicle for personal use. Amount of re-payment of loan during P.Y.2025-26 was:

(A) towards principal - Rs. 75,000/-

(B) towards interest - Rs. 1,90,000/-

Besides these loans, he has also paid a sum of Rs. 15,000 to a political party as contribution. The entire amount was paid in cash.

You are required to compute the amount of deduction(s) available to Mr. Ray under various provisions of Income-tax Act for A.Y.2026-27 so that he gets the maximum benefits assuming that he does not opt to pay tax under section 115BAC.

(PEP May 23 4M)

Computation of Amount of deductions available to Mr. Ray for A.Y. 2026-27

	Particulars	Amount (Rs.)	
(i)	**Deduction allowable while computing income under the head "Income from house property"**		
	Deduction under section 24(b) for interest on loan of Rs. 3,65,000 in respect of self-occupied property restricted to		2,00,000
(ii)	**Deduction under Chapter VI-A from Gross Total Income**		
	Deduction under section 80C		
	For repayment of loan of Rs. 1,25,000 to bank	1,25,000	
	Deduction under section 80EEA		
	Since stamp duty value does not exceed Rs. 45 lakhs and Mr. Ray does not own any residential house, he is eligible for deduction of up to Rs. 1,50,000 in respect of such interest on loan since loan is sanctioned between 1.4.2019 and 31.3.2022.		
	Rs. 3,65,000 – Rs. 2,00,000 [claimed as deduction u/s 24(b)] = Rs. 1,65,000 restricted to Rs. 1,50,000, being the maximum permissible deduction	1,50,000	
	Deduction under section 80EEB		
	Deduction for interest on loan for purchase of electric vehicle of Rs. 1,90,000 restricted to Rs. 1,50,000, being the maximum permissible deduction, since loan is sanctioned between 1.4.2019 and 31.3.2023.	1,50,000	

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	No deduction in respect of principal repayment of loan for purchase of electric vehicle is allowable		
	Deduction under section 80GGC		
	Contribution of Rs. 15,000 to political party not allowable since the sum is paid in cash	Nil	
	Deduction under Chapter VI-A from Gross Total Income		**4,25,000**

Question 2:

Mr. Suraj, an Indian citizen, gives the following details of his income and expenses during the year 2025-26:

	Rs.
Income from profession	**11,70,000**
Winning from lottery	**70,000**
Contribution to ULIP 1971 plan for spouse	**70,000**
Cheque donation to National Defence Fund	**60,000**
Cheque donation to Government for promoting family planning	**35,000**
Cheque the deduction to approved public charitable institute	**1,20,000**

Compute the deduction under section 80G allowable to him for the assessment year 2026-27.

(PEP Nov 23 3M)

Computation of deduction available to Mr. Suraj under section 80G for A.Y. 2026-27

	Particulars	Amount (Rs.)
(i)	Donation to National Defence Fund by cheque [100% of Rs. 60,000 is allowed as deduction without any qualifying limit]	60,000
(ii)	Donation to Government for promoting family planning by cheque - 100% of Rs. 35,000, subject to qualifying limit of Rs. 1,17,000 [See Note below] is allowed as deduction	35,000
(iii)	Donation to approved public charitable institute by cheque is to be restricted to lower of - Rs. 60,000 (50% of Rs. 1,20,000) or - Rs. 41,000 [50% of qualifying limit after adjusting donation for family planning i.e., Rs. 82,000 (Rs. 1,17,000 – Rs. 35,000)]	41,000
Deduction under section 80G		**1,36,000**

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Note - Qualifying limit is Rs. 1,17,000 (10% of Rs. 11,70,000, being adjusted total income) Adjusted total income = Rs. 11,70,000 (Rs. 11,70,000, being income from profession + Rs. 70,000, being winnings from lottery – Rs. 70,000, being deduction under section 80C)

Question 3:

Mr. Brajesh has set up a unit in SEZ in May, 2017. The total turnover, export turnover and net profit for the year ended 31.3.2025 were ₹ 120 lakhs, ₹ 45 lakhs and ₹ 7.50 lakhs respectively. Out of the export turnover of ₹ 45 lakhs, only ₹ 40 lakhs has been received in convertible foreign exchange by 30.9.2025.

During the P.Y. 2025-26, Mr. Brajesh has commenced a business of warehousing facility for storage of food grain. The net profit of this business as per profit & loss account is ₹ 8,50,000.

The following items are debited to Profit & Loss Account:
(i) Personal drawings ₹ 70,000
(ii) Advance income-tax paid ₹ 1,00,000
(iii) Purchase of warehouse building of ₹ 10 lakhs on 10.6.2024 for the purpose of storage of food grain.
The following items are credited to Profit & Loss account:
(i) Interest on saving bank account with post office ₹ 15,000
(ii) Interest on fixed deposit with SBI ₹ 20,000
(iii) Dividend from Indian companies (Gross) ₹ 32,000

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

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

Compute the total income and tax payable by Mr. Brajesh for the A.Y. 2026-27 under default tax regime and normal provisions of the Act.

(May 25 15M)

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

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

	deduction in the hands of firm (₹ 20,000 x 12)			
	Income from Other Sources			
	Interest on savings bank A/c with post office	15,000		
	Less: Exempt under section 10(15)	(3,500)	11,500	
	Interest on fixed deposit with SBI		20,000	
	Dividend from Indian companies (Gross)		32,000	63,500
	Gross Total Income/ Total Income			**30,86,500**
	[No deduction under section 80C, 80TTA and 10AA would be allowable]			

Computation of tax payable under default tax regime for A.Y. 2026-27

	₹	₹
Tax on total income of ₹ 30,86,500		
On first ₹ 4,00,000	Nil	
₹ 4,00,001 – ₹ 8,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 8,00,001 – ₹ 12,00,000 [@10% of ₹ 4 lakhs]	40,000	
₹ 12,00,001 – ₹ 16,00,000 [@15% of ₹ 4 lakhs]	60,000	
₹ 16,00,001 – ₹ 20,00,000 [@20% of ₹ 4 lakhs]	80,000	
₹ 20,00,001 - ₹ 24,00,000 [@25% of ₹ 4 Lakh]	1,00,000	
Above ₹ 24,00,000 [@30% of 6,86,500]	2,05,950	5,05,950
Add: Health and Education cess @4%		20,238
		5,26,188
Less: Advance income-tax paid		(1,00,000)
Tax payable		4,26,188
Tax Payable (Rounded off)		4,26,190

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

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

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

Particulars	₹	₹
Tax on total income of ₹ 20,01,500		

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

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

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

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Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus cess@4%. Therefore, tax liability as per section 115JC is ₹ 4,82,300.

Question 4:

Mr. Mayank, aged 65 years, resides in Hyderabad, provides the following information relating to the financial year ended 31.3.2026.

Particulars	₹
Pension	**6,60,000**
Interest from bank on fixed deposits (Gross)	**55,000**
Income from speculation business	**40,000**
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**

Other information

i. **Life insurance premium paid by cheque ₹ 22,500 for insurance of his life. The insurance policy was taken on 08-09-2015 and the sum assured is ₹ 2,00,000.**

ii. Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
iii. A sum of ₹ 15,000 donated in cash to an institution approved for the purpose of section 80G for promoting family planning.

You are required to compute the total income of Mr. Mayank for the A.Y. 2026-27 under normal provisions of the Act.

(MTP 2 May 25 6M)

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

Particulars	₹	₹
Income under the head "Salaries"		
Pension	6,60,000	
Less: Standard deduction u/s 16(ia)	(50,000)	6,10,000
Profits and gains of business or profession		
Income from speculation business		40,000
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 112A	(1,10,000)	1,40,000
Income from other sources		
Interest from bank on fixed deposit (Gross)	55,000	
Loss from card games can neither be set off against any other income, nor can it be carried forward	Nil	
Income from betting	45,000	1,00,000
Gross total income		**8,90,000**
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
LIC premium of ₹ 22,500 (restricted to 10% of ₹ 2,00,000, being the sum assured, as the policy is taken after 31.3.2012)	(20,000)	
Deduction under section 80D		
Premium for health insurance for self and his wife paid by cheque, allowed up to ₹ 50,000 since Mr. Mayank is a senior citizen	(26,000)	
Deduction under section 80G		
Donation to an approved institution for promoting family planning not allowed since the amount exceeding ₹ 2,000 is paid in cash	Nil	
Deduction under section 80TTB		
Interest on fixed deposit with bank allowable as deduction up to ₹ 50,000, since Mr. Mayank is a senior citizen	(50,000)	(96,000)
Total income		7,94,000

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11. Advance Tax, Tax Deduction at Source and Tax Collection at Source

Illustrations

Illustration 1.

Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹ 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

Particulars	₹.
Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	1,20,000
	8,50,000
Less: Standard deduction under section 16 (ia)	(50,000)
Taxable Salary	8,00,000
Tax Liability	75,400
Average rate of tax (₹ 75,400 / ₹ 8,00,000 × 100)	**9.425%**

- ✓ Mr. A can deduct ₹ 75,400 at source from the salary of the General Manager at the time of payment.
- ✓ Alternatively, Mr. A can pay tax on non-monetary perquisites as under –
- ✓ Tax on non-monetary perquisites = 9.425% of ₹ 1,20,000 = ₹ 11,310
- ✓ Balance to be deducted from salary = ₹ 64,090

Tax Implications for General Manager: If Mr. A pays tax of ₹ 11,310 on non-monetary perquisites, the same is not a deductible expenditure as per section 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per section 10(10CC).

Illustration 2.

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

(i) On 1.10.2025, Mr. Harish made a six-month fixed deposit of ₹ 15 lakh@9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2026.

(ii) On 1.6.2025, Mr. Ganesh made three nine months fixed deposits of ₹ 3 lakh each, carrying interest@9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2026.

(iii) On 1.10.2025, Mr. Rajesh started a six months recurring deposit of ₹ 2,00,000 per month@8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2026.

(i) ABC Co-operative Bank has to deduct tax at source@10% on the interest of ₹ 67,500 (9% × ₹ 15 lakh × $\frac{1}{2}$) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, ₹ 6,750.

(ii) XYZ Bank has to deduct tax at source@10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [3,00,000 × 3 × 9% × 9/12], which exceeds the threshold limit of ₹ 50,000.

Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 60,750 exceeds the threshold limit of ₹ 50,000, tax has to be deducted@10% u/s 194A.

(iii) No tax has to be deducted under section 194A by PQR Bank on the interest of ₹ 28,000 falling due on recurring deposit on 31.3.2026 to Mr. Rajesh, since such interest does not exceed the threshold limit of ₹ 50,000.

Illustration 3.
ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y.2025-26–
₹ 20,000 on 1.5.2025
₹ 25,000 on 1.8.2025
₹ 28,000 on 1.12.2025
On 1.3.2026, a payment of ₹ 30,000 is due to Mr. X on account of a contract work.
Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C.

- ✓ In this case, the individual contract payments made to Mr. X does not exceed ₹ 30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2025-26 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 30,000, due on 1.3.2026, taking the total from ₹ 73,000 to ₹ 1,03,000), the TDS provisions under section 194C would get attracted.
- ✓ Tax has to be deducted@1% on the entire amount of ₹ 1,03,000 from the last payment of ₹ 30,000 and the balance of ₹ 28,970 (i.e., ₹ 30,000 – ₹ 1,030) has to be paid to Mr. X.

Illustration 4.
Certain concessions are granted to transport operators in the context of cash payments u/s 40A(3) and deduction of tax at source u/s 194-C. Elucidate.

Section 40A(3) – Cash Payment Disallowance:

- ✓ Expenditure is disallowed if payment to a person in a day exceeds ₹10,000 and it is not made by:
  - account payee cheque,
  - account payee bank draft,
  - electronic clearing system, or
  - other prescribed electronic modes.
- ✓ **Exception for Transport Operators:**
  For payments to transport operators for plying, hiring or leasing goods carriages, disallowance applies only if payment exceeds ₹35,000 per day per person. So, cash payments up to ₹35,000 in a day to a transport operator do not attract disallowance under Section 40A(3).

Section 194C – TDS on Contractors:

✓ **TDS rates:**
- 1% when contractor is an individual or HUF.
- 2% in all other cases.

✓ **No TDS for Goods Carriage Contractors:** TDS need not be deducted on payments made for plying, hiring or leasing goods carriages if:
- The contractor owns 10 or lesser goods carriages at any time during the previous year;
- The contractor is engaged in the business of plying, hiring or leasing goods carriages;
- The contractor furnishes a declaration confirming the above along with PAN.

Illustration 5.
Moon TV, a television channel, made payment of ₹ 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss.
Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

1. In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C.
   Therefore, the payment of ₹ 50 lakhs made by Moon TV to the production house would be subject to tax deduction at source under section 194C.

2. If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source under section 194C.

Illustration 6.
XYZ Ltd. entered into a lease agreement to take a building on rent from Mr. Kishore on 1st May 2024, for a monthly rent of ₹ 46,000, with a 10% escalation in rent applicable from the second year. Discuss the applicability of TDS provisions under section 194-I for the P.Y. 2025-26.

1. **Applicability of Section 194-I:**
   Section 194-I mandates TDS on rent exceeding ₹50,000 per month. It applies to all persons, except individuals and HUFs whose preceding year turnover does not exceed:
   - ₹1 crore (business), or
   - ₹50 lakh (profession).

   XYZ Ltd. is therefore liable to deduct TDS on rent payments to Mr. Kishore.
2. **Rent Amounts:**
   April 2025: ₹46,000 → below ₹50,000, so no TDS for this month.
   May 2025 onwards: Rent increases to ₹50,600 per month (₹46,000 × 110%).
   Since this exceeds ₹50,000, Section 194-I gets attracted from 1 May 2025 to 31 March 2026.

3. **TDS Rate:**
   TDS under Section 194-I for rent = 10%, assuming PAN furnished.
4. **TDS Calculation:**
   ₹50,600 × 10% × 11 months
   = ₹55,660 (to be deducted by XYZ Ltd.)

Illustration 7.
Mr. X, a salaried individual, pays rent of ₹ 55,000 per month to Mr. Y from June,2025. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.
Would your answer change if Mr. X vacated the premises on 31st December, 2025? Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

TDS Requirement under Section 194-IB [PAN Furnished]:
Mr. X pays rent exceeding ₹50,000 per month in F.Y. 2025-26. Therefore, he must deduct TDS @ 2%.
TDS has to be deducted in:

1. March 2026 (last month of the P.Y.), or
2. The last month of tenancy, if the property is vacated earlier.

Case 1 – Property NOT vacated during the year

- Monthly rent = ₹55,000
- Months = 10
- TDS @ 2% = ₹55,000 × 2% × 10 = ₹11,000
- This ₹11,000 is to be deducted from rent payable for March 2026.

Case 2 – Property vacated in December 2025

- Months = 7
- TDS @ 2% = ₹55,000 × 2% × 7 = ₹7,700
- This ₹7,700 is to be deducted from rent payable for December 2025.

If PAN is NOT furnished by the landlord (Section 206AA)
Tax must be deducted at 20%, instead of 2%.

Case 1 (10 months):

- TDS = ₹55,000 × 20% × 10 = ₹1,10,000
- But deduction is capped at the rent for the last month → ₹55,000.

Case 2 (7 months):

- TDS = ₹55,000 × 20% × 7 = ₹77,000
- Capped at the last month's rent → ₹55,000.

Illustration 8.
XYZ Ltd. makes a payment of ₹ 28,000 to Mr. Ganesh on 2.8.2025 towards fees for professional services and another payment of ₹ 25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted.

TDS provisions under section 194J would not get attracted, since the limit of ₹ 50,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no

other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2025-26.

Illustration 9.

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y.2025-26
1.	Mr. Ganesh, an individual carrying	Contract Payment for repair of residential house	₹ 5 lakhs
	on retail business with turnover of ₹ 2.5 crores in the P.Y.2024-25	Payment of commission to Mr. Vallish for business purposes	₹80,000 in November 2025
2.	Mr.Rajesh, a wholesale trader whose turnover was ₹95 lakhs in P.Y. 2024-25.	Contract Payment for reconstruction of residential house (made during the period January-March, 2026)	₹20 lakhs in January,2026, ₹15 lakhs in Feb 2026 and ₹ 20 lakhs in March 2026.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2026	₹ 51 lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2025 for reconstruction of residential house	₹ 48 lakhs

	Particulars of the payer	Nature of payment	Aggregate of payments in the F.Y.2025-26	Whether TDS provisions are attracted?
1.	Mr. Ganesh, an individual Carrying on retail business with turnover of ₹ 2.5 crores In the P.Y.2024-25	Contract Payment for repair of residential house	₹ 5 lakhs	✓ No; TDS under section 194C is not attracted since the payment is for personal purpose. ✓ TDS under section 194M is not attracted as aggregate of contract payment to the payee in the P.Y.2025-26 does not exceed ₹ 50 lakh.
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000	Yes, u/s 194H @2%, since the payment exceeds ₹ 20,000 and Mr. Ganesh's turnover exceeds ₹ 1 crore in the P.Y.2024-25.
2.	Mr. Rajesh, a wholesale trader	Contract Payment for reconstruction	₹ 55 lakhs	Yes, u/s 194M @2%, since the aggregate of payments (i.e., ₹ 55

	whose turnover was ₹ 95 lakhs in P.Y. 2024-25	of residential house		lakhs) exceed ₹ 50 lakhs. Since, his turnover does not exceed 1 crore in the P.Y.2024-25, TDS provisions under section 194C are not attracted in respect of payments made in the P.Y. 2025-26.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house	₹ 51 lakhs	Yes, u/s 194M @2%, since the payment of ₹ 51 lakhs made in March 2026 exceeds the threshold of ₹ 50 lakhs. Since Mr. Satish is a salaried individual, the provisions of section 194H are not applicable in this case.
4.	Mr. Dheeraj, a pensioner	Contract payment for reconstruction of residential house	₹ 48 lakhs	TDS provisions under section 194C are not attracted since Mr. Dheeraj is a pensioner. TDS provisions under section 194M are also not applicable in this case, since the payment of ₹ 48 lakhs does not exceed the threshold of ₹ 50 lakhs.

Illustration 10.

Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases -

(i) Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 30.6.2025, towards maturity proceeds of LIC policy taken on 1.7.2022, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000.

(ii) Mr. Y, a resident, is due to receive ₹ 3.95 lakhs on 31.12.2025 on LIC policy taken on 1.1.2012, for which the sum assured is ₹ 3.50 lakhs and the annual premium is ₹ 26,100.

(iii) Mr. Z, a resident, is due to receive ₹ 95,000 on 1.8.2025 towards maturity proceeds of LIC policy taken on 31.7.2017 for which the sum assured is₹ 90,000 and the annual premium was ₹ 10,000.

(i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 4.50 lakhs due on 30.6.2025 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted@2% under section 194DA on the amount of income comprised therein i.e., on ₹ 75,000
(₹ 4,50,000, being maturity proceeds - ₹ 3,75,000, aggregate amount of insurance premium paid).

(ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of ₹ 3.95 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.

(iii) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 95,000 due on 1.8.2025 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.

Illustration 11.

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 1.8.2025. He has purchased the house property and the land in the year 2024 for ₹ 40 lakh and ₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2025, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

(i)	**Tax implications in the hands of Mr. X**
	1. As per section 50C, the stamp duty value of house property (i.e. ₹ 85 lakh) would be deemed to be the full value of consideration arising on transfer of property, since the stamp duty value exceeds 110% of the consideration received. Therefore, ₹ 45 lakh (i.e., ₹ 85 lakh – ₹ 40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.2026-27. 2. Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.
(ii)	**Tax implications in the hands of Mr. Y**
	1. In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds the higher of ₹ 50,000 and 10% of the consideration. Therefore, in this case ₹ 25 lakh (₹ 85 lakh – ₹ 60 lakh) would be taxable in the hands of Mr. Y under section 56(2)(x). 2. Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of "property" under section 56(2)(x) includes only capital assets specified thereunder.
(iii)	**TDS implications in the hands of Mr. Y**
	1. Since the sale consideration of house property or the stamp duty value of house property exceeds ₹ 50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be ₹ 85,000, being 1% of ₹ 85 lakhs (higher of ₹ 60 lakhs or ₹ 85 lakhs). 2. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

Illustration 12.

Mr. Sharma, a resident Indian aged 77 years, gets pension of ₹ 82,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest@8% p.a. on fixed deposit of ₹ 40 lakh with the said bank. Out of the deposit of

₹ 40 lakh, ₹ 2 lakh represents five year term deposit made by him on 1.4.2025. Interest on savings bank credited to his SBI savings account for the P.Y.2025-26 is ₹ 9,500.

(1) From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(2) What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y.2026-27, if tax deductible at source has been fully deducted? Examine.

(3) Is Mr. Sharma required to file his return of income for A.Y. 2026-27, if the fixed deposit of ₹ 40 lakh was with Canara Bank instead of SBI, other facts remaining the same?

(1) Computation of total income of Mr. Sharma for A.Y.2026-27

Particulars		₹	₹
I	**Salaries**		
	Pension (₹ 82,000 x 12)	9,84,000	
	Less: Standard deduction u/s 16(ia)	(50,000)	
II	**Income from Other Sources**		9,34,000
	Interest on fixed deposit (₹ 40 lakh x 8%)	3,20,000	
	Interest on savings account	9,500	3,29,500
Gross total income			**12,63,500**
Less:	Deductions under Chapter VI-A		
	Under Section 80C		
	Five year term deposit (₹ 2 lakh, restricted to ₹ 1.5 lakh)	(1,50,000)	
Under section 80TTB			
Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years.		(50,000)	(2,00,000)
Total Income			**10,63,500**

Computation of tax liability for A.Y.2026-27

Particulars	₹
Tax payable [₹ 63,500 x 30% + ₹ 1,10,000]	1,29,050
Add: Health and Education Cess@4%	5,162
Tax liability	1,34,212
Tax liability (rounded off)	1,34,210

(2) SBI, being a specified bank, is required to deduct tax at source u/s 194P and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.

(3) If the fixed deposit of Rs. 40 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a "specified senior citizen".

In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI-A) exceeds the basic exemption limit.

Illustration 13.

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2024-25 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2025-26 was ₹ 95 lakh (₹ 20 lakh on 1.6.2025, ₹ 25 lakh on 12.8.2025, ₹ 22 lakh on 23.11.2025 and ₹ 28 lakh on 25.3.2026). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date.

(1) Based on the above facts, examine the TDS implications, if any, under the Income-tax Act, 1961.

(2) Would your answer be different if Mr. Gupta's turnover for F.Y.2024-25 was₹ 8 crores, all other facts remaining the same?

(3) Would your answer to (1), if PAN has not been furnished by the seller, as required?

(1) Since Mr. Gupta's turnover for F.Y.2024-25 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the P.Y.2025-26, he is liable to deduct tax@0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner.

No tax is to be deducted u/s 194Q on the payments made on 1.6.2025 and 12.8.2025, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 22 lakh on 23.11.2025 [₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit].

(2) If Mr. Gupta's turnover for the F.Y.2024-25 was only ₹ 8 crores, TDS provisions under section 194Q would not be attracted.

(3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax@5%, instead of 0.1%.
Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 (5% of ₹ 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2025 and 25.3.2026, respectively.

Test Your Knowledge

Question 1: Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year -

Particulars	₹
2024-25	1,05,00,000
2025-26	95,00,000

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2025-26:

Particulars	₹
Interest paid to UCO Bank on 15.8.2025	41,000
Contract payment to Raj (2 contracts of ₹ 12,000 each) on 12.12.2025	24,000
Shop rent paid	₹ 40,000 per month
Commission paid to Balu on 15.3.2026	7,000

As the turnover of business carried on by Ashwin for F.Y. 2024-25, has exceeded ₹ 1 crore, he has to comply with the tax deduction provisions during the financial year 2025-26, subject to the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

TDS under section 194A is not attracted in respect of interest paid to a banking company.

Contract payment of ₹ 24,000 to Raj for 2 contracts of ₹ 12,000 each

TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

Shop Rent paid ₹ 40,000 per month – Tax under section 194-I would not be attracted since the rental payment does not exceed ₹ 50,000 per month or part of the month.

Commission paid to Balu – No, tax has to be deducted under section 194H in this case as the commission does not exceed ₹ 20,000.

Question 2: Compute the amount of tax deduction at source on the following payments made by M/s S Ltd. during the financial year 2025-26 as per the provisions of the Income-tax Act, 1961.

S.No.	Date	Nature of Payment
(i)	1-10-2025	Payment of ₹ 2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect alongwith his PAN.
(ii)	1-11-2025	Payment of fee for technical services of ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2025	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2026	Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made

		according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates.
(v)	01-01-2026	Payment of ₹ 2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(vi)	01-02-2026	Payment of commission of ₹ 14,000 to Mr. Y.

(i) No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:
(1) He owns 10 or less goods carriages at any time during the previous year.
(2) He is engaged in the business of plying, hiring or leasing goods carriages;
(3) He has furnished a declaration to this effect along with his PAN.

(ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds ₹ 50,000 during the financial year.
In the given case, since the individual payments for fee of technical services i.e., ₹ 25,000 and royalty ₹ 20,000 is less than ₹ 50,000 each, there is no liability to deduct tax at source.
It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.

(iii) Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2025 to M/s X Ltd. is less than the threshold limit of ₹ 30,000.

(iv) According to section 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or associate of such customer.
Therefore, there is no liability to deduct tax at source in respect of payment of ₹ 2,00,000 to Mr. A, since the contract is a contract for sale'.

(v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 5,00,000.

In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed ₹ 5,00,000.

(vi) As per section 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds ₹ 20,000. Since the commission payment made to Mr. Y does not exceed ₹ 20,000, the provisions of section 194H are not attracted.

Question 3: Examine the applicability of TDS provisions and TDS amount in the following cases:
(a) Rent of ₹ 55,000 per month was paid for hire of machinery by B Ltd. to Mr. Raman in FY 2025-26.

(b) Fee paid on 1.12.2025 to Dr. Srivatsan by Sundar (HUF) ₹ 55,000 for surgery performed on a member of the family.
(c) ABC and Co. Ltd. paid ₹ 19,000 to one of its Directors as sitting fees on 01-01-2026.

(a) Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds ₹ 50,000 per month or part of the month, the provisions of section 194-I for deduction of tax at source are attracted. The rate applicable for deduction of tax at source under section 194 -I on rent paid for hire of plant and machinery is 2%, assuming that Mr. Raman had furnished his permanent account number to B Ltd.

Therefore, the amount of tax to be deducted at source:
= ₹ 6,60,000 x 2% = ₹ 13,200.
Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @ 20% on ₹ 6,60,000, by virtue of provisions of section 206AA.

(b) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover form the business or profession exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession, as the case may be, in the financial year preceding the current financial year and such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.

Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source under section 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds ₹ 50 lakhs during the financial year.

In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2025 for a personal purpose, therefore, section 194J is not attracted. Section 194M would have been attracted if the payment or aggregate of payments exceeded ₹ 50 lakhs in the P.Y.2025-26. However, since the payment does not exceed ₹ 50 lakh in this case, there is no liability to deduct tax at source under section 194M also.

(c) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192.

The threshold limit of ₹ 50,000 up to which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax@10% has to be deducted at source under section 194J in respect of the sum of ₹ 19,000 paid by ABC Ltd. to its director. Therefore, the amount of tax to be deducted at source:
= ₹ 19,000 x 10% = ₹ 1,900

Question 4: Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the F.Y. 2025-26:
(1) Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance

of ₹ 1,20,000 shown in the books as on 31.3.2026.
(2) Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
(3) ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2026 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

(1) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @1% in case the payment is made to an individual.
Since the aggregate amount credited or paid during the year is₹ 4,20,000, tax is deductible @1% on ₹ 4,20,000.
Tax to be deducted = ₹ 4,20,000 x 1% = ₹ 4,200

(2) Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000 in respect of a single transaction. The rate of deduction of tax at source is 30%.
Hence, tax to be deducted = ₹ 1,50,000 x 30% = ₹ 45,000.

(3) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 5,00,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹ 5,00,000.

Question 5: Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.

- ✓ The proviso to section 234C contains the provisions for payment of advance tax in case of capital gains and casual income.
- ✓ Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.
- ✓ Since it is not possible for the assessee to estimate his capital gains, or income from lotteries etc., it has been provided that if any such income arises after the due date for any instalment, then, the entire amount of the tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining instalments of advance tax, which are due.
- ✓ Where no such instalment is due, the entire tax should be paid by 31st March of the relevant financial year.
- ✓ No interest liability on late payment would arise if the entire tax liability is so paid.

Note: In case of casual income the entire tax liability is fully deductible at source @30% under section 194B, 194BA and 194BB. Therefore, advance tax liability would arise only if the surcharge, if any, and health and education cess@4% in respect thereof, along with tax liability in respect of other income, if any, is 10,000 or more.

Question 6: Examine the applicability of Tax deduction at source (TDS) or Tax collection at source (TCS) as per the Income-tax Act, 1961 for the A.Y 2026-27 in the following situations

(i) **Mr. Raja paid ₹ 12 lakhs on 1.11.2025 to M/s. Thomas Cook for a holiday package to Singapore for a week with his family, comprising of his wife and two children, being twins aged 22 years, in the last week of November. Mr. Raja also remitted ₹ 13 lakhs on 28.3.2026, out of his personal savings, under LRS through Bank of India, as gift to his sister residing in London, on the occasion of her 50th birthday.**

(ii) **Mr. Rohit and Mr. Raj are the joint owners of a house property. They sold the house property on 31.12.2025 for ₹ 60 lakhs, receiving ₹ 30 lakhs each as their respective shares. However, the stamp duty value (SDV) of the property on the date of transfer is ₹ 75 lakhs. The property was jointly purchased by Ms. Shashi and Ms. Sujata.**

(iii) **XYZ Ltd. provided a luxury car worth ₹ 15 lakh to its distributor, Mr. A, as an incentive for achieving high sales targets.**

(i) M/s. Thomas Cook, being a seller of an overseas tour programme package has to collect tax at source @5% till ₹ 10 lakhs and 20% thereafter under section 206C(1G) from Mr. Raja on receiving amount for purchase of package.

M/s Thomas Cook has to collect tax of ₹ 90,000, being ₹ 50,000 (5% of₹ 10 lakhs) and ₹ 40,000 (20% of ₹ 2 lakhs).

Further, Bank of India, being an authorized dealer has to collect tax at source under section 206C(1G) @20% on amount in excess of ₹ 10 lakhs remitted under the LRS since the remittance of ₹ 13 lakhs is not for the purpose of education and medical treatment.

Bank of India has to collect tax of ₹ 60,000 i.e., 20% of ₹ 3 lakhs, being the amount remitted in excess of ₹ 10 lakhs.

(ii) As per section 194-IA, if a person (transferor) transfers any immovable property whose consideration for transfer or stamp duty value is not less than ₹ 50 lakh to a person (transferee), then transferee is required to deduct tax at source @1% of consideration for transfer or stamp duty value, whichever is higher.

In case there are multiple transferee or transferor in respect of any immovable property, consideration shall be the aggregate of the amounts paid or payable by all the transferees to the transferor or all the transferors for transfer of such immovable property.

Accordingly, in the present case, Ms. Shashi and Ms. Sujata are required to deduct tax at source @1% on ₹ 75 lakhs, being the amount higher of consideration of ₹ 60 lakhs and stamp duty value of₹ 75 lakhs.

(iii) As per section 194R, if any person (other than an individual or HUF whose total sales or gross receipts does not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding previous year) provides any benefit or perquisite to a resident arising from his business or profession and the total value of such benefits exceeds ₹ 20,000 in a financial year, then such person is required to deduct tax at source @10% of the total value of the benefit or perquisite.

Where the benefit or perquisite is in kind, the person has to ensure before releasing such benefit or perquisite that the tax required to be deducted has been paid in respect of such benefit or perquisite.

In the present case, XYZ Ltd. provided a luxury car worth ₹ 15 lakh to Mr. A, as an incentive which qualifies as a perquisite u/s 194R. Therefore, XYZ Ltd. has to ensure before releasing the car that the tax of ₹ 1,50,000 i.e., 10% of ₹ 15 lakhs has been paid by Mr. A.

Question 7: Mr. Sameer, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2025-26.

Estimated tax liability for the financial year 2025-26	**₹ 80,000**
Tax deducted at source for this year	**₹ 12,000**

Determination of Advance Tax Liability of Mr. Sameer

Particulars	₹
Estimated tax liability for the financial year 2025-26	80,000
Less: Tax deducted at source	12,000
Tax payable	**68,000**

Due Date of installment	Amount payable	₹
On or before 15th June, 2025	Not less than 15% of advance tax liability	10,200
On or before 15th September, 2025	Not less than 45% of advance tax liability less amount paid in earlier installment	20,400 (₹ 30,600, being 45% of ₹ 68,000 - ₹ 10,200)
On or before 15th December, 2025	Not less than 75% of advance tax liability less amount paid in earlier installment(s)	20,400 (₹ 51,000, being 75% of ₹ 68,000 - ₹ 30,600)
On or before 15th March, 2026	Whole of the advance tax liability less amount paid in earlier installment(s)	17,000 (₹ 68,000, being 100% of ₹ 68,000 - ₹ 51,000)

Questions from MRP [MTPs, RTPs, Past Exam Papers]

Important Note for Students

This questions bank has been carefully updated to reflect the latest amendments in the TDS-TCS provisions as revised by the Finance Act, 2025.

CA Ram Harsha

Since the law has undergone significant changes in recent years, several past exam, RTP, and MTP questions were based on earlier provisions and no longer align with the current framework.

To ensure clarity and avoid confusion, such questions have been either removed or suitably modified. You may notice differences in figures, wording, or structure when compared with the original sources. These updates have been made only to ensure that every question remains relevant and fully applicable for the **May 2026, September 2026, and January 2027** examination cycles.

Students are encouraged to rely on this version for practice, as it reflects the present law in a clean and exam-oriented manner.

Question 1:

(i) **Miss Tara, resident individual aged 32 years, is a social media influencer. She makes videos reviewing various electronic items and posts those videos on social media. On 1st December 2025, XYZ Ltd., an Indian company manufacturer of electronic cars gave her a brand new car having fair market value of Rs. 6 lakhs to promote on her social media page. She used that car for 7 months for her personal purposes, recorded a video reviewing the car and then returned the car to the company. You are required to discuss the applicable provisions in the Income-tax Act regarding the deduction of tax at source in respect of such transaction.**

(ii) **Ms. Aruna is a Chief Executive Officer of a multi-national company. She hires Mr. Suresh for supply of her housing staff (like gardener, chefs and drivers etc.) and makes the following payments to him:**

Rs. 25,00,000/- on 10th August, 2025 and Rs. 30,00,000 on 22nd November, 2025. Determine the amount of tax to be deducted/ collected at source, if any.

Would your answer be different, if Ms. Aruna is a business woman and her turnover in immediately preceding financial year is Not exceeding Rs. 1 Crore and payment to Mr. Suresh is for business purposes.

(iii) **By virtue of an agreement with Nationalized Bank, M/s ABC Pvt Ltd., a company engaged in catering business received Rs. 60,000 p.m. towards supply of food, water, snacks, etc. during office hours to the employees of the bank. Discuss the TDS implication of this transaction/agreement.**

(PEP May 23 7M)

(i) Under section 194R, the person who is responsible for providing to a resident, any benefit or perquisite whether convertible into money or not, arising from business or the exercise of a profession by such

resident, has to first ensure deduction of tax@10% of the value of such benefit or perquisite, if the same exceeds Rs. 20,000.

However, in case of benefit or perquisite being a product like car, mobile etc. if the product is returned to the manufacturing company after using for the purpose of rendering service, then it will not be treated as a benefit/perquisite for the purposes of section 194R.

Accordingly, in the present case, since Miss Tara has returned the car to XYZ Ltd., TDS provisions under section 194R would not apply.

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(ii) The provisions of section 194C would not apply in the hands of Ms. Aruna since the amount paid to Mr. Suresh is for supply of her housing staff. Hence, it is used exclusively for her personal purposes.

In this case, tax is required to be deducted at source from such amount under section 194M @2%, since the aggregate payment made to Mr. Suresh for the said contract exceeds Rs. 50 lakhs during the P.Y.2022-23.

Accordingly, Rs. 1,10,000, being 2% of Rs. 55,00,000 [Rs. 25,00,000 + Rs. 30,00,000], is required to be deducted at source.

In case Ms. Aruna made payment to Mr. Suresh for business purposes and her turnover from such business does not exceed Rs. 1 crore in P.Y. 2024-25, she is not required to deduct tax at source under section 194C. In such case also, she is required to deducted tax at source of Rs. 1,10,000 under section 194M.

(iii) According to section 194C, the definition of "work" include catering. In the present case, nationalised bank is required to deduct tax source @2% on Rs. 7,20,000 [Rs. 60,000 x 12] paid to ABC Pvt. Ltd. for providing catering services to the bank, since amount of Rs. 60,000 paid every month exceeds the threshold of Rs. 30,000.

Therefore, nationalised bank is required to deduct tax at source of Rs. 1,200 per month amounting to Rs. 14,400 for the year.

Question 2:

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2026- 27. (State applicable provision and give brief reasons for your answer, wherever applicable)

(i) XYZ, a resident partnership firm is in retail business buying fabric material regularly from ABC, a resident proprietorship firm. Details of transactions during P.Y. 2025-26 are as given:

Particulars	Date of Payment	Amt (Rs.)
Advance payment	1.4.2025	40,00,000
Payment for supplies	2.7.2025	20,00,000
Advance payment	4.8.2025	12,00,000

XYZ achieved gross turnover of Rs. 12 crore from the business during the financial year 2024-25 and the gross business turnover for financial year 2022-23 turns out to be Rs. 9 crores. Gross business turnover of ABC for the financial year 2025 -26 was Rs. 6 crores.

(ii) MJ, a part time director of ABZ Pvt. Ltd. was paid an amount of Rs. 2,49,000 as commission on sales (which was not in the nature of Salary) for the period 01.04.2025 to 31.03.2026.

(iii) Mr. Kumar, a resident senior citizen, aged 86 years, is a retired State Govt. employee. He gets pension of Rs. 72,000 p.m. He has his saving account with Bank of Baroda, a bank notified by the Central Govt. u/s 194P, has received the interest on saving account Rs. 15,000 during the P.Y. 2025-26. His pension is also credited in this account. In the same bank he has deposited Rs. 10 Lakh in a Term Deposit @7% simple interest on 01.07.2025. He has no other income. He has not opted section 115BAC. Discuss requirement of filing of income tax return also.

(PEP Nov 23)

(i) Tax is required to be deducted at source under section 194Q by XYZ, being a buyer, since its turnover in the immediately preceding financial year i.e., F.Y. 2024-25 exceeds Rs. 10 crores and it has purchased goods exceeding Rs. 50 lakhs in the F.Y. 2025-26.

TDS u/s 194Q would be 0.1% of the sum exceeding Rs. 50 lakhs and the same has to be deducted at the time of payment or credit of such sum to the account of resident seller, whichever is earlier.

Therefore, in the present case, XYZ, a resident partnership, is required to deduct tax at source –

- ✓ On 2.7.2025 of Rs. 1,000, being @0.1% on Rs. 10 lakhs exceeding Rs. 50 lakhs (Rs. 40,00,000 on 1.4.2025 + Rs. 20,00,000 on 2.7.2025).
- ✓ On 4.8.2025 of Rs. 1,200, being @0.1% Rs. 12 lakhs.

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(ii) ABZ Pvt. Ltd. is required to deduct tax at source u/s 194J @10% on Rs. 2,49,000 paid to MJ, a part time director, as commission, which is not in the nature of salary on which tax is deductible under section 192. Therefore, Rs. 24,900 (Rs. 2,49,000 x 10%) is required to be deducted at source.

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

Computation of total income of Mr. Kumar not opting for section 115BAC and tax liability for A.Y.2026-27

	Particulars	Rs.	Rs.
I	**Salaries**		
	Pension (Rs. 72,000 x 12)	8,64,000	
	Less: Standard deduction u/s 16(ia)	(50,000)	8,14,000
II	**Income from Other Sources**		
	Interest on savings account	15,000	
	Interest on fixed deposit (Rs. 10 lakh x 7% x 9/12)	52,500	67,500
	Gross total income		**8,81,500**
	Less: Deductions under Chapter VI-A Under section 80TTB		
	Interest on fixed deposit and savings account,		
	restricted to Rs. 50,000, since Mr. Kumar is a resident Indian of the age of 60 years or more	(50,000)	(50,000)
	Total Income		**8,31,500**
	Computation of tax liabilityfor A.Y. 2026-27		

	Tax on Rs. 8,31,500 [20% on income exceeding		66,300
	Rs. 5 lakhs, being the basic exemption limit, since		
	Mr. Kumar is of the age of 80 years or more]		
	Add: Health and Education Cess@4%		2,652
	Tax liability		**68,952**
	Tax liability (Rounded off)		**68,950**

Accordingly, Bank of Baroda is required to deduct tax at source of Rs. 68,950 for the P.Y. 2025 -26. In such case, Mr. Kumar is not required to file his return of income for A.Y. 2026-27.

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

Question 3:

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:

(i) Mr. Vikas received a sum of Rs.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.

(ii) Indian Bank sanctioned and disbursed a loan of Rs.12 crores to B Ltd. on 31-12-2025. B Ltd. paid a sum of Rs.1,20,000 as service fee to Indian Bank for processing the loan application.

(MTP 1 Sept 24 4M)

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.

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(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 4: **(MTP 1 JAN 25 4 MARKS)**

Mr. Sameer, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2025-26.

Estimated tax liability for the financial year 2025-26	**Rs.80,000**
Tax deducted at source for this year	**Rs.12,000**

Determination of Advance Tax Liability of Mr. Sameer

Particulars	Rs.
Estimated tax liability for the financial year 2025-26	80,000
Less: Tax deducted at source	12,000
Tax payable	68,000

	Due Date of installment	Amount payable	Rs.
	On or before 15th June, 2025	Not less than 15% of advance tax liability	10,200
	On or before 15th September, 2025	Not less than 45% of advance tax liability less amount paid in earlier installment	20,400 (Rs. 30,600, being 45% of Rs. 68,000 - Rs. 10,200)
	On or before 15th December, 2025	Not less than 75% of advance tax liability less amount paid in earlier installment(s)	20,400 (51,000, being 75% of Rs. 68,000 - Rs. 30,600)
	On or before 15th March, 2026	Whole of the advance tax liability less amount paid in earlier installment(s)	17,000 (68,000, being 100% of Rs. 68,000 - Rs. 51,000)

Question 5:

Mr. Kumar, aged 50 years, has withdrawn cash of Rs. 1,20,00,000 during the P.Y. 2025-26 from his saving account in HDFC Bank. Mr. Kumar regularly filed his return of income till A.Y. 2025-26.

(RTP Sept 25)

In this cash, TDS of Rs. 40,000 i.e., @2% on Rs. 20 lakhs, would have been deducted by HDFC Bank under section 194N on cash exceeding Rs. 1 crore withdrawn by Mr. Kumar during the P.Y. 2025-26.

Question 6:

Mr. Ganesh whose Professional Receipts for the year ended 31.03.2025 were ₹ 1.25 crores has made payment to Mr. Rajesh (a Chartered Accountant) during P.Y. 2025-26 who has multi faced activities.

Examine whether TDS Provisions re applicable for following payments made by Mr. Ganesh to CA Rajesh:

(i) Professional Fee for consultation - ₹ 53,100 on 15.06.2025 including GST paid @18%.

(ii) Royalty Payment for Use of Computer Software by various clients of Mr. Rajesh - ₹ 2,50,000 on 03.03.2026.

(iii) Fee for Technical services related to Business of Mr. Ganesh - ₹ 20,000 on 15.12.2025.

(iv) Fees for teaching accountancy to his Son - ₹ 40,000 on 31.10.2025.

(PEP Jan 25)

(i) Professional Fees for consultation

As per section 194J, tax is required to be deducted at source @10% on fees for professional services, if the amount paid exceeds ₹ 50,000.

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In the present case, since the amount of professional fees of ₹ 45,000 (₹ 53,100 x 100/118) excluding GST is not exceeding ₹ 50,000, no tax is required to be deducted at source on such payment by Mr. Ganesh.

(ii) Royalty payment for use of computer software

No tax is deductible at source by Individuals and HUFs on royalty payment. Hence this payment is not liable for TDS under section 194J.

(iii) Fee for technical services related to business of Mr. Ganesh

As per section 194J, tax is required to be deducted at source 2% on fees for technical services, if the amount paid exceeds ₹ 50,000.

Since in the present case, the amount of fees for technical services of ₹ 20,000 is not exceeding ₹ 50,000, no tax is required to be deducted at source on such payment by Mr. Ganesh.

(iv) Fees for teaching accountancy to his son

No tax is required to be deducted at source u/s 194J in respect of fees for teaching, since it does not fall within the scope of professional services. Moreover, TDS also not required to be deducted at source since such fees is paid by Mr. Ganesh for his personal purposes.

Question 7:

Discuss the relevant provisions of Income-tax Act, 1961 with respect to tax deduction at source (TDS) and calculate amount of TDS also for the A.Y. 2026-27 in the following independent situations:

(i) Marks Pictures Ltd. is a movie and short films production house having turnover of ₹ 15.22 crores during the previous year 2024-25. Solar Varanasi LLP also produces short films and clippings and it has already produced a short film namely 'Maha Kumbh'. On 16-10-2025, Marks Pictures Ltd. acquired television rights in consideration of ₹ 52 lakhs from Solar Varanasi LLP. (Both have valid PAN)

(ii) Mr. Mayank, a salaried individual, paid rent for his residential house at Mumbai to the house owner Mr. Nikhil in the following manner:

From April, 2025 to September, 2025: ₹ 75,000 per month; and

From October, 2025 to March, 2026: ₹ 1,00,000 per month.

(May 25 4M)

(i) **Acquisition of television rights**

Payment made by Marks Pictures Ltd. for acquisition of television rights of the content already produced by the Solar Varanasi LLP, a production house would not be liable for tax deduction at source under section 194C, since there is no contract for "carrying out any work", as required in section 194C. However, consideration for acquiring television right in respect of film would fall within the definition of royalty as defined in Explanation 2 to section 9(1)(vi). Accordingly, tax is required to be deducted u/s 194J @10% on ₹ 52 lakhs or ₹ 5,20,000.

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(ii) Rent paid by a Salaried individual

Since Mr. Mayank pays rent exceeding ₹ 50,000 per month in the F.Y. 2025-26, he is liable to deduct tax at source under section 194-IB @2%.

The tax is to be deducted in the last month of the P.Y. 2025-26 i.e., March 2026 or in the last month of tenancy, if the property is vacated during the year.

Since property is not vacated during the year, ₹ 21,000 {₹ 10,50,000 [(₹ 75,000 x 6) + (₹ 1,00,000 x 6)] x 2%} has to be deducted from rent payable for March 2025.

Question 8:

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 2026-27 in the following situations:

(i) 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, 2025. What if he vacates the premises on 31st October, 2025.

(ii) ABC Traders, a partnership firm, is engaged in the wholesale business of tendu leaves. Its turnover for the P.Y. 2024-25 was ₹ 9 crores. During the financial year 2025-26, it sold tendu leaves worth ₹ 12 lakhs to XYZ Ltd. XYZ Ltd. does not provide its PAN to ABC Trader.

(RTP May 25)

(i) Since Mr. Subhash is a salaried individual and pays rent exceeding₹ 50,000 per month in the F.Y. 2025-26, he is liable to deduct tax at source u/s 194-IB @2%.

If Mr. Subhash vacated the premises on 31st August, 2024, tax has to be deducted from rent payable for August, 2025. Tax deductible would be ₹ 5,200 [₹ 52,000 x 5 x 2%].

If Mr. Subhash vacated the premises on 31st October, 2025, tax has to be deducted from rent payable for October, 2025. Tax deductible would be ₹ 7,280 [₹ 52,000 x 7 x 2%].

(ii) 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%.

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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 9:

Examine & explain the TDS/ TCS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

(i) Mr. Ram, an individual carrying on business, reported a turnover of ₹ 89 lakhs for the F.Y. 2024-25. In April 2025, he entered into an agreement to hire machinery for use in his business operations for a monthly rent of ₹ 60,000.

(ii) XYZ Limited, having an idle parking lot, opted to lease it through a public bidding process. PQR Ltd, a PSU, emerged as the highest bidder and will utilize the premises for its business operations under the lease arrangement.

(MTP 1 Sept 25 4 Marks)

(i) The provisions of section 194-I are not applicable in this case since Mr. Ram's turnover from business

does not exceed ₹ 1 crore in the P.Y. 2024-25.

Further, Mr. Ram is not required to deduct tax at source under section 194-IB since Mr. Ram has paid rent for hiring of machinery for his business operation and section 194-IB covers only rent on land or building or both.

Accordingly, Mr. Ram is not required to deduct tax at source on rent paid for hiring machinery for his business purpose.

(ii) Section 206C(1C) requires to collect tax by every person who grants a lease or a licence or enters into a contract or otherwise transfers any right or interest in any parking lot to another person (other than a public sector company) for the use of such parking lot for the purposes of business. The tax under section 206C(1C) shall be collected at the rate of 2%.

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In the present case, since PQR Ltd. is a public sector company, M/s XYZ Ltd. is not required to collect tax at source under section 206C(1C).

Question 10:

Briefly discuss the provisions of tax deducted at source and compute the amount of TDS under the Income-tax Act, 1961 assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

(i) Payment of Rs. 1,51,000 by a transport company to Ms. Asha, a resident individual as interest on compensation awarded by the Motor Accidents Claims Tribunal.

(ii) Mr. Narsimha won Rs. 15,00,000 as prize money for winning a television serial contest in the financial year 2025-26.

(MTP 2 Sep 25 4M)

(i) Tax has to be deducted at source by the transport company @10% under section 194A on payment of Rs. 1,51,000 to Ms. Asha, a resident individual, as interest income on compensation awarded by Motor Accidents Claims Tribunal, since the interest paid exceeds the specified threshold of Rs. 50,000. Tax to be deducted = Rs. 1,51,000 x 10% = Rs. 15,100.

(ii) Tax has to be deducted @30% under section 194B on payment of Rs. 15,00,000 to Mr. Narsimha for winnings in a TV Serial contest. Tax to be deducted = Rs. 15,00,000 x 30% = Rs. 4,50,000

Question 11:

Examine the applicability and determine the amount of tax deduction at source as per the Income-tax Act, 1961 for the A.Y. 2026-27 in the following situations:

(i) ABC Ltd., having its registered office in Noida, organized its annual company function at its Gurgaon office. For this purpose, the company engaged Beta Pvt. Ltd. to arrange road transport for its employees from Noida to Gurgaon and back, for which a payment of ₹ 25,000 has to be made. Further, ABC Ltd. also entered into a separate contract with Beta Pvt. Ltd. for providing catering services at the function, for ₹ 90,000.

(ii) Vijay Health Solutions Ltd., a Third-Party Administrator (TPA), makes payments to various hospitals across India towards settling cashless medical insurance claims on behalf of insurance

companies. During the financial year 2025-26, the total payment made by Vijay Health Solutions Ltd. to LifeCare Hospital for cashless claims is ₹ 12,00,000.

(RTP Jan 26)

(i) Any person responsible for paying any sum i.e. ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during a financial year to a resident contractor for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and the contractee, tax has to be deducted at source u/s 194C at the time of payment of such sum or at the time of credit of such sum to the account of the contractor, whichever is earlier.
In the present case, ABC Ltd. has entered into separate contracts with Beta Pvt. Ltd. for arranging road transport and providing catering services, for ₹ 25,000 and ₹ 90,000, respectively.
Both 'carriage of passengers' and 'catering' are expressly covered as "work" under section 194C. Even though the services are different, the aggregate payment to the contractor during the financial year is considered for the threshold limit.

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

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

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

Question 12:
Aryan, a resident individual engaged in the retail trade of auto parts through various stores across Delhi-NCR, had total turnover of ₹ 15 crores during the financial year 2024-25. The following data is furnished relating to the financial year ended 31-3-2026:
(i) He purchased goods for ₹ 105 lakhs (excluding GST @ 18%) on 21.05.2025 from Diva LLP, a limited liability partnership firm resident in India. Out of these purchases, goods worth ₹ 5 lakhs (excluding GST) were returned on 20.07.2025 due to quality issues for which Diva LLP refunded the money on 20.02.2026.
Assume that the turnover of Diva LLP during the financial year 2023-24 was ₹ 8 crores.
(ii) Aryan paid ₹ 77,000 every month to Mr. Kulveer, a resident individual for providing catering services in his shop under a contract.
Discuss the TDS/TCS implications in respect of the above-mentioned transactions assuming PAN of all the concerned parties are available.

(PYP Sep 25)

(i) Mr. Aryan is required to deduct tax at source under section 194Q @0.1% on the purchase of goods exceeding ₹ 50 lakhs without GST since his turnover for the P.Y. 2024-25 exceeds ₹ 10 crores.

The tax is to be deducted at the time of payment or at the time of credit of such sum to the account of Diva, LLP, whichever is earlier. Accordingly, Aryan has to deduct tax of ₹ 5,500, being 0.1% of ₹ 55 lakhs on 21.5.2025.

In case of purchase return of ₹ 5 lakhs and amount is refunded by Diva LLP, tax deducted of ₹ 500 (0.1% of ₹ 5 lakhs) may be adjusted against the next purchase from Diva LLP.

(ii) Since Mr. Aryan paid for catering services exceeding ₹ 30,000 and his turnover for the P.Y. 2024-25 exceeds ₹ 1 crore, he is liable to deduct tax at source under section 194C @1%. The tax is to be deducted at the time of payment or at the time of credit of such sum to the account of Mr. Kulveer, whichever is earlier.

Amount of TDS = ₹ 77,000 x 12 x 1% = ₹ 9,240

Question 13:
Specify the persons who are not required to pay advance tax as per the provisions of the Income-tax Act, 1961.

(PYP Sep 25)

- ✓ An assessee is not liable to pay advance tax if the advance tax payable, in his case, is less than ₹ 10,000 during the financial year.

- ✓ An individual resident, who is of the age of 60 years or more at any time during the previous year and does not have any income chargeable under the head "Profits and gains of business or profession" is also not required to pay advance tax.

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12. Provisions for Filing return of Income and Self-Assessment

Illustrations

Illustration 1.
Paras aged 55 years is a resident of India. During the F.Y. 2025-26, interest of ₹ 2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income? What will be your answer, if he has incurred ₹ 3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time?

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section or section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. ₹ 4,00,000 under default tax regime u/s 115BAC(1A) and ₹ 2,50,000 if exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (for A.Y. 2026-27).

Computation of total income of Mr. Paras for A.Y. 2026-27

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

In case he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction of ₹ 3,000 under section 80TTA. Accordingly, his total income would be ₹ 30,000. However, in both regimes, total income of ₹ 33,000, before giving effect to deductions under Chapter VI-A, would be considered.

Since the total income of Mr. Paras for A.Y.2026-27, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit in both regimes, he is not required to file return of income for A.Y.2026-27.

Note: In the above solution, interest of ₹ 2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to, *inter alia*,

the deductions under Chapter VI-A, would be ₹ 3,21,000 (₹ 30,000 + ₹ 2,88,000 + ₹ 3,000), which is higher than the basic exemption limit of ₹ 2,50,000 in case he opts out of default tax regime. Consequently, he would be required to file return of income for A.Y.2026-27.

However, if he pays tax under default tax regime, he is not required to file return of income for A.Y.2026-27 as the basic exemption limit is ₹ 4,00,000 u/s 115BAC.

If he has incurred expenditure of ₹ 3 lakhs on foreign travel of self and spouse, he has to mandatorily file his return of income on or before the due date under section 139(1), even if his income is less than the basic exemption limit.

Illustration 2.
Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:
(i) Belated return filed under section 139(4).
(ii) Return already revised once under section 139(5).
(iii) Return of loss filed under section 139(3).

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before 3 months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,
(i) A belated return filed under section 139(4) can be revised.
(ii) A return revised earlier can be revised again as the first revised return replaces the original return.
(iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

Illustration 3.
Rishi, a 34 years resident individual, did not file his return of income for the A.Y. 2020-21, 2021-22 and 2022-23. For A.Y. 2023-24, he has filed his return of income on 31.07.23. He filed updated return u/s 139(8A) on 30.04.25 for A.Y. 2024-25. He gives the following information regarding each of the A.Y.-

Particulars	A.Y. 2020-21	A.Y. 2021-22	A.Y. 2022-23	A.Y. 2023-24	A.Y. 2024-25
Declared Income u/s 139(1)/ 139(8A)	-	-	-	(₹3,50,000)	₹ 7,50,000
Tax liability on total income before TDS / TCS / Interest / Self-Assessment tax	₹ 14,50,000	₹ 5,60,000	₹ 6,30,000	-	-
TDS deducted	₹ 5,00,000	₹ 10,00,000	₹ 2,00,000	-	-
Interest u/s 234A/B/C	₹ 2,90,000	-	₹ 90,000	-	-
Self-Assessment Tax Paid	-	-	₹ 1,00,000	-	-

In May 2025, Rishi came to know about loss from house property of ₹ 2,00,000 which he forgets to claim while filing the return of income for A.Y. 2023-24. Moreover, in A.Y. 2024-25, he has earned dividend income of ₹ 4,500 and ₹ 4,150 from A Ltd. & B Ltd., respectively, which he has not reported in his return of income u/s 139(8A). He approaches you on 16.5.2025 to file

updated return for all the assessment years under section 139(8A) in order to clear his income-tax records. You are required to prepare a suggestion for which of the assessment years Rishi can file an updated return and tax payable at the time of filing updated return.

An updated return can be furnished for the previous year relevant to the assessment year at any time within 48 months from the end of the relevant assessment year.

<table>
<tr><th>A.Y</th><th>Answer</th></tr>
<tr><td>2020-21</td><td>48-month time limit ended on 31-03-2025 → Updated return cannot be filed on 16-05-2025.</td></tr>
<tr><td>2021-22</td><td>✓ Within 48-month window, but filing creates a refund
(TDS ₹10,00,000 > tax ₹5,60,000 → refund ₹4,40,000).
✓ Updated return not permitted if refund arises.</td></tr>
<tr><td>2022-23</td><td>✓ Within 48-month window → Updated return allowed.
✓ Falls in 24–36 month slab.
✓ Computation:
<table>
<tr><td>Tax payable [after TDS & Self Asst Tax]
[6,30,000 – 2,00,000 – 1,00,000]</td><td>₹3,30,000</td></tr>
<tr><td>Interest u/s 234A/B/C</td><td>₹90,000</td></tr>
<tr><td>Total</td><td>₹4,20,000</td></tr>
<tr><td>Additional tax @60%</td><td>₹2,52,000</td></tr>
<tr><td>Late fee</td><td>₹5,000</td></tr>
<tr><td>Total Including Additional Tax and Fees</td><td>₹6,77,000</td></tr>
</table>
✓ Updated return permitted subject to full payment of the above amounts.</td></tr>
<tr><td>2023-24</td><td>✓ Within 48-month window, but updated return would increase loss
(₹3,50,000 → ₹5,50,000).
✓ Loss enhancement not allowed → Updated return cannot be filed.</td></tr>
<tr><td>2024-25</td><td>Updated return already furnished once for this year. A second updated return cannot be filed u/s 139(8A).</td></tr>
</table>

Illustration 4.
Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2026 audited under section 44AB. Her total income for the A.Y. 2026-27 is ₹ 15,35,000. She wants to furnish her return of income for A.Y. 2026-27 through a tax return preparer. Can she do so?

Section 139B provides a scheme for submission of return of income for any assessment year through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2026-27 through a Tax Return Preparer.

Test Your Knowledge

Question 1: State with reasons whether you agree or disagree with the following statements:
(a) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.
(b) Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2026 whether or not declaring presumptive income under section 44AD, is 31st October, 2026.

(a) Disagree

The return of income of LLP should be verified by a designated partner.
Any other partner can verify the Return of Income of LLP only in the following cases:
(i) where for any unavoidable reason such designated partner is not able to verify the return, or,
(ii) where there is no designated partner.

(b) Disagree

In case Mr. A offers his business income as per the presumptive taxation provisions of section 44AD (₹ 11.60 lakhs or more), then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2026, shall be 31st July, 2026.

In case, Mr. A wants to declare business income lower than ₹ 11.60 lakhs, he has to get his accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore, in which case, the due date for filing return would be 31st October, 2026.

Question 2: Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12.07.2026 for A.Y. 2026-27 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 21.12.2026, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21.03.2027?

- ✓ Since Mr. Vineet has income only under the heads "Salaries", "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2026-27 under section 139(1), in his case, is 31st July, 2026.
- ✓ Since Mr. Vineet had filed his return under optional regime on 12.7.2026, the said return is within the time provided under section 139(1).
- ✓ As per section 139(5), a return furnished under section 139(1) can be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(1) in December 2025, to claim deduction under section 80TTA, since the time limit for filing a revised return is 3 months prior to the end of the relevant assessment year, which is 31.12.2026.
- ✓ However, he cannot revise return had he discovered this omission only on 21- 03-2027, since it is beyond 31.12.2026.

Question 3: Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

(i) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.

(ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

(i) 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 4: Explain the term "return of loss" under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?

- ✓ A return of loss is a return which shows certain losses.
- ✓ Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).
- ✓ Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).
- ✓ Following losses are covered by section 139(3):
  - business loss to be carried forward under section 72(1),
  - speculation business loss to be carried forward under section 73(2),
  - loss from specified business to be carried forward under section 73A(2), in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
  - loss under the head "Capital Gains" to be carried forward under section 74(1); and
  - loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)
- ✓ However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward even if return of loss has not been filed as required under section 139(3).

Question 5: Mr. Aakash has undertaken certain transactions during the F.Y.2025-26, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents

S. No.	Transaction
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2025-26 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash
3.	Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company

4.	**Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives**
5.	**Applied to SBI for issue of credit card.**

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2025-26 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed ₹ 50,000 in the F.Y.2025-26.
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash	Yes, since the amount paid in cash exceeds ₹ 50,000
3.	Payment of ₹ 80,000, by ECS through bank account, for acquiring the debentures of A Ltd., an Indian company	Yes, since the amount paid for acquiring debentures exceeds ₹ 50,000. Mode of payment is not relevant in this case.
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000
5.	Applied to SBI card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.

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Questions from MRP [MTPs, RTPs, Past Exam Papers]

Question 1:

State with reason whether the following persons are required to file their return of income as per the provisions of the Income Tax Act, 1961 for the assessment year 2026-27:

(i) Mr. Aneesh aged 31 years, who opted for default tax regime u/s 115BAC(1A) had a total income of Rs. 3,90,000 for the previous year 2025-26.

(ii) Smt. Patel, aged 65 years, has a TDS credit of Rs. 55,000 during the previous year 2025-26.

(iii) The gross receipts of Mr. Ajit, aged 45 years, an architect for the previous year 2025-26 was Rs. 12,00,000, but his profit from profession was only Rs. 2,25,000 and he has no other income.

(PEP May 24 4M)

(i) In this case, Mr. Aneesh is not required to file return of income, since his total income does not exceed Rs. 4,00,000, being the basic exemption limit as per the default tax regime u/s 115BAC, assuming Mr. Aneesh has not claimed any deduction u/s 54/54D/54EC or 54F and deduction allowable under Chapter VI-A.

(ii) In the present case, since Smt. Patel, a senior citizen has a TDS credit of Rs. 55,000, which exceeds the threshold limit of Rs. 50,000, she is required to file her return of income even if it is assumed that her total income does not exceed the basic exemption limit.

(iii) In this case, since Mr. Ajit's gross receipts from the profession of architect was Rs. 12,00,000 for the P.Y. 2025-26, which is in excess of Rs. 10 lakhs, hence, he is required to file his return of income though his total income is Rs. 2,25,000 which does not exceed the basic exemption limit.

Question 2:

CBDT has vide Notification No. 37/2022 dated 21.04.2022, inserted Rule 12AB, notified which are all the person other than a company or firm who is not required to file return of income under Section 139(1) must file the return of Income. State who are required compulsorily to file return of Income.

(PEP May 24 4M)

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:

Criteria	Threshold Limit
1. Deposits in savings accounts	₹50 lakh or more
2. Turnover from Business	Exceeds ₹60 lakh.
3. Gross Receipts from Profession	Exceeds ₹10 lakh.
4. Aggregate of TDS and TCS on:	
✓ For Resident Senior citizens	₹50,000 or more
✓ For others	₹25,000 or more

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Question 3:

Mr. Vishnu has undertaken certain transactions during the F.Y.2025- 26, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –

S. No.	Transaction
1.	Sale of scooter for Rs. 70,000
2.	Payment of life insurance premium of Rs. 67,000 to insurance company
3.	Purchase of plot for Rs. 9 lakhs while the stamp duty of the same is Rs. 11 lakhs
4.	Applied to PNB for issue of credit card.

(MTP 2 May 24 4M)

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Sale of scooter for Rs. 70,000	No, quoting of PAN is not mandatory on sale of scooter.
2.	Payment of life insurance premium of Rs. 67,000 to insurance company	Yes, since the amount paid exceeds Rs. 50,000.
3.	Purchase of plot for Rs. 9 lakhs while the stamp duty of the same is Rs. 11 lakhs	Though the amount of consideration does not exceed Rs. 10 lakhs, Mr. Vishnu has to quote PAN since stamp duty of plot exceeds Rs. 10 lakhs.
4.	Applied to PNB for issue of credit card	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.

Question 4:

In the following cases relating to P.Y.2023-24, 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.2024-25 in each of the following independent situations:

(i) Manish & Sons (HUF) sold a residential house on which there arose a long term capital gain of Rs. 12 lakhs which was invested in Capital Gain Bonds u/s 54EC so that no long term capital gain was taxable.

(ii) Samarth has incurred an expenditure of Rs. 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels.

(MTP 2 May 24 4M)

(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. 2026-27 on or before the due date under section 139(1).

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(ii) If an individual has incurred expenditure exceeding Rs. 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit.

Since Mr. Samarth has incurred expenditure of Rs. 1,20,000 in the P.Y.2025-26 towards consumption of electricity, he has to file his return of income for A.Y. 2026-27 on or before the due date under section 139(1).

Question 5: (MAY 25 4M) (MTP 2 MAY 24 4 MARKS)

Briefly mention the provisions of Income-tax Act, 1961 with regard to quoting Aadhaar Number under section 139AA of the Act.

1. Mandatory Quoting of Aadhaar Number: From 1.4.2019, quoting Aadhaar is mandatory in:
   a. Application for PAN.
   b. Income Tax Returns (manual or electronic).
2. Quoting Aadhaar is not required for:
   a. Residents of Assam, Jammu & Kashmir, and Meghalaya.
   b. Non-residents as per the Income-tax Act.
   c. Individuals aged 80 years or above during the year.
   d. Non-citizens of India.
3. If a person does not have Aadhaar Number, he is required to quote Enrolment ID of Aadhaar application form issued to him at the time of enrolment in the application form for allotment of PAN or in the return of income furnished by him.

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Question 6:

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

(MTP 2 Sept 24 4M)

Consequences of Not Linking Aadhaar:

- ✓ PAN allotted on or before 1st July 2017 becomes inoperative if Aadhaar is not linked by 31st March 2022.
- ✓ A fee of ₹1,000 is applicable under Section 234H read with Rule 114(5A).
- ✓ PAN becomes operative within 30 days after linking Aadhaar and paying the prescribed fee if Aadhaar is linked after 31st March 2022.

Consequences of inoperative PAN (From 1st July 2023 until PAN is operative):

- ✓ No tax refunds.
- ✓ No interest on refunds.
- ✓ Higher TDS (Section 206AA) and TCS (Section 206CC) rates.

Question 7:

Mr. Kailash, a resident and ordinarily resident in India, could not file his return of Income for the assessment year 2021-22 before due date prescribed under section 139(1).

Advise Mr. Kailash as a tax consultant.

What are the consequences for non-filing of return of Income within the due date u/s 139(1)?

(MTP 1 Jan 25 4M)

Consequences for non-filing return of income within the due date under section 139(1)

Interest under section 234A

- ✓ Interest under section 234A@1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1) till the date of furnishing of return of income is payable, where the return of income is furnished after the due date.
- ✓ However, no interest u/s 234A shall be charged on self-assessment tax paid by the assessee on or before the due date of filing of return.

Fee under section 234F

- ✓ Late fee of Rs. 5,000 would be payable under section 234F, if the return of income is not filed before the due date specified in section 139(1).
- ✓ However, such fee cannot exceed Rs. 1,000, if the total income does not exceed Rs. 5,00,000.

Carry forward and set-off of certain losses not permissible

Following losses would not be allowed to be carried forward, where a return of income is not furnished within the time allowed under section 139(1):

- ✓ business loss, speculation business loss, loss from specified business,
- ✓ loss under the head "Capital Gains"; and
- ✓ loss from the activity of owning and maintaining race horses.

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Question 8:

Mr. Naksh has undertaken certain transactions during the F.Y.2025-26, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents-

S.No.	Transaction
1.	Payment of life insurance premium of Rs.40,000 in the F.Y.2025-26 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of Rs.1,10,000 to RBI for acquiring its bonds
3.	Applied for issue of credit card to SBI
4.	Payment of Rs.1,00,000 by account payee cheque to travel agent for travel to Singapore for 3 days to visit

(MTP 1 Jan 25 4M)

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of Rs. 40,000 in the F.Y.2025-26 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed Rs. 50,000 in the F.Y.2025-26.
2.	Payment of Rs. 1,10,000 to RBI for acquiring its bonds	Yes, since the amount paid exceeds Rs. 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 Rs. 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 Rs. 50,000

Question 9:
Mr. Sumit has submitted his income-tax return containing certain losses/deductions in respect of the P.Y. 2025-26 on 22.10.2026. The due date for filing the return for Mr. Sumit was 31st July, 2026 under section 139(1). You are required to examine with reference to the relevant provisions of Income-tax Act, 1961 whether the following losses/deductions can be carried forward/claimed in subsequent years by Mr. Sumit if he pays tax under default tax provisions of the Act.
(i) Loss from the business carried on by him as a proprietor: Rs.10,80,000 (computed)
(ii) Unabsorbed Depreciation: Rs.2,00,000 (computed)
(iii) Loss from let out house property: Rs.2,50,000 (computed)

(MTP 2 Jan 25 3M)

1. Mr. Sumit has furnished his return of income under default tax regime for A.Y.2026-27 on 22.10.2026, i.e., after the due date specified under section 139(1) i.e., 31st July 2026. Hence, the return is a belated return under section 139(4).
2. As per section 80 read with section 139(3), specified losses, which have not been determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried forward to the subsequent year for set-off against income of that year.
3. The specified losses include, inter alia, business loss but does not include loss from house property and unabsorbed depreciation.
4. Accordingly, business loss of Rs. 10,80,000 of Mr. Sumit for A.Y. 2026-27, not determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried forward to A.Y. 2027-28.
5. However, the loss of Rs. 2,50,000 from let out house property and unabsorbed depreciation of Rs. 2,00,000 pertaining to A.Y.2026-27, can be carried forward to A.Y.2027-28 for set-off, even though Mr. Sumit has filed the return of loss for A.Y.2026-27 belatedly.

Question 10:
State persons who are required to apply for the allotment of PAN under section 139A(1) of the Income-tax Act, 1961. Mention the time limit for making such application also.

(PEP May 25 4M)

As per section 139A(1), following persons are required to apply for the allotment of PAN within the specified time limit:

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Persons Required to Apply for PAN (Rule 114)

Category	Time Limit
Every person with total income exceeding BEL	By 31st May of the A.Y.
Every person with total sales, turnover, or gross receipts likely to exceed ₹5 lakhs.	By the end of the F.Y.
Every resident (other than an individual) entering financial transactions aggregating to ₹2,50,000 or more.	By 31st May of the following F.Y.
Managing director, partner, trustee, etc., of entities in the above category.	By 31st May of the following F.Y.

Additional PAN Application Requirements (Rule 114BA)

Transaction	Time Limit
Deposit of cash in one or more accounts aggregating to ₹20 lakhs or more.	At least 7 days before the intended deposit.
Withdrawal of cash aggregating to ₹20 lakhs or more.	At least 7 days before the intended withdrawal.
Opening of a current or cash credit account with a bank or post office.	At least 7 days before account opening.

Question 11:
Mr. Vijay, an Indian citizen residing in Chennai, files his return of income every year on time. He has Aadhaar number as well. He has not intimated his Aadhaar number to the prescribed authority till August 2025. He approached you on 1.9.2025 and asked you about the consequences of not doing so.
What would be your answer if Mr. Vijay wants to intimate his Aadhaar number to the prescribed authority now?

(MTP 1 May 25 5M)

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 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.

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If Mr. Vijay wants to intimate his Aadhaar number to the prescribed authority on 1.9.2024, 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 12:
Who is authorized to verify return of income in case of the following assessees:
i. Local authority
ii. Firm, having no managing partner
iii. Foreign Company
iv. HUF where the karta is absent from India (4 Marks)

(MTP 2 May 25 4M)

	Assessee	Authorised person to verify return of income
(i)	Local authority	The principal officer
(ii)	Firm, having no managing partner	Any partner of the firm, not being a minor
(iii)	Foreign Company	• The managing director of the company (or) • a person who holds a valid power of attorney from such company to do so (such power of attorney should be attached to the return)
(iv)	HUF where the karta is absent from India	Any other adult member of the HUF

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Question 13:

Examine with reasons, whether quoting of PAN in the following transactions is mandatory or not, as per the provisions of Income-tax Act, 1961 for A.Y. 2026-27:

(i) Mr. Arjun makes a cash payment of ₹ 50,000 to Hotel Vista, Dehradun against a bill raised by the hotel.

(ii) Ms. Kavita enters into a contract for the purchase of debentures, for a value of ₹ 1,85,000.

(iii) Mr. Ramesh makes a payment of ₹ 57,000 for the purchase of units of a mutual fund.

(iv) Ms. Sneha makes a payment for the purchase of immovable property valued at ₹ 9,50,000. Stamp duty value of the property is ₹ 9,75,000.

(MTP 1 Sept 25 4M)

Requirement of quoting PAN in respect of certain transactions

(i) PAN is not required to be quoted: Mr. Arjun is not required to quote his PAN while making payment ₹ 50,000 in cash to a hotel Vista, Dehradun, since such payment does not exceed ₹ 50,000.

(ii) PAN is mandatorily required to be quoted: Ms. Kavita is required to quote her PAN while making payment of ₹ 1,85,000 for purchase of debentures, since the amount of the transaction exceeds ₹ 50,000.

(iii) PAN is mandatorily required to be quoted: PAN has to be mandatorily quoted while making payment of ₹ 57,000 to Mutual Funds for purchase of its units, since such payment exceeds ₹ 50,000

(iv) PAN is not required to be quoted: Ms. Sneha is not required to quote her PAN while making payment ₹ 9,50,000 towards purchase of immovable property, since such payment does not exceed ₹ 10,00,000

Question 14:

Mr. Shahid, an individual who is a resident and ordinarily resident in India, has earned a salary income of ₹ 8,25,000 during the Financial Year 2025-26. He is eligible to claim deductions under section 80C, 80D and 80G amounting to ₹ 2,75,000. On 30th July, 2026, he approaches you for assistance in filing his return of income.

As a tax consultant, what would be your advice regarding the filing of his return of income?

Note - The due date of filing return of income for A.Y. 2026-27 is 31st July, 2026. Ignore interest u/s 234A, 234B and 234C.

(MTP 1 Sept 25 4M)

- ✓ Mr. Shahid approaches on 30th July 2026, which is before the due date for filing the return under section 139(1).
- ✓ Mr. Shahid has an option to pay tax under default tax regime or to opt out of the default tax regime and pay tax under normal provisions of the Act. However, under the default tax regime, he will not be able to claim deductions under section 80C, 80D and 80G.
- ✓ Under default tax regime, Mr. Shahid's total income would be ₹ 7,50,000 after providing standard deduction of ₹ 75,000 and tax liability will be ₹ 26,000.
- ✓ Under optional tax regime, Mr. Shahid's total income would be ₹ 5,00,000 after providing standard deduction of ₹ 50,000 and deduction under Chapter VI-A of ₹ 2,75,000.
- ✓ Since Mr. Shahid is resident in India, he is eligible of rebate under section 87A and his tax liability would be Nil.
- ✓ Accordingly, Mr. Shahid should file his return of income on or before 31st July, 2026 and opt out of the default tax regime.

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13. Income Tax Liability - Computation and Optimisation

Illustrations

ILLUSTRATION 1

Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of ₹ 80,000 p.m. He has received transport allowance of ₹ 15,000 p.m. and house rent allowance of ₹ 20,000 p.m. from the company for the P.Y. 2025-26. He has paid rent of ₹ 25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of ₹ 2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2026 and his parents live in that house.

Other Information

- **Contribution to PPF - ₹ 1,50,000**
- **Contribution to pension scheme referred to in section 80CCD - ₹ 50,000**
- **Payment of medical insurance premium for father, who is of the age of 65 - ₹ 55,000**
- **Payment of medical insurance premium for self and spouse - ₹ 32,000**

Compute the total income and tax liability of Mr. A for the A.Y. 2026-27 in the most beneficial manner.

Computation of total income and tax liability of Mr. A for A.Y. 2026-27 under default tax regime under section 115BAC

Particulars		₹
Salaries		
Basic Salary [₹ 80,000 x 12]		9,60,000
Transport allowance [₹ 15,000 x 12]		1,80,000
HRA received [₹ 20,000 x 12]		2,40,000
Gross salary		13,80,000
Less: Standard deduction u/s 16(ia)		(75,000)
Income from house property		13,05,000
Interest on housing loan		-
Gross Total Income		**13,05,000**
Less: Deductions under Chapter VI- A		
Section 80C		
Contribution in PPF		-
Section 80CCD		
Contribution to pension scheme		-
Section 80D		
Mediclaim insurance premium for self and parents		-
Total Income		**13,05,000**
Tax liability		
Tax @5% on ₹ 4,00,000 [₹ 8,00,000 - ₹ 4,00,000]	20,000	
Tax @10% on ₹ 4,00,000 [₹ 12,00,000 - ₹ 8,00,000]	40,000	

Tax @15% on ₹ 1,05,000 [₹ 13,05,000 - ₹ 12,00,000]	15,750	75,750
Add: Health & Education cess @ 4%		3,030
Total Tax Liability		**78,780**

Computation of total income and tax liability of Mr. A for A.Y. 2026-27 under normal provisions of the Act

Particulars		₹
Salaries		
Basic Salary [₹ 80,000 x 12]		9,60,000
Transport allowance [₹ 15,000 x 12]		1,80,000
HRA received	2,40,000	
Less: Least of the following exempt u/s 10(13A)	(2,04,000)	36,000
HRA Received = 2,40,000		
Actual rent paid – 10% of salary [₹ 3,00,000 – ₹ 96,000] = 2,04,000		
50% of salary (Since he is staying in Delhi being a metro city) = 4,80,000		
Gross salary		**11,76,000**
Less: Standard deduction u/s 16(ia)		(50,000)
Income from house property		**11,26,000**
[Annual Value is Nil. Deduction u/s 24(b) for interest on housing loan would be restricted to ₹ 2,00,000, in case of self-occupied property, which would represent loss from house property]		(2,00,000)
Gross Total Income		**9,26,000**
Less: Deductions under Chapter VI-A		
Section 80C		
Contribution to PPF		(1,50,000)
Section 80CCD(1B)		
Own contribution to pension scheme		(50,000)
Section 80D		
Mediclaim insurance premium		
For self and spouse, restricted to	25,000	
For father, who is a senior citizen, restricted to	50,000	(75,000)
Total Income		**6,51,000**
Tax liability		
Tax @ 5% on ₹ 2,50,000 [₹ 5,00,000 - ₹ 2,50,000]	12,500	
Tax @ 20% on ₹ 1,51,000 [₹ 6,51,000 - ₹ 5,00,000]	30,200	42,700
Add: Health & Education cess @ 4%		1,708
Total Tax Liability		44,408
Total Tax Liability (Rounded Off)		44,410

Since tax liability as per the normal provisions of the Act is lower than the tax liability under the default tax regime under section 115BAC, it would be beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2026-27.

ILLUSTRATION 2

Mr. Kadam is entitled to a salary of ₹ 41,000 per month. He is given an option by his employer either to take house rent allowance or a rent-free accommodation which is owned by the company. The HRA amount payable was ₹ 7,000 per month. The rent for the hired accommodation was ₹ 6,000 per month at New Delhi. Advice Mr. Kadam whether it would be beneficial for him to avail HRA or Rent-Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kadam exercises the option to shift out of the default tax regime under section 115BAC.

Computation of tax liability of Kadam under both the options

Particulars		Option I – HRA (₹)	Option II – RFA (₹)
Basic Salary (₹ 41,000 x 12 Months)		4,92,000	4,92,000
Perquisite value of rent-free accommodation (10% of ₹ 4,92,000)		N.A.	49,200
House rent Allowance (₹ 7,000 x 12 Months)	₹ 84,000		
Less: Exempt u/s 10(13A) – least of the following -			
- 50% of Basic Salary ₹ 2,46,000			
- Actual HRA received ₹ 84,000			
- Rent paid less 10% of salary ₹ 22,800	(₹ 22,800)	61,200	
Gross Salary		**5,53,200**	**5,41,200**
Less: Standard deduction u/s 16(ia)		(50,000)	(50,000)
Net Salary		**5,03,200**	**4,91,200**
Less: Deduction under Chapter VI-A		-	-
Total Income		**5,03,200**	**4,91,200**
Tax on total income		13,140	12,060
Less: Rebate under section 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,060, since total income does not exceed ₹ 5,00,000		Nil	12,060
		13,140	Nil
Add: Health and Education cess@4%		526	Nil
Tax liability		13,666	Nil
Tax liability (Rounded off)		13,670	Nil

Cash Flow Statement

Particulars	Option I – HRA	Option II – RFA
Inflow: Salary	5,76,000	4,92,000
Outflow: Rent paid	(72,000)	-
Outflow: Tax on total income	(13,670)	Nil
Net Inflow	**4,90,330**	**4,92,000**

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

Test Your Knowledge

Question 1: **Compute the tax liability of Mr. Gupta (aged 61) under default tax regime, having total income of ₹ 1,01,50,000 for the A.Y.2026-27. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.**

Computation of tax liability of Mr. Gupta for the A.Y.2026-27 under default tax regime

(A) Income-tax (including surcharge) computed on total income of ₹ 1,01,50,000		
₹ 4,00,000 – ₹ 8,00,000 @5%	₹ 20,000	
₹ 8,00,001 – ₹ 12,00,000 @10%	₹ 40,000	
₹ 12,00,001 – ₹ 16,00,000 @15%	₹ 60,000	
₹ 16,00,001 – ₹ 20,00,000 @20%	₹ 80,000	
₹ 20,00,001 – ₹ 24,00,000 @25%	₹ 1,00,000	
₹ 24,00,001 – ₹ 1,01,50,000 @30%	₹ 23,25,000	
	₹ 26,25,000	
Add: Surcharge @15%	₹ 3,93,750	₹ 30,18,750
(B) Income-tax computed on total income of ₹ 1 crore [(₹ 3,00,000 plus ₹ 22,80,000) plus surcharge@10%]		₹ 28,38,000
(C) Excess tax payable (A)-(B)		₹ 1,80,750
(D) Marginal Relief (₹ 1,80,750 – ₹ 1,50,000, being the amount of income in excess of ₹ 1,00,00,000)		₹ 30,750
(E) Tax liability (A)-(D)		₹ 29,88,000
Add: Health and education cess @4%		₹ 1,19,520
Tax liability (including cess)		₹ 31,07,520

Question 2: **Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 02.03.2025 and came to India for the first time on 16.03.2025. She left for USA on 19.9.2025. She returned to India again on 27.03.2026. While in India, she had purchased a show room in Mumbai on 30.04.2025, which was leased out to a company on a rent of ₹ 25,000 p.m. from 01.05.2025. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2026. She had received the following cash gifts from her relatives and friends during 1.4.2025 to 31.3.2026:**

- **From parents of husband ₹ 51,000**
- **From married sister of husband ₹ 11,000**
- **From two very close friends of her husband (₹ 1,51,000 and ₹ 21,000)**

(a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the A.Y. 2026-27 if she opts out of the default tax regime under section 115BAC.

(b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is ₹ 18,00,000 and she is not liable to tax in USA?

(a) Under section 6(1), an individual is said to be resident in India in any previous year, if he/she satisfies any one of the following conditions:

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

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

If an individual satisfies any one of the conditions mentioned above, he/she is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Miss Charlie, an American National, for A.Y.2026-27 has to be determined on the basis of her stay in India during the P.Y.2025-26 and in the preceding 4 previous years.

Her stay in India during the P.Y.2025-26 and in the preceding four years are as under:

P.Y. 2025-26	
01.04.2025 to 19.09.2025	- 172 days
27.03.2026 to 31.03.2026	- 5 days
Total	- 177 days
Four preceding previous years	
P.Y. 2024-25 [1.4.2024 to 31.3.2025]	- 16 days
P.Y. 2023-24 [1.4.2023 to 31.3.2024]	- Nil
P.Y. 2022-23 [1.4.2022 to 31.3.2023]	- Nil
P.Y. 2021-22 [1.4.2021 to 31.3.2022]	- Nil
Total	16 days

The total stay of the assessee during the previous year in India was less than 182 days and during the 4 years preceding this year was for 16 days.

Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the A.Y.2026-27.

Computation of total income of Miss Charlie for the A.Y. 2026-27

Particulars		₹	₹
Income from house property			
Show room located in Mumbai remained on rent from 01.05.2025 to 31.03.2026@ ₹ 25,000/- p.m. Gross Annual Value [₹ 25,000 x 11] (See Note 1 below)		2,75,000	
Less: Municipal taxes		Nil	
Net Annual Value (NAV)		2,75,000	
Less: Deduction under section 24			
30% of NAV	(82,500)		
Interest on loan	(97,500)	(1,80,000)	95,000
Income from other sources			
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x), if the aggregate value of such gifts exceeds ₹ 50,000.			
- ₹ 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.		Nil	
- ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.		Nil	

-	Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable under section 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. (See Note 2 below)	1,72,000	1,72,000
Total income			**2,67,000**

Computation of tax liability by Miss Charlie for the A.Y. 2026-27 under normal provisions of the Act

Particulars	₹
Tax on total income of ₹ 2,67,000	850
Add: Health and Education cess@4%	34
Total tax liability	884
Total tax liability (rounded off)	880

Notes:

1. Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
2. If the aggregate value of taxable gifts received from non-relatives exceed ₹ 50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable under section 56(2)(x).
3. Since Miss Charlie is a non-resident for the A.Y. 2026-27, rebate under section 87A would not be available to her, even though her total income does not exceed ₹ 5 lakhs.

(b) Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources is ₹ 18,00,000.

If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the 4 immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y.2025-26 but the period of her stay in India during the 4 immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 and she is not liable to pay tax in USA. Therefore, her residential status would be non-resident in India for the previous year.

Question 3: Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2026 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	35,38,400	By Consultation and medical charges	58,85,850
To Staff salary	13,80,000	By Income-tax refund (principal ₹ 5,000, interest ₹ 450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500

To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 35	1,50,000		
To Net profit	4,40,400		
	59,63,800		59,63,800

(i) Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.

(ii) Clinic equipment's are:
1.4.2025 Opening W.D.V. - ₹ 5,00,000
7.12.2025 Acquired (cost) by cheque - ₹ 2,00,000

(iii) Rent received relates to residential house property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2025, has been included in "administrative expenses".

(iv) She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".

(v) Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the previous year 2025-26.

(vi) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.

(vii) An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2026 for her medical insurance premium.

From the above, compute the total income of Dr. Niranjana for the A.Y. 2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act.

Computation of total income of Dr. Niranjana for A.Y. 2026-27 under default tax regime

	Particulars	₹	₹	₹
I	**Income from Salary**			
	Basic Salary (₹ 7,500 x 12)		90,000	
	Less: Standard deduction u/s 16(ia)		(75,000)	15,000
II	**Income from house property**			
	Gross Annual Value (GAV)		27,000	
	Less: Municipal taxes paid		(2,000)	
	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 24@30% of ₹ 25,000		(7,500)	17,500
III	**Income from profession**			
	Net profit as per Income and Expenditure account		4,40,400	
	Less: Items of income to be treated separately			
	(i) Rent received (taxable under the head "Income from house property")	(27,000)		

	(ii) Dividend from units of UTI (taxable under the head "Income from other sources")	(10,500)		
	(iii) Winning from game show on T.V. (net of TDS) (taxable under the head "Income from other sources")	(35,000)		
	(iv) Income tax refund	(5,450)	(77,950)	
			3,62,450	
	Less: Allowable expenditure			
	Depreciation on clinic equipments			
	on ₹ 5,00,000@15%	(75,000)		
	on ₹ 2,00,000@7.5% (On equipments acquired during the year in December 2025, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the year)	(15,000)	(90,000)	
			2,72,450	
	Add: Items of expenditure not allowable while computing business income			
	(i) Amount paid to scientific research association approved u/s 35 (not allowed under default tax regime)	1,50,000		
	(ii) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
	(iii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	1,82,000	4,54,450
IV	**Income from other sources**			
	(a) Interest on income-tax refund		450	
	(b) Dividend from UTI (taxable in the hands of unit holders)		10,500	
	(c) Winnings from TV game show (₹ 35,000 + ₹ 15,000)		50,000	60,950
	Gross Total Income			**5,47,900**
	Less: **Deductions under Chapter VI-A**:			
	(a) Section 80C [Not allowed under default tax regime]			**Nil**
	(b) Section 80D [Not allowed under default tax regime]			**Nil**
	(c) Section 80E [Not allowed under default tax regime]			**Nil**
	Total income			**5,47,900**

Computation of total income of Dr. Niranjana for A.Y. 2026-27 under normal provisions of the Act

Particulars	₹	₹
Gross Total Income as per default tax regime		5,47,900
Add: Standard deduction of ₹ 25,000, being the excess amount allowed u/s 115BAC		25,000
Less: Items of expenditure allowable while computing business income under normal provisions of the Act		
100% deduction is allowable in respect of the amount paid to scientific research association allowable under normal provisions of the Act.		(1,50,000)
Gross Total Income as per normal provisions of the Act		**4,22,900**

Less: Deductions under Chapter VI-A:		
(a) Section 80C - Tuition fee paid to university for full time education of her daughter	(1,00,000)	
(b) Section 80D - Medical insurance premium (fully allowed since she is a senior citizen)	(28,000)	
(c) Section 80E - Interest on loan taken for higher education is deductible	(55,000)	(1,83,000)
Total income		**2,39,900**

Notes:

(i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".

(ii) Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.

(iii) Dr. Niranjana would not be eligible for deduction u/s 80GG under normal provisions of the Act, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

Question 4: Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2026 reads as follows:

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled	1,37,000	Audit	27,88,000	
Assistants		Taxation services	15,40,300	
Incentive to articled	13,000	Consultancy	12,70,000	55,98,300
Assistants		Dividend on shares of X Ltd., an Indian company (Gross)		10,524
Office rent	12,24,000	Income from UTI (Gross)		7,600
Printing and stationery	12,22,000	Honorarium received from		15,800
		various		
		institutions for		
		valuation of		
		answer papers		
Meeting, seminar and conference	31,600	Rent received from residential flat let out		85,600
Purchase of car (for official use)	80,000			
Repair, maintenance	4,000			
and petrol of car				
Travelling expenses	5,25,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	57,17,824			57,17,824

Other Information:

(i) Allowable rate of depreciation on motor car is 15%.

(ii) Value of benefits received from clients during the course of profession is ₹ 10,500.

(iii) Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.

(iv) Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2025 to 30-09-2026.

(v) Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.

(vi) The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.

(vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.

(viii) She invested an amount of ₹ 10,000 in National Saving Certificate.

Compute the total income and tax liability of Ms. Purvi for the A.Y. 2026-27 in a most beneficial manner.

Computation of total income and tax liability of Ms. Purvi for the A.Y. 2026-27 under default tax regime under section 115BAC

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
Gross Total Income		**10,11,944**
Less: Deductions under Chapter VI-A [not allowable under default tax regime]		-
Total Income		**10,11,944**
Total Income (rounded off)		10,11,940
Tax on total income		
Upto ₹ 4,00,000	Nil	
₹ 4,00,001 - ₹ 8,00,000 @5%	20,000	
₹ 8,00,001 - ₹ 10,11,940 @10%	21,194	41,194
Less: Rebate under section 87A, since the total income does not exceed ₹ 12 lakhs		(41,194)
Tax liability		**Nil**

Computation of total income and tax liability under normal provisions of the Act

Particulars	₹	₹
Gross Total Income [Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources" would remain the same even if Ms. Purvi opts out of the default tax regime under section 115BAC]		10,11,944

Less: Deductions under Chapter VI-A (See Working Note 4)		(10,000)
Total Income		**10,01,944**
Total Income (rounded off)		10,01,940
Tax on total income		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,000 - ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 10,01,940 @ 30%	582	1,13,082
Add: Health and Education cess @ 4%		4,523
Total tax liability		1,17,605
Total tax liability (rounded off)		1,17,610

Since tax liability under default tax regime under section 115BAC is less as compared to tax liability under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to pay tax under default tax regime under section 115BAC.

Working Notes:

(1) Income from House Property

Particulars	₹	₹
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	(3,000)	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 24@30% of NAV	24,780	**57,820**

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head "Profits & Gains of Business or Profession"

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(iii) Municipal taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head "Income from other sources")	(10,524)	
(ii) Income from UTI (taxable under the head "Income from other sources")	(7,600)	
(iii) Honorarium for valuation of answer papers	(15,800)	
(iv) Rent received from letting out of residential flat	(85,600)	(1,19,524)
		9,32,200
Less: Depreciation on motor car @15% (See Note (i) below)		(12,000)

		9,20,200

Notes:

(i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

(ii) Incentive to articled assistants for passing CA Intermediate examination in their first attempt is deductible under section 37(1).

(iii) Repairs and maintenance paid in advance for the period 1.4.2026 to 30.9.2026 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.

(iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	33,924

(4) Deduction under Chapter VI-A:

Particulars	₹
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	**10,000**

Notes:

(i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.

(ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

Question 5: Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2026 revealed the following information:

(1) The net profit was ₹ 11,20,000.

(2) The following incomes were credited in the profit and loss account:

(a) Income from UTI ₹ 22,000 (Gross)

(b) Interest on debentures ₹ 17,500 (Gross)

(c) Winnings from horse races ₹ 15,000 (Gross)

(3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:

Opening stock ₹ 8,000. Closing stock ₹ 12,000.

(4) ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).

(5) Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.

(6) Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
(7) Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. $\frac{3}{4}^{th}$ is for business purposes.
(8) Miscellaneous expenses included ₹ 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2026 for distribution of the company's product to the warehouses.
(9) Depreciation debited in the books was ₹ 55,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹ 50,000.
(10) Drawings of ₹ 10,000 debited in the books.
(11) Investment in NSC ₹ 15,000 debited in the books.

Compute the total income of Mr. Y for the assessment year 2026-27 under optional tax regime as per normal provisions of the Act.

Computation of total income of Mr. Y for the A.Y. 2026-27

Particulars	₹
Profits and gains of business or profession (See Working Note 1 below)	11,21,500
Income from other sources (See Working Note 2 below)	54,500
Gross Total Income	**11,76,000**
Less: Deduction under section 80C (Investment in NSC)	(15,000)
Total Income	**11,61,000**

Working Notes:

1. Computation of profits and gains of business or profession

Particulars		₹	₹
Net profit as per profit and loss account			11,20,000
Add:	**Expenses debited to profit and loss account but not allowable as deduction**		
	Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
	Motor car expenses attributable to personal use not allowable (₹ 78,000 × $\frac{1}{4}$)	19,500	
	Depreciation debited in the books of account	55,000	
	Drawings (not allowable since it is personal in nature) **[See Note (iii)]**	10,000	
	Investment in NSC **[See Note (iii)]**	15,000	1,02,000
			12,22,000
Add:	Under statement of closing stock		12,000
			12,34,000
Less:	Under statement of opening stock		(8,000)
Less:	Contribution to a University approved and notified u/s 35(1)(ii) is eligible for 100% deduction. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required.		-
			12,26,000
Less:	**Incomes credited to profit and loss account but not taxable as business income**		

	Income from UTI [taxable under the head "Income from other sources"]	(22,000)	
	Interest on debentures (taxable under the head "Income from other sources")	(17,500)	
	Winnings from horse races (taxable under the head "Income from other sources")	(15,000)	(54,500)
			11,71,500
Less:	Depreciation allowable under the Income-tax Rules, 1962		(50,000)
			11,21,500

Notes:

(i) Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.

(ii) Disallowance under section 40A(3) is not attracted in respect of cash payment exceeding ₹ 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of ₹ 35,000 is applicable (i.e. payment of upto ₹ 35,000 can be made in cash without attracting disallowance under section 40A(3))

(iii) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.

(iv) In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹ 50,000. It has been assumed that, in the said figure of ₹ 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

2. Computation of "Income from Other Sources"

Particulars	₹
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	54,500

Question 6: Balamurugan furnishes the following information **for the year ended 31-03-2026:**

Particulars	₹
Income from textile business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary (Computed)	3,70,000
Long term capital gain u/s 112	70,000

Compute his total income, tax liability and advance tax obligations under default tax regime under section 115BAC.

Computation of total income of Balamurugan for the A.Y. 2026-27

Particulars	₹	₹
Salaries	3,70,000	
Less: Loss from house property (Cannot be set off against income under any		

other head)	-	3,70,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss of ₹ 1,35,000 set-off to the extent of ₹ 1,00,000	(1,00,000)	
	Nil	
Balance current year business loss of ₹ 35,000 to be set-off against long-term capital gain		
Capital Gains		
Long term capital gain	70,000	
Less: Balance current year business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Gross Total Income / Total Income		**9,05,000**

Computation of tax liability for A.Y.2026-27

Particulars	₹
On total income of ₹ 3,70,000 (excluding lottery winning and LTCG)	Nil
On LTCG of ₹ 5,000 @12.5% (balance unexhausted basic exemption limit of ₹ 30,000 can be adjusted against LTCG taxable u/s 112)	625
On lottery winnings of ₹ 5,00,000 @ 30%	1,50,000
	1,50,625
Add: Health and Education cess @ 4%	6,025
Total tax liability	**1,56,650**

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of ₹ 6,650 (₹ 1,56,650 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Note - The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries and capital gains, the entire amount of tax payable (after considering TDS, if any) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2026.

The first proviso to section 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source under section 194B.

In this case, it has been assumed that tax deductible at source under section 194B has been fully deducted from lottery income. Since the remaining tax liability of ₹ 6,650 (₹ 1,56,650 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Question 7: Mr. Rajiv aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2025-26.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1.4.2025) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
		Life insurance premium (10% of sum assured)	24,000
		Motor car (acquired in Jan. 2026 by A/c payee cheque)	4,25,000
		Medical insurance premium (for self and wife) (paid by A/c Payee cheque)	18,000
		Books bought on 1.07.2025 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1.11.2025 by A/c payee cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2026) Cash on hand and at Bank	19,15,000
	62,50,000		62,50,000

Following further information is given to you:

(1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 2010-11, when the housing loan was taken.

(2) Motor car was put to use both for official and personal purpose. One- fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.

(3) The written down value of assets as on 1-4-2025 are given below:

Furniture & Fittings	₹ 60,000
Plant & Machinery (Air-conditioners, Photocopiers, etc.)	₹ 80,000
Computers	₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the A.Y. 2026-27 assuming that he has shifted out of the default tax regime under section 115BAC.

Computation of total income of Mr. Rajiv for the A.Y.2026-27

Particulars		₹	₹	₹
Income from house property				
Self-occupied				
Annual value		Nil		
Less: Deduction under section 24(b) Interest on housing loan 50% of ₹ 88,000 = 44,000		(44,000)		
Loss from self-occupied property			(44,000)	
Let out property Annual value (Rent receivable has been taken as the annual value in the absence of other information)		60,000		
Less: Deductions u/s 24				
30% of Net Annual Value	(18,000)			
Interest on housing loan (50% of ₹ 88,000)	(44,000)	(62,000)	(2,000)	
Loss from house property				**(46,000)**
Profits and gains of business or profession				
Fees from professional services			59,38,000	
Less: Expenses allowable as deduction				
✓ Staff salary, bonus and stipend		(21,50,000)		
✓ Other administrative expenses		(11,48,000)		
✓ Office rent		(30,000)		
✓ Motor car maintenance (10,000 x 4/5)		(8,000)		
✓ Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)		(Nil)	(33,36,000)	
Less: Depreciation			26,02,000	
✓ Motor car ₹ 4,25,000 x 7.5% x 4/5		(25,500)		
✓ Books being annual publications@40%		(8,000)		
✓ Furniture and fittings@10% of ₹ 60,000		(6,000)		
✓ Plant and machinery@15% of ₹ 80,000		(12,000)		
✓ Computer@40% of ₹ 50,000		(20,000)		
✓ Computer (New) ₹ 30,000 @ 40% x 50%		(6,000)	(77,500)	**25,24,500**
Gross Total income				**24,78,500**
Less: Deductions under Chapter VI-A				
Deduction under section 80C				
Housing loan principal repayment		(1,00,000)		
PPF subscription		(20,000)		
Life insurance premium		(24,000)		
Total amount of ₹ 1,44,000 is allowed as deduction since it is within the limit of ₹ 1,50,000			(1,44,000)	
Deduction under section 80D				
Medical insurance premium paid			(18,000)	(1,62,000)

Total income			**23,16,500**

Question 8: From the following details, compute the total income and tax liability of Mr. Siddhant, aged 31 years, of Delhi both as per section 115BAC and as per the regular provisions of the Income-tax Act, 1961 for the A.Y.2026-27. Advise Mr. Siddhant in which regime he should pay tax for A.Y. 2026-27:

Particulars	₹
Salary including dearness allowance	4,35,000
Bonus	15,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2016, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000@15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

(a) Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)

(b) House Insurance ₹ 860

(c) He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.

(d) In the year 2021-22, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest@19% per annum.

(e) Siddhant received a gift of ₹ 30,000 each from four friends.

(f) He contributed ₹ 50,000 to Public Provident Fund.

Computation of total income and tax liability of Siddhant under default tax regime under section 115BAC for the A.Y. 2026-27

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		4,35,000
Bonus		15,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		4,73,000
Less: Standard deduction under section 16(ia)		(75,000)
		3,98,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)	42,000	
Less: Municipal taxes paid	(4,300)	
Net Annual Value (NAV)	37,700	

Less: Deductions under section 24			
(i) 30% of NAV	(11,310)		
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2]	(24,000)	(35,310)	2,390
Income from speculative business			
Income from share speculation business		2,700	
Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700		(2,700)	Nil
Balance loss of ₹ 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.			
Income from Other Sources			
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption under section 10(32) would not be available]		3,800	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)		5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)		1,20,000	1,29,500
Gross Total Income			5,29,890
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]			Nil
Total Income			5,29,890

Particulars	₹
Tax on total income [5% of ₹ 1,29,890 (₹ 5,29,890 - ₹ 4,00,000]	6,495
Less: Rebate u/s 87A, since total income does not exceed ₹ 12,00,000	(6,495)
Tax liability	**Nil**

Computation of total income and tax liability of Siddhant for the A.Y. 2026-27 under normal provisions of the Act

Particulars	₹	₹
Gross total income (as per default scheme)		5,29,890
Add: Standard Deduction [₹ 25,000 being excess amount allowed under section 115BAC]		25,000
Less: Exemption u/s 10(32) in respect of interest income of minor son included in the hands of Siddhant		(1,500)
Gross total income (under the normal provisions of the Act)		**5,53,390**
Less: Deductions under Chapter VI-A		
Under section 80C [Contribution to PPF]		(50,000)
Total Income		**5,03,390**

Particulars	₹
Tax on total income [5% of ₹ 2,50,000 + 20% of ₹ 3,390]	13,178
Add: HEC @4%	527
Tax liability	13,705

Tax liability (Rounded off)	13,710

Since his total income as per the normal provisions of the Act exceeds ₹ 5,00,000, he would not be eligible for rebate under section 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regime under section 115BAC, it would be beneficial for him to **not** to exercise the option of shift out of the default tax regime for A.Y.2026-27.

Notes:

(1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2026;

(2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

Question 9: Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2026:

- **Basic Salary ₹ 15,000 p.m.**
- **DA (50% of it is meant for retirement benefits). ₹ 12,000 p.m.**
- **Commission as a percentage of turnover of the Company 0.5 %**
- **Turnover of the Company ₹ 50 lakhs**
- **Bonus ₹ 50,000**
- **Gratuity ₹ 30,000**
- **Own Contribution to R.P.F. ₹ 30,000**
- **Employer's contribution to R.P.F. 20% of basic salary**
- **Interest credited in the R.P.F. account @ 15% p.a. ₹ 15,000**
- **Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.**
- **Music System purchased on 01.04.2025 by the company for ₹ 85,000 and was given to him for personal use.**
- **Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.**
- **Received interest of ₹ 5,860 on bank FDRs on 24.4.2025 and interest of ₹ 7,540 from the debentures of Indian Companies on 5.5.2025.**
- **Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.**
- **Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.**
- **Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.**

Compute his total income and tax liability thereon for the A.Y. 2026-27. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime under section 115BAC.

Computation of Total Income and tax liability of Mr. Ramdin for the A.Y.2026-27 under normal provisions of the Act

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 x 12)		1,80,000

Dearness Allowance (₹ 12,000 x12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lakhs)		25,000
Bonus		50,000
Gratuity (See Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt (See Note 2)	(33,240)	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt up to 9.5% p.a.	(9,500)	5,500
Gift of gold ring worth ₹ 10,000 on 25th wedding anniversary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
		4,55,760
Less: Standard deduction under section 16(ia)		(50,000)
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		**1,80,000**
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest on debentures	7,540	**13,400**
Gross total Income		**5,99,160**
Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	(1,25,370)
Section 80D – Mediclaim Insurance		(22,500)
Section 80G (See Note 4)		(10,600)
Total Income		**4,40,690**
Tax on total income		
Income-tax [5% of ₹ 1,90,690 (i.e., ₹ 4,40,690 – ₹ 2,50,000)		9,535
Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000		(9,535)
Tax liability		**Nil**

Notes:

1. Gratuity received during service is fully taxable.
2. Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
   = 12% of (₹ 1,80,000+ (50% of ₹ 1,44,000) + ₹ 25,000)
   = 12% of 2,77,000 = ₹ 33,240

3. An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,00,760.
4. **Deduction under section 80G is computed as under:**

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Total Income i.e. ₹ 45,129, whichever is lower)	5,500
Total deduction	**10,600**

Adjusted Total Income = Gross Total Income - Deductions under section 80C and 80D = ₹ 5,99,160 - ₹ 1,47,870 = ₹ 4,51,290.

Question 10: From the following particulars furnished by Mr. X for the year ended 31.3.2026, you are requested to compute his total income and tax payable for the assessment year 2026-27, assuming that he opts out of the default tax regime under section 115BAC.

(a) Mr. X retired on 31.12.2025 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.

(b) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.

(c) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.

(d) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.

(e) After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2026.

(f) Mr. X has deposited ₹ 1,00,000 in public provident fund.

Computation of total income of Mr. X for A.Y.2026-27

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 25,000 x 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 x 9 months)	54,000	
Less : Exemption under section 10(13A)(Note 1)	(36,000)	18,000
Gratuity:		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(ii) (Note 2)	(3,50,000)	-
Leave encashment:		

Actual amount received	3,15,000	
Less : Exemption under section 10(10AA) (Note 3)	(2,45,000)	70,000
Gross Salary		**3,13,000**
Less: Standard deduction under section 16(ia)		(50,000)
		2,63,000
Profits and gains of business or profession		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		**2,63,000**
Less: Deduction under section 80C		
Deposit in Public Provident Fund		(1,00,000)
Total income		**1,63,000**
Tax on total income (Nil, since it is lower than the basic exemption limit of ₹ 2,50,000)		Nil

Notes:

(1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

	₹
(i) HRA actually received (₹ 6,000 x 9)	54,000
(ii) Rent paid in excess of 10% of salary (₹ 6,500 – ₹ 2,500) x 9 months	36,000
(iii) 50% of salary	1,12,500

(2) Gratuity of ₹ 3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts:

	₹
(i) Actual amount received	3,50,000
(ii) Half month salary for each year of completed service [(₹ 25,000 x 15/26) x 26 years]	3,75,000
(iii) Statutory limit	20,00,000

(3) Leave encashment is exempt upto the least of the following:

	₹
(i) Actual amount received	3,15,000
(ii) 10 months average salary (₹ 24,500 x 10)	2,45,000
(iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note 4 below)	3,18,500
(iv) Statutory limit	25,00,000

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	= 30 days/year x 26 = 780 days
Less: Leave taken /availed by Mr. X during the period of his service	= 15 days/year x 26 = 390 days
Earned leave to the credit of Mr. X at the time of his retirement	390 days
Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	= 390 x ₹ 24,500/30 = ₹ 3,18,500

Question 11: Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2026:

S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land on 15.5.2025 at Mumbai taxable	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares on 23.4.2025 of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Mediclaim policy premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the total income and tax liability of Mrs. Rosy and Mrs. Mary for the A.Y. 2026-27 and tax thereon assuming both exercised the option to shift out of the default tax regime.

Computation of total income of Mrs. Rosy and Mrs. Mary for the A.Y.2026-27

S. No.	Particulars		Mrs. Rosy (Non-resident) ₹	Mrs. Mary (ROR) ₹
(I)	**Salaries**			
	Pension recd from State Govt.	₹ 60,000		
	Less: Standard deduction u/s 16(ia)	(₹ 50,000)	-	10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India		-	-
			-	10,000
(II)	**Income from house property**			
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)		60,000	30,000
	Less: Deduction u/s 24(a)@30%		(18,000)	(9,000)
			42,000	21,000
(III)	**Capital gains**			
	Long-term capital gain on sale of land at Mumbai		1,00,000	1,00,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid		20,000	2,50,000

		1,20,000	3,50,000
(A)	**Gross Total Income [(I)+(II)+(III)]**	**1,62,000**	**3,81,000**
	Less: Deductions under Chapter VIA		
1.	Deduction u/s 80C		
	1. LIC Premium paid	-	(10,000)
	2. Premium paid to Canadian Life Insurance Corporation	(40,000)	-
	3. Deposit in PPF	-	(20,000)
		(40,000)	(30,000)
2.	Deduction u/s 80D – Mediclaim premium paid	-	25,000
		(40,000)	**(55,000)**
(B)	Total deduction under Chapter VI-A is restricted to income other than capital gains taxable under sections 111A & 112	**(40,000)**	**(31,000)**
(C)	**Total income (A-B)**	**1,22,000**	**3,50,000**
	Tax liability of Mrs. Rosy for A.Y.2026-27		
	Tax on long-term capital gains @12.5% of ₹ 1,00,000	12,500	
	Tax on short-term capital gains @20% of ₹ 20,000	4,000	
	Tax on balance income of ₹ 2,000	Nil	
		16,500	
	Tax liability of Mrs. Mary for A.Y.2026-27		
	Tax on LTCG @12.5% of ₹ 1,00,000		12,500
	Tax on STCG of ₹ 2,50,000 (unexhausted basic exemption limit of ₹ 2,50,000 is adjusted)		Nil
			12,500
	Less: Rebate u/s 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		(12,500)
			Nil
	Add: Health and Education cess@4%	660	Nil
	Total tax liability	**17,160**	**Nil**

Notes:

(1) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed as per rates u/s 112/111A. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.

(2) Since long-term capital gains is taxable at the rate of 12.5% and short- term capital gains is taxable at the rate of 20%, it is more beneficial for Mrs. Mary to exhaust her basic exemption limit of ₹ 2,50,000 against short-term capital gains of ₹ 2,50,000.

(3) Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹ 5,00,000, since she is non- resident for the A.Y. 2026-27.

Question 12: Mr. Rishabh, a resident individual, aged 54 years, is engaged in the business of manufacturing clothes. He earned profit of ₹ 82,45,000 as per profit and loss account after debiting and crediting the following items:

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

Additional information –

(i) Mr. Rishabh installed new plant and machinery for ₹ 65 lakhs on 1.10.2025 which was put to use on 1.1.2026. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 1962.
(ii) Mr. Rishabh took a loan from SBI of ₹ 50 lakhs on 15.9.2025 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2026 has been paid on 31.3.2026 and the same has been debited to profit and loss account.
(iii) Advance tax paid during the year is ₹ 17,50,000
(iv) Rishabh purchased goods for ₹ 40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹ 35 lakhs.
(v) He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2020.
(vi) He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.
(vii) On 1.7.2025, Mr. Rishabh withdrew ₹ 1.5 crores in cash from three current accounts maintained by him with HSBC. There are no other withdrawals during the year. He regularly files his return of income.

You are required to compute the total income and tax payable after adjusting TDS/TCS/advance tax, if any, by Mr. Rishabh for the A.Y. 2026-27, in the manner so that he can make maximum tax savings.

Computation of total income of Mr. Rishabh for A.Y. 2026 -27
(under default tax regime under section 115BAC)

	Particulars	₹	₹	₹
I	**Income from business or profession**			
	Net profit as per profit and loss account		82,45,000	
	Add: Items of expenditure not allowable			
	(i) Interest on loan taken for purchase of P&M	1,53,125		
	[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 ₹ 1,53,125 [₹ 50,00,000 x 10.5% x 3.5/12] has to be added back, since the same is debited to the profit and loss account]			
	(ii) Purchase of goods at a price higher than FMV	5,00,000	6,53,125	
	[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 at a price higher than FMV]			

			88,98,125	
	Less: Items of income to be treated separately under the respective head of income			
	(i) Income-tax refund including interest of ₹ 4,550	(15,550)		
	(ii) Dividend from Indian companies	(15,00,000)		
	(iii) Short term capital gains on transfer of listed equity shares	(10,00,000)	(25,15,550)	
	Less: Depreciation on interest on loan capitalized to plant and machinery		63,82,575	
	₹ 1,53,125, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized			
	Normal depreciation @15% x 50% on such interest		(11,484)	
			63,71,091	
	Add: Additional depreciation on newly plant and machinery [Not allowable under default tax regime] [₹ 65,00,000 x 20% x 50%]		6,50,000	70,21,091
II	**Capital Gains**			
	Short term capital gains on transfer of listed equity shares			10,00,000
III	**Income from Other Sources**			
	Interest on income-tax refund		4,550	
	Dividend from Indian companies		15,00,000	15,04,550
	Gross Total Income			95,25,641
	Less: Deductions under Chapter VI-A			
	- Deduction under section 80C [Not allowable under default tax regime]			Nil
	- Deduction under section 80D [Not allowable under default tax regime]			Nil
	Total Income			95,25,641
	Total Income (Rounded off)			95,25,640

Computation of tax payable under default tax regime

Particulars	₹	₹
Tax on total income of ₹ 95,25,640		
Tax on STCG of ₹ 10,00,000@20% u/s 111A		2,00,000
Tax on remaining total income of ₹ 85,25,640		
Upto ₹ 4,00,000	Nil	
₹ 4,00,001 – ₹ 8,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 8,00,001 – ₹ 12,00,000 [@10% of ₹ 4 lakhs]	40,000	
₹ 12,00,001 – ₹ 16,00,000 [@15% of ₹ 4 lakhs]	60,000	
₹ 16,00,001 – ₹ 20,00,000 [@20% of ₹ 4 lakhs]	80,000	
₹ 20,00,001 – ₹ 24,00,000 [@25% of ₹ 4 lakhs]	1,00,000	

₹ 24,00,001 – ₹ 85,25,640 [@30% of ₹ 61,25,640]	18,37,692	21,37,692
		23,37,692
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		2,33,769
		25,71,461
Add: Health and education cess@4%		1,02,858
Total tax liability		**26,74,319**
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	(1,00,000)	
Less: Advance tax paid	(17,50,000)	(18,50,000)
Tax payable		8,24,319
Tax payable (rounded off)		8,24,320

Computation of total income of Mr. Rishabh under optional tax regime for A.Y. 2026-27

Particulars	₹	₹
Gross Total Income as per default tax regime		95,25,641
Less: Additional depreciation on plant and machinery		
- On interest which is capitalised	(15,313)	
- On cost of plant and machinery [₹ 65 lakhs x 20% x 50%]	(6,50,000)	(6,65,313)
Gross Total Income as per normal provisions of the Act		**88,60,328**
- Deduction 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]	(40,000)	
- 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	(25,000)	(65,000)
Total Income		**87,95,328**
Total Income (Rounded off)		**87,95,330**

Computation of tax payable under optional tax regime

Particulars	₹	₹
Tax on total income of ₹ 87,95,330		
Tax on short term capital gains on transfer of listed equity shares @20% u/s 111A		2,00,000
Tax on other Income of ₹ 77,95,330		
Up to ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 77,95,330 [@30% of ₹ 67,95,330]	20,38,599	21,51,099

		23,51,099
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		
		2,35,110
		25,86,209
Add: Health and education cess@4%		1,03,448
Total tax liability		**26,89,657**
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	(1,00,000)	
Less: Advance tax paid	(17,50,000)	(18,50,000)
Tax payable		**8,39,657**
Tax payable (rounded off)		**8,39,660**

Since tax payable as per section 115BAC is lower than the tax payable as per normal provisions of the Income-tax Act, 1961, it is beneficial for Mr. Rishabh to pay tax under default tax regime under section 115BAC for A.Y. 2026-27.

Question 13: Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2026:

(i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,95,000. He 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 2020.

(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 30.9.2026. 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 2025-26. Out of 20 employees, 12 were employed on 1st May 2025 for monthly emoluments of ₹ 18,000 and remaining were employed on 1st September 2025 on monthly emoluments of ₹ 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.

(v) He earned ₹ 30,000 and ₹ 40,000 as interest on saving bank deposits and fixed deposits, respectively.

(vi) He also sold his vacant land on 01.12.2025 for ₹ 16 lakhs. The stamp duty value of land at the time of transfer was ₹ 17 lakhs. This land was acquired by him on 15.10.1998 for ₹ 2.80 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4.8 lakhs and Stamp duty value on the said date was ₹ 4 lakhs. He had incurred registration expenses of ₹ 12,000 at that time.

CII – F.Y. 2001-02: 100; F.Y. 2025-26: 376.

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

You are requested to compute total income and tax liability of Mr. Sunil for the Assessment Year

2026-27 under default tax regime.

Computation of total income of Mr. Sunil for A.Y. 2026-27 (under default tax regime under section 115BAC)

	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]		2,95,000	
	Less: Municipal taxes paid by him in the P.Y. 2025-26 pertaining to let out portion [₹ 25,000/2]		(12,500)	
	Net Annual Value (NAV)		2,82,500	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 2,82,500	(84,750)		
	(b) Interest on housing loan [₹ 1,50,000/2]	(75,000)	(1,59,750)	
			1,22,750	
	Self-occupied portion [Ground Floor]			
	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 ₹ 16 lakhs, since stamp duty value of ₹ 17 lakhs does not exceed 110% of actual consideration of ₹ 16 lakhs]		16,00,000	
	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)	**12,00,000**
IV	Cost of acquisition			
	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.			
	Income from Other Sources			
	Interest on savings bank deposits		30,000	**70,000**
	Interest on fixed deposits		40,000	
	Gross Total Income			**53,92,750**

	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. 2025-26 for 240 days or more during the P.Y. 2025-26 allowable as deduction [30% of ₹ 23,76,000 (12 x 18,000 x 11)] As per section 115BAC, no deduction under section 10AA or under Chapter VI-A is allowable except u/s 80JJAA			
	Total Income			**46,79,950**

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

Particulars	₹	₹
Tax on total income of ₹ 46,79,950		
Tax on LTCG on sale of vacant land As the asset is a long-term capital asset, being land acquired before 23.07.2024 and transferred on or after 23.07.2024 by a resident individual, the tax shall be computed @20% with indexation benefit or @12.5% without indexation benefit, whichever is more beneficial to the assessee.		
Tax @20% with indexation Sale consideration = ₹ 16,00,000 Indexed cost of acquisition = ₹ 4,00,000 x 376/100 = ₹ 15,04,000 Gain = ₹ 96,000 Tax @20% = ₹ 96,000 x 20% = ₹ 19,200 Tax @12.5% without indexation Tax @12.5% = ₹ 12,00,000 x 12.5% = ₹ 1,50,000 Tax on LTCG on sale of vacant land @20% with indexation		19,200
Tax on remaining total income of ₹ 34,79,950		
Up to ₹ 4,00,000	Nil	
₹ 4,00,001 – ₹ 8,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 8,00,001 – ₹ 12,00,000 [@10% of ₹ 4 lakhs]	40,000	
₹ 12,00,001 – ₹ 16,00,000 [@15% of ₹ 4 lakhs]	60,000	
₹ 16,00,001 – ₹ 20,00,000 [@20% of ₹ 4 lakhs]	80,000	
₹ 20,00,001 – ₹ 24,00,000 [@25% of ₹ 4 lakhs]	1,00,000	
₹ 24,00,001 – ₹ 34,79,950 [@30% of ₹ 10,79,950]	3,23,985	6,23,985
		6,43,185
Add: Health and education cess@4%		25,727
Total tax liability		**6,68,912**
Tax liability (Rounded off)		**6,68,910**

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

Question 14: Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2024-25, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2025 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the F.Y. 2025-26 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2026	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD)	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for A.Y. 2026-27 both as per section 115BAC and as per regular provisions of the Income-tax Act, 1961 for A.Y. 2026-27. Advise Mr. X whether he should pay tax under default tax regime or normal provisions.

Computation of total income and tax liability of Mr. X for A.Y. 2026-27
(under default tax regime under section 115BAC)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation under section 32		
On building @10% of ₹ 65 lakhs (normal depreciation under section 32 is allowable) [75 – 10 = 65 Assuming that it is for Building]	(6,50,000)	98,50,000
Total Income		**1,38,50,000**
Computation of tax liability as per section 115BAC		
Tax on ₹ 1,38,50,000		37,35,000
Add: Surcharge@15%		5,60,250
		42,95,250
Add: Health and Education cess@4%		1,71,810
Total tax liability		**44,67,060**

Notes:

(1) Deductions u/s 10AA and 35AD are **not** allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.

(2) Mr. X is **not** liable to alternate minimum tax u/s 115JC under default tax regime under section 115BAC.

Computation of total income and tax liability of Mr. X for A.Y.2026-27
(under the regular provisions of the Income-tax Act, 1961)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	40,00,000	
Less: Deduction u/s 10AA [See Note (1) below]	(16,00,000)	
Business income of SEZ unit chargeable to tax		**24,00,000**
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD [See Note (2) below]	(65,00,000)	
Business income of warehousing facility chargeable to tax		**40,00,000**
Total Income		**64,00,000**
Computation of tax liability (under the normal/ regular provisions)		
Tax on ₹ 64,00,000		17,32,500
Add: Surcharge @ 10% (since the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 core)		1,73,250
		19,05,750
Add: Health and Education cess@4%		76,230
Total tax liability		**19,81,980**

Computation of adjusted total income and AMT liability of Mr. X

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		64,00,000
Add: Deduction under section 10AA		16,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32		
On building @10% of ₹ 65 lakhs[5]	(6,50,000)	58,50,000
Adjusted Total Income		**1,38,50,000**
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess@4%		1,17,863
		30,64,451
Tax liability u/s 115JC (rounded off)		**30,64,450**

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, tax liability as per section 115JC is ₹ 30,64,450.

Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him to opt out of the default tax regime under section 115BAC for A.Y. 2026-27.

Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 115JEE.

	₹
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	19,81,980
AMT Credit to be carryforward	**10,82,470**

Notes:

(1) Deduction under section 10AA in respect of Unit in SEZ =

$$\text{Profit of the Unit in SEZ} \times \frac{\text{Export Turnover of the unit in SEZ}}{\text{Total Turnover of the unit in SEZ}}$$

(2) Deduction@100% of the capital expenditure is available under section 35AD for A.Y.2026-27 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.
Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

Deduction under section 35AD would, however, **not** be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2024-25 and capitalized in the books of account on 1.4.2025, being the date when the warehouse became operational,

₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 35AD.

Questions from MRP [MTPs, RTPs, Past Exam Papers]

Question 1:

Mr. Bhasin, a resident individual, aged 52 years, provides management consultancy services to various corporate and non-corporate clients. His Income & Expenditure A/c for the year ended 31st March, 2026 is as under:

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

The following details relates to F.Y. 2025-26:

(i) Employees' Remuneration includes a sum of Rs. 3,00,000 paid to his wife, Mrs. Beena who is working as a manager in his office. She does not have any technical or professional qualification or experience required for the job. The payment of salary was as per market rates in comparison to similar work profile.

(ii) Mr. Bhasin owns a big house with 2 independent units. Unit - 1 (with 50% floor area) has been let our for residential purposes at a monthly rent of Rs. 20,000 for the entire year. Unit - 2 (with the balance 50% of the floor area) is used by Mr. Bhasin as his residence- cum-office. Other particulars of the house are:
Municipal Valuation - Rs. 3,60,000 p.a. Fair Rent - Rs. 4,20,000 p.a.
Standard Rent under Rent Control Act -Rs. 4,00,000 p.a.

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(iii) Rates and taxes include a sum of Rs. 10,000 paid as municipal taxes of the house.

(iv) Interest expenses represent interest on capital borrowed from a nationalised bank for the construction of the house. The construction was completed in F.Y.2013 -14. Neither the loan nor the interest was paid till the due date of filing the return of income.

(v) Based on the actual rent received for Unit-1, Mr. Bhasin has debited Rs. 2,40,000 as notional rent for Unit-2 which is used for his profession.

(vi) The expense on insurance premium of Rs. 72,000 represents lump-sum health insurance premium paid by Mr. Bhasin for 3 years effective from 1stJuly, 2025 to 30th June, 2028 for himself, his spouse and two dependent children. The said insurance premium was paid through account

payee cheque.

(vii) The expenses on professional fees paid includes a sum of Rs. 1,00,000 paid to Mr. Raunak, an Indian resident on which no tax was deducted at source.

(viii) There was only one block containing computers which came into existence only on 2nd April, 2025 when new laptops (for Rs. 1,60,000), printers and scanners (for Rs. 40,000) were purchased. He charged depreciation @ 60% in the entire cost of Rs. 2,00,000 and debited the amount to Income & Expenditure A/c.

(ix) Mr. Bhasin has also taken a loan of Rs. 5,00,000 from a nationalised bank for higher education of his son. During F.Y.2025-26, he repaid principal of Rs. 75,000 along with interest of Rs. 40,000. This amount is not reflected in Income and Expenditure Account.

You are required to compute the total income under proper heads of income of Mr. Bhasin for A.Y. 2026-27 under regular provisions of Income-tax Act 1961, assuming that he has not opted to pay tax under section 115BAC. Also calculate the total tax payable by him.

(PEP May 23 14M)

Computation of total income and tax payable by Mr. Bhasin for A.Y. 2026 -27

	Particulars	Rs.	Rs.	Rs.
I	**Income from Salaries**			
	Salary of Mrs. Beena [Remuneration paid by Mr. Bhasin to his wife Mrs. Beena who is employed as a manager in his office would be included in his hands, since Mrs. Beena does not have any technical or professional qualification or experience required for the job]		3,00,000	
	Less: Standard deduction u/s 16(ia)		(50,000)	2,50,000
II	**Income from house property**			
	Let out portion (Unit 1 – 50% area)			
	Gross Annual Value [Higher of expected rent of Rs. 2,00,000 and actual rent of Rs. 2,40,000 (Rs. 20,000 x 12)] [Expected rent is higher of municipal value of Rs. 1,80,000 (3,60,000 x 50%) and fair rent of Rs. 2,10,000 (Rs. 4,20,000 x 50%), restricted to standard rent of Rs. 2,00,000 (Rs. 4,00,000 x 50%)]	2,40,000		
	Less: Municipal taxes paid for let out portion (Rs. 10,000 x 50%)	(5,000)		
	Net Annual Value (NAV)	2,35,000		
	Less: Deduction under section 24			
	(a) 30% of NAV	(70,500)		
	(b) Interest on capital borrowed for construction of house relating to let out portion (80,000 x 50%) (allowed on accrual basis)	(40,000)		
	Income from let out portion		1,24,500	
	Self-occupied (Unit 2 – 25%)			
	[Since Unit 2 representing 50% of the floor area is used for residence as well as business purpose, it is assumed that it is equally used for residence and business purpose]			
	Gross Annual Value	Nil		

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	Less: Municipal taxes [not allowed for self- occupied property]	Nil		
	Net Annual Value	Nil		
	Less: Deduction under section 24(b)			
	Interest on loan for construction of house, Rs. 80,000 x 50% x 1/2 (allowable on accrual basis)	(20,000)		
	Loss from self-occupied portion		(20,000)	
	[Loss from self-occupied portion can be set off against income from let out portion]			**1,04,500**
III	**Profits and gains from business and profession**			
	Excess of income over expenditure		36,97,500	
	Add: Expenses debited to Income & Expenditure A/c but not allowable as deduction			
	Remuneration paid to his wife Mrs. Beena [As per section 40A(2) remuneration paid to Mrs. Beena is allowed, since it is as per market rates]	-		
	Municipal taxes attributable to let out and self- occupied portions not allowable [Rs. 10,000 x 75%]	7,500		
	Interest on capital borrowed for construction of house attributable to let out and self- occupied portion not allowable [Rs. 80,000 x 75%]	60,000		
	Interest on capital borrowed from bank for construction of house attributable to business portion i.e., 25% of Rs. 80,000 [not allowable, since it is not paid on or before due date of filing return of income by virtue of section 43B]	20,000		
	Notional rent for Unit 2 used for business or profession [not allowable under section 30, since Mr. Bhasin himself is the owner of the property]	2,40,000		
	Insurance premium [Personal expenditure not allowable]	72,000		
	Professional fees to Mr. Raunak without deducting TDS [Rs. 1,00,000 x 30%] [Mr. Bhasin is required to deduct TDS on professional fees payment to Mr. Raunak since his gross receipts from profession exceeds Rs. 50 lakhs during the P.Y. 2024-25. 30% of the sum paid to Mr. Raunak, resident without deducting tax to be disallowed in P.Y. 2025-26]	30,000		
	Depreciation as per books	1,20,000	5,49,500	
			42,47,000	
	Less: Income credited to Income & Expenditure A/c but not taxable as business income			
	Interest on savings bank account [taxable under the head "Income from other sources"]	(25,000)		
	Winnings from lottery [taxable under the head "Income from other sources"]	(99,500)		
	Rent received [taxable under the head "Income from house property"]	(2,40,000)	(3,64,500)	
			38,82,500	
	Less: Depreciation allowable [2,00,000 (Rs. 1,60,000, being new		(80,000)	

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	laptops + Rs. 40,000, being printers) x 40%, i.e., 64,000+16,000 as it was put to use for more than 180 days in the P.Y. 2025-26. Printers and scanners for Rs. 40,000 are eligible for higher depreciation of 40%]			
				38,02,500
IV	**Income from Other Sources**			
	Interest on savings bank account		25,000	
	Winnings from Lottery		1,00,000	
	[No expenditure or allowance is allowed from lottery income]			
				1,25,000
	Gross Total Income			42,82,000
	Less: Deduction under Chapter VI-A			
	Deduction under section 80D			
	Medical insurance premium [Rs. 72,000 x 1/4, being the previous years in which insurance would be in force] [allowable for self, spouse and dependent children]		(18,000)	
	Deduction under section 80E			
	Interest on loan taken from a nationalised bank for higher education of son		(40,000)	
	Deduction under section 80TTA			
	Interest on saving bank account to the extent of		(10,000)	(68,000)
	Total Income			42,14,000
	Tax Payable			
	On lottery income [30% of Rs. 1,00,000]		30,000	
	On other income of Rs. 41,14,000			
	Up to Rs. 2,50,000	Nil		
	Rs. 2,50,000 @5% [Rs. 2,50,000 - Rs. 5,00,000]	12,500		
	Rs. 5,00,000 @20% [Rs. 5,00,000 - Rs. 10,00,000]	1,00,000		
	Rs. 31,14,000 @30% [Rs. 10,00,000 - Rs. 41,14,000]	9,34,200		
			10,46,700	10,76,700
	Less: HEC@4%			43,068
	Tax liability			11,19,768
	Less: TDS on lottery winnings @30% u/s 194B			30,000
	Tax payable			10,89,768
	Tax payable (rounded off)			10,89,770

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Question 2:

Mr. Bhagat, an individual aged 50 years, set up a unit in Special Economic Zone (SEZ) in F.Y.2017-18 for the production of computers. The unit fulfils all the conditions of section 10AA of the Income-tax Act, 1961. During F.Y. 2024-25, he set up a hospital in a district of Maharashtra with 110 beds for patients. It fulfils all the conditions of section 35AD. Capital expenditure in respect of the said hospital amounted to Rs. 65 lakhs (comprising of cost of land Rs. 15 lakhs and the balance was the cost of construction of building). The hospital became operational with effect from 1st April, 2025 and the expenditure of Rs. 65 lakhs was capitalized in the books of accounts on that date Relevant details for F.Y. 2025-26 are as follows:

Particulars	Amount (Rs. in lakhs)
Profit of unit located in SEZ	36
Export sales of SEZ unit	75
Domestic sales of SEZ unit	25
Profit form operation of hospital facility (before considering deduction under Section 35AD)	90

Compute the income-tax (including AMT under section 115JC and AMT credit, if any, under section 115JEE) payable by Mr. Bhagat for A.Y. 2026-27 under regular provisions of the Income-tax Act i.e. ignoring the provisions of section 115BAC. Ignore marginal relief, if any.

(PEP May 23 7M)

Computation of total income and tax payable of Mr. Bhagat for A.Y.2026 -27
(under the regular provisions of the Income-tax Act, 1961)

Particulars	Rs.	Rs.
Profits and gains of business or profession		
Profit from unit in SEZ		36,00,000
Profit from operation of hospital	90,00,000	
Less: Deduction u/s 35AD	(50,00,000)	
In this case, since the capital expenditure of Rs. 50 lakhs (i.e., Rs. 65 lakhs – Rs. 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2024-25 and capitalized in the books of account on 1.4.2025, being the date when the hospital became operational, the said amount would be eligible for deduction under section 35AD.		
Business income from hospital chargeable to tax		40,00,000
Gross Total Income		**76,00,000**
Less: **Deduction u/s 10AA**		**(13,50,000)**
Profit of SEZ unit $\times \frac{\text{Export turnover of SEZ unit}}{\text{Total turnover of SEZ unit}}$ / x 50%		
= Rs. 36,00,000 $\times \frac{\text{Rs. 75,00,000}}{\text{Rs. 1,00,00,000}}$ ------ x 50%		
= Rs. 27,00,000 x 50% = Rs. 13,50,000		
Deduction would be 50% of eligible profits, since P.Y.2025-26 is the 9th year of operation		
Total Income		**62,50,000**

Computation of tax payable (under the regular provisions of the Act)	Rs.
Tax on Rs. 62,50,000 [Rs. 1,12,500 plus 30% of Rs. 52,50,000]	16,87,500
Add: Surcharge @10%, since total income exceeds Rs. 50 lakhs but does not exceed Rs. 1 crore	1,68,750
	18,56,250
Add: Health and Education cess@4%	74,250
Total tax payable	**19,30,500**

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Computation of adjusted total income of Mr. Bhagat for levy of Alternate Minimum Tax

		Rs.
Total Income (computed above as per regular provisions of income tax)		62,50,000
Add: Deduction under section 10AA		13,50,000
		76,00,000
Add: Deduction under section 35AD	50,00,000	
Less: Depreciation under section 32		
On building @10% of Rs. 50 lakhs	(5,00,000)	45,00,000
Adjusted Total Income		**1,21,00,000**
Alternate Minimum Tax@18.5%		22,38,500
Add: Surcharge@15% (since adjusted total income > Rs. 1 crore but does not exceed Rs. 2 crores)		3,35,775
		25,74,275
Add: Health and education cess@4%		1,02,971
		26,77,246
Tax liability u/s 115JC (rounded off)		**26,77,250**
Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, tax payable as per section 115JC is Rs. 26,77,250.		
AMT Credit to be carried forward under section 115JEE		
Tax liability under section 115JC	26,77,250	
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	19,30,500	
	7,46,750	

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Question 3:

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 Rs.8 lakhs as on April 1, 2025. He prepares his accounts on accrual basis. The Statement of Profit and Loss for the previous year ended on March 31, 2026 shows a net profit of Rs.9.25 lakhs (before taxation and depreciation) after debiting/crediting the following items:

i. **Travelling expenses includes Rs.2,40,000 being expenditure incurred on a foreign tour to Taiwan for attending a business exhibition and meeting with vendors, out of which Rs.40,000 is incurred in Indian currency and Rs.2,00,000 in foreign currency. Mr. Raman has spent 10 days in Taiwan, out of which 4 days were utilized by him for attending marriage ceremony of a vendor's son.**
ii. **Administrative expenses include Rs.9,525 paid towards interest on delay in deposit of GST.**
iii. **General expenses include a sum of Rs.3,88,000 paid to a non-resident as fee for technical services without deduction of tax at source.**
iv. **Fire insurance premium of Rs.66,000 for the entire building remained unpaid till 31st March, 2026.**

v. Expenditure of Rs.75,000, was paid to a scientific research association approved under section 35. Out of Rs.75,000, Rs.50,000 was utilised towards the purchase of land by the research association.

vi. He let out first floor of his commercial building to Mr. Aman on April 1, 2025 and received rent of Rs.35,000 per month. Municipal taxes Rs.20,000 relating to the building were paid equally by both Mr. Raman and Mr. Aman. Rent received was credited and municipal taxes of Rs.10,000 (relating to ground floor) was debited to the statement of profit and loss.

vii. He sold a piece of land for Rs.44 lakhs on 12th April, 2025. He had acquired the land for 40 lakhs on 1st January, 2024. The gain of 4,00,000 is credited to the statement of profit and loss.

(CII for F.Y. 2023-24-348; F.Y. 2025-26-376)

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Additional Information:

(i) Mr. Raman purchased raw material from M/s. Paul Industries, a micro enterprise, for Rs. 49,000 on March 10, 2026. However, the payment to M/s. Paul Industries was made on April 5, 2026 by cheque. No written agreement for payment existed between M/s. Paul Industries and Mr. Raman. Another supplier M/s. Kal Industries, a small enterprise, with whom also no written agreement existed for payment, was paid Rs.1,34,000 in cash on April 5, 2026 for purchase of raw material on March 31, 2026. Both M/s. Paul Industries and M/s. Kal Industries follow mercantile system of accounting.

(ii) Mr. Raman acquired a registered trademark on July 15, 2025 for Rs.2,00,000. Mr. Raman started using this trademark for his business from January 15, 2026. Mr. Raman omitted to enter any transaction relating to this trademark in his books of accounts.

(iii) Mr. Raman bought a car for personal use on 12th April, 2022 for Rs.5,40,000. He started using this car for business purposes from 01.04.2025. As on that day, the market value of the car was Rs.2,10,000. Assume the rate of depreciation to be 15%.

(iv) He incurred Rs.2,50,000 on the purchase of a new machinery to be used in the production of spare parts for motor bikes on May 15, 2025.

(v) He has paid tuition fees of Rs.25,000 for the education of his daughter to a college.

(vi) During the year, Mr. Raman has incurred Rs.9,500 in cash for preventive health check-up where Rs.5,000 was for himself and Rs.4,500 was for his parents who are super senior citizens.

(vii) Donation paid to a registered political party by way of cheque Rs.20,000.

Compute the total income and tax payable for assessment year 2026-27 by Mr. Raman under default tax regime and optional tax regime as per normal provisions of the Act. Which option is advantageous to Mr. Raman?

(PEP Sept 24 15M)

Computation of total income and tax payable by Mr. Raman for A.Y. 2026-27 under default tax regime

	Particulars	Rs.	Rs.
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) [Rs.35,000 x 12]	4,20,000	
	Less: Municipal taxes (paid by tenant, Mr. Aman, hence not deductible)	Nil	
	Net Annual Value	4,20,000	

	Less: Deduction @30% of NAV	(1,26,000)	2,94,000
II	**Profits and gains of business or profession**		
	Net Profit	9,25,000	
	Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other heads of income		
	➢ Travelling expenses [Allowable since the same is incurred wholly and exclusively for business purpose]	Nil	
	[Note - Alternatively, it is possible to assume that the proportionate foreign tour expenditure attributable to attending the marriage ceremony of a vendor's son is a personal expenditure. In such case, Rs.2,40,000 X 4 /10 = Rs.96,000 would be disallowed.]		
	➢ Interest on delay in deposit of GST [Interest on delay in deposit in GST is compensatory in nature and hence, allowable as expenditure]	Nil	
	➢ Fee for technical services to non-resident [100% disallowed under section 40(a)(i) since the TDS was not deducted]	3,88,000	
	➢ Fire insurance premium [Fire insurance premium for ground floor which is occupied for business purpose is allowed since Mr. Raman is following mercantile system of accounting. Remaining half for let out portion is disallowed] [Rs.66,000/2]	33,000	
	➢ Contribution to scientific research association approved u/s 35 [Not allowable under section 35(1)(ii) as per default tax regime]	75,000	
	➢ Municipal taxes for ground floor [Allowable since the ground floor is occupied for business purpose]	Nil	
	➢ Sum payable for purchase of raw material from M/s Paul Industries, a micro enterprise [Not allowable as per section 43B(h) since payment was made to a micro enterprise on 5.4.2024 which is beyond the time limit specified u/s 15 of the MSMED Act, 2006 i.e., within 15 days from 10.3.2026]	49,000	
	➢ Sum payable for purchase of raw material from M/s Kal Industries, a small enterprise [Allowable as per section 43B(h) since payment was made to a small enterprise on 5.4.2024 i.e., within 15 days from 31.3.2024.	Nil	
	However, since the payment is made in cash on 5.4.2024, Rs.1,34,000 for purchase of raw material would be the deemed income of P.Y. 2026-27 as per section 40A(3A)]		
		14,70,000	
	Less: Incomes credited to profit and loss account but not taxable as business income		
	➢ Rent received for let out portion	(4,20,000)	
	➢ Gain on sale of land	(4,00,000)	
		6,50,000	
	Less: Depreciation		
	➢ On trademark [Rs.2,00,000 x 25% x 50%, since trademark is put	(25,000)	

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	to use for less than 180 days]		
	➢ On Car [Rs.5,40,000 x 15%]	(81,000)	
	➢ On new Plant & machinery [Rs.2,50,000 x 15%]	(37,500)	
	➢ On Building [Rs.8,00,000 x 10%]	(80,000)	
	Additional depreciation		
	➢ On new Plant & machinery [Not allowable under default tax regime]	Nil	
	Income from Business		**4,26,500**
III	**Capital Gains**		
	Full value of consideration	44,00,000	
	Less: Cost of acquisition	(40,00,000)	
	Short term capital gains on land [Since land is held for less than 24 months]		**4,00,000**
	Gross Total Income		**11,20,500**
	Less: Deduction under Chapter VI-A [Not allowable under default tax regime]		Nil
	Total Income		**11,20,500**
	Tax Payable		
	Up to Rs.4,00,000 @0%	Nil	
	From Rs.4,00,001 to Rs.8,00,000 @5%	20,000	
	From Rs.8,00,001 to Rs.11,20,500 @10%	32,050	
			52,050
	Add: Health and education cess @4%		2,082
	Tax Payable		**54,132**
	Tax Payable (Rounded off)		**54,130**

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Computation of total income and tax payable by Mr. Raman for A.Y. 2026-27 under normal provisions of the Act

	Particulars	Rs.	Rs.
	Gross Total Income as per default tax regime		**11,20,500**
	Less: Additional depreciation on new Plant & machinery [Rs.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	(5,000)	
	Deduction under section 80GGC		
	Donation to a registered political party since the payment is made otherwise than by cash	(20,000)	
			(50,000)

	Total Income as per normal provisions of the Act		**9,45,500**
	Tax Payable [Senior Citizen]		
	Up to Rs.3,00,000	Nil	
	From Rs.3,00,001 to Rs.5,00,000 @5%	10,000	
	From Rs.5,00,001 to Rs.9,45,500 @20%	89,100	
			99,100
	Add: Health and education cess @4%		3,964
	Tax Payable		**1,03,064**
	Tax Payable (Rounded off)		**1,03,060**

Since tax payable under default tax regime is lower than the tax payable under normal provisions of the Act, it would be beneficial for Mr. Raman to pay tax under default tax regime u/s 115BAC.

Question 4:

Mr. Amit, having business of manufacturing of furniture, gives the following Trading and Profit & Loss Account for the year ended 31.03.2026:

Trading and Profit & Loss Account

Particulars	Rs.	Particulars	Rs.
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

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Following are the further information relating to the financial year 2025-26:

(i) Income-tax refund includes amount of Rs. 4,570 of interest allowed thereon.

(ii) Salary include Rs. 30,000 paid to his brother which is unreasonable to the extent of Rs. 5,000.

(iii) Advertisement expenses include an amount of Rs. 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.

(iv) Miscellaneous expenses include an amount of Rs. 1,00,000 paid to Political Party by cheque.

(v) Goods and Services Tax demand paid includes an amount of Rs. 5,300 charged as penalty for delayed filing of returns and Rs. 12,750 towards interest for delay in deposit of tax.

(vi) Mr. Amiit had purchased a warehouse building of Rs. 20 lakhs in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.07.2025 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".

(vii) Depreciation under the Income-tax Act, 1961 works out at Rs. 65,000 excluding depreciation on warehouse building.

(viii) Interest on loans includes an amount of Rs. 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. 2026-27 in a most beneficial manner.

(MTP 1 May 24 15M)

Computation of total income of Mr. Amit as per section 115BAC for A.Y. 2026-27

Particulars			Rs.
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"		(30,000)
Add:	**Expenses either not allowable or to be considered separately but charged in the profit & loss account**		50,55,000
	- 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)(ia)		24,000
			52,99,050
Less:	Depreciation allowable as per Income-tax Act, 1961	(65,000)	
	Depreciation on building [Rs. 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**

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Notes

(1) The amount of Rs. 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 Rs. 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 Rs. 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	Rs.	Rs.
Tax on total income of Rs. 50,38,620		
Up to Rs. 4,00,000	Nil	
Rs. 4,00,001 – Rs. 8,00,000 [@5% of Rs. 4 lakhs]	20,000	
Rs. 8,00,001 – Rs. 12,00,000 [@10% of Rs. 4 lakhs]	40,000	
Rs. 12,00,001 – Rs. 16,00,000 [@15% of Rs. 4 lakhs]	60,000	
Rs. 16,00,001 – Rs. 20,00,000 [@20% of Rs. 4 lakhs]	80,000	
Rs. 20,00,001 – Rs. 24,00,000 [@25% of Rs. 4 lakhs]	1,00,000	
Rs. 24,00,001 – Rs. 50,38,620 [@30% of Rs. 26,38,620]	7,91,586	10,91,586
Add: Surcharge @10% [Since, the total income exceeds Rs. 50 lakhs but does not exceed Rs. 1 crore]		1,09,158
		12,00,744
Less: Marginal relief **(See computation below)**		(82,125)
		11,18,619
Add: Health and education cess@4%		44,744
Total tax liability		**11,63,363**
Total tax liability (Rounded off)		**11,63,370**

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Computation of marginal relief

	Particulars	Rs.
(A)	Tax payable including surcharge on total income of Rs. 50,38,620 as per section 115BAC	12,00,744
(B)	Tax payable on total income of Rs. 50 lakhs as per section 115BAC	10,80,000
(C)	Excess tax payable (A-B)	1,20,744
(D)	Marginal relief (Rs. 1,20,744 – Rs. 38,620, being the amount of income in excess of Rs. 50 lakhs)	82,124

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. 2026-27 under normal provisions of the Act

Particulars	Rs.	Rs.
Gross Total Income as per default tax regime under section 115BAC		50,38,620
Add: Depreciation on building [Rs. 20 lakhs x 10%]		2,00,000
		52,38,620
Less: Warehousing charges [Income is computed separately below]		(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. 2026-27 under the regular provisions of the Act

Particulars	Rs.	Rs.
Tax on total income of Rs. 31,38,620		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 [@5% of Rs. 2.50 lakh]	12,500	
Rs. 5,00,001 – Rs. 10,00,000 [@20% of Rs. 5,00,000]	1,00,000	
Rs. 10,00,001- Rs. 31,38,620 [@30% of Rs. 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. 2026-27

Particulars	Rs.	Rs.
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 [Rs. 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**

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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 therefore, liability as per section 115JC is Rs. 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 and pays tax under regular provisions of the Act.

AMT credit to be carried forward under section 115JEE

Particulars	Rs.
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

Question 5:

Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2026:

(i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of Rs. 2,95,000. He has paid municipal taxes of Rs. 25,000 for the current financial year. Both these floors are of equal size.

(ii) As per interest certificate from HDFC bank, he paid Rs. 1,50,000 as interest and Rs. 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 Rs. 400 lakhs, which includes Rs. 150 lakhs from export turnover. Out of Rs. 150 lakhs, only Rs. 120 lakhs have been received in India in convertible foreign exchange on or before 30.9.2026. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is Rs. 40 lakhs.

(iv) He employed 20 new employees for the said industrial undertaking during the previous year 2025-26. Out of 20 employees, 12 were employed on 1st May 2025 for monthly emoluments of Rs. 18,000 and remaining were employed on 1st September 2025 on monthly emoluments of Rs. 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.

(v) He earned Rs. 30,000 and Rs. 40,000 as interest on saving bank deposits and fixed deposits, respectively.

(vi) He also sold his vacant land on 01.12.2025 for Rs. 15 lakhs. The stamp duty value of land at the time of transfer was Rs. 16 lakhs. This land was acquired by him on 15.10.1998 for Rs. 2.80 lakhs. The FMV of the land as on 1st April, 2001 was Rs. 4.8 lakhs and Stamp duty value on the said date was Rs. 4 lakhs. He had incurred registration expenses of Rs. 12,000 at that time. [Ram's Note – Ignore Option Scheme of Tax Computation with Indexation]

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

(viii) Mr. Sunil withdrew Rs.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 requested to compute total income and tax liability of Mr. Sunil for the Assessment Year 2026-27, in the manner so that he can make maximum tax savings.

(MTP 2 May 24 15M)

Computation of total income of Mr. Sunil for A.Y. 2026-27
under default tax regime under section 115BAC

	Particulars	Rs.	Rs.	Rs.
I	**Income from house property**			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV,		2,95,000	

	in the absence of other information]			
	Less: Municipal taxes paid by him in the P.Y. 2023-24 pertaining to let out portion [Rs. 25,000/2]		(12,500)	
	Net Annual Value (NAV)		2,82,500	
	Less: Deduction u/s 24			
	(a) 30% of Rs. 2,82,500	(84,750)		
	(b) Interest on housing loan [Rs. 1,50,000/2]	(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	
			Nil	
	Income from house property			1,22,750
II	**Profits and gains of business or profession**			
	Income from SEZ unit [No 10AA under DTR]			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 Rs. 15 lakhs, since stamp duty value of Rs. 16 lakhs does not exceed actual consideration by more than 10%]		15,00,000	
	Less: Cost of acquisition [No Indexation as transfer on or after 23rd July 2024]		(4,00,000)	11,00,000
	Cost of acquisition			
	Higher of -			
	- Actual cost Rs. 2.80 lakhs + Rs. 0.12 lakhs = Rs. 2.92 lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = Rs. 4.8 lakhs but cannot exceed stamp duty value of Rs. 4 lakhs.			CA Ram Harsha
IV	**Income from Other Sources**			
	Interest on savings bank deposits		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. 2025-26 for 240 days or more during the P.Y. 2023-24 allowable as deduction [30% of Rs. 23,76,000 (12 x 18,000 x			

	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	Rs.	Rs.
Tax on total income of Rs. 45,79,950		
Tax on LTCG of Rs. 11,00,000 @12.5%		1,37,500
Tax on remaining total income of Rs. 34,79,950		
Up to Rs. 4,00,000 [@0%]	Nil	
Rs. 4,00,001 – Rs. 8,00,000 [@5% of Rs. 4 lakhs]	20,000	
Rs. 8,00,001 – Rs. 12,00,000 [@10% of Rs. 4 lakhs]	40,000	
Rs. 12,00,001 – Rs. 16,00,000 [@15% of Rs. 4 lakhs]	60,000	
Rs. 16,00,001 – Rs. 20,00,000 [@20% of Rs. 4 lakhs]	80,000	
Rs. 20,00,001 – Rs. 24,00,000 [@25% of Rs. 4 lakhs]	1,00,000	
Rs. 24,00,001 – Rs. 34,79,950 [@30% of Rs. 10,79,950]	3,23,985	6,23,985
		7,61,485
Add: Health and education cess@4%		30,459
Total tax liability		**7,91,944**
Tax liability (rounded off)		**7,91,940**
Less: TDS u/s 194N [50L*2%] [Assumed TDS Deducted]		(1,00,000)
Tax Payable		**6,91,940**

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

Computation of total income of Mr. Sunil for A.Y. 2026-27 under normal provisions of the Act

Particulars	Rs.	Rs.
Gross Total Income as per default tax regime under section 115BAC		**52,92,750**
Less: Interest on borrowing in respect of self- occupied house property [Rs. 1,50,000/2] [Assuming setoff with LOP Income]		(75,000)
Gross Total Income as per section 115BAC		**52,17,750**
Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA@50% of export profits, since P.Y.2026-27 being the 7th year of operations] [Profits of the SEZ x Export Turnover received in convertible foreign exchange/Total Turnover] x 100% [Rs. 40 lakhs x Rs. 120 lakhs/ Rs. 400 lakhs x 50%]		(6,00,000)
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Repayment of principal amount of housing loan	(80,000)	
Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Sunil	(40,000)	(1,20,000)

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Deduction under section 80JJAA [As computed above]		(7,12,800)
Deduction under section 80TTA Interest on savings bank account, restricted to Rs. 10,000		(10,000)
Total Income as per regular provisions of the Act		**37,74,950**

Computation of tax liability of Mr. Sunil for A.Y. 2026-27 under the regular provisions of the Act

Particulars	Rs.	Rs.
Tax on total income of Rs. 37,74,950		
Tax on LTCG of Rs. 11,00,000 @12.5%		1,37,500
Tax on remaining total income of Rs. 26,74,950		
Up to Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000[@5% of Rs. 2.50 lakhs]	12,500	
Rs. 5,00,001 – Rs. 10,00,000[@20% of Rs. 5 lakhs]	1,00,000	
Rs. 10,00,001 – Rs. 26,74,950[@30% of Rs. 16,74,950]	5,02,485	6,14,985
		7,52,485
Add: Health and education cess@4%		30,099
Total tax liability		**7,82,584**
Tax liability (rounded off)		**7,82,580**
Less: TDS u/s 194N [50L*2%]		(1,00,000)
Tax Payable		**6,82,580**

Computation of adjusted total income and AMT of Mr. Sunil for A.Y. 2026-27

Particulars	Rs.
Computation of adjusted total income	
Total income as per the normal provisions of the Act	**37,74,950**
Add: Deduction u/s 10AA	6,00,000
Deduction u/s 80JJAA	7,12,800
Adjusted Total Income	**50,87,750**
Alternative Minimum Tax@18.5%	9,41,233
Add: Surcharge @10%	94,123
	10,35,356
Less: Marginal Relief [S1 = 10,35,356, S2 = 50L*18.5+87,750, S3 = S1 – S2]	(22,606)
	10,12,750
Add: Health and education cess@4%	40,510
AMT liability	**10,53,260**
Less: TDS u/s 194N [50L*2%]	(1,00,000)
Tax Payable	**9,53,260**

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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 therefore, liability as per section 115JC is Rs. 10,53,260.

Final Conclusion: Since, tax liability as per section 115BAC of Rs. 7,91,940 is lower than the AMT liability of **Rs. 10,53,260,** it is beneficial for Mr. Sunil to exercise **not to shift out of the default tax regime** under section 115BAC. Therefore, Assessees Total income will be declared as per 115BAC.

Question 6:

Mr. Amit, aged 45 years, a resident Indian has provided you the following information for the previous year ended 31.03.2026

(i) He received royalty of Rs.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 Rs.40,000. The amount remitted to India till 30th September, 2026 is Rs.2,30,000.

(ii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2021-22. Total turnover of the undertaking was Rs.200 lakhs, which includes Rs.140 lakhs from export turnover which have been received in India in convertible foreign exchange on or before 30.9.2026. Profit from this industry is Rs.20 lakhs.

(iii) He was holding 30% equity shares in TSP (P) Ltd., an Indian company. Company allotted shares to shareholders on 1st October, 2022. The paid up share capital of company is Rs.20 lakh divided into 2 lakh shares of Rs.10 each which were issued at a premium of Rs.30 each.

He sold all these shares on 30th April, 2025 for Rs.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 Rs.50 per share.

(iv) Received Rs.30,000 as savings bank deposits.

(v) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of Rs.2,28,000. He has paid municipal taxes of Rs.60,000 for the current financial year. Both Floor are of equal size.

(vi) He paid insurance premium of Rs.39,000 on life insurance policy of son, who is not dependent on him and Rs.48,000 on life insurance policy of his dependent father.

(vii) He paid tuition fees of Rs.42,000 for his three children to a school. The fees being Rs.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. 2026-27.

(MTP 1 Jan 25 15M)

Computation of total income of Mr. Amit for A.Y. 2026-27

	Particulars	Rs.	Rs.	Rs.
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]		2,28,000	
	Less: Municipal taxes paid by him in the P.Y. 2023-24 pertaining to let out portion [Rs. 60,000/2]		(30,000)	
	Net Annual Value (NAV)		1,98,000	
	Less: Deduction u/s 24			
	(a) 30% of Rs. 1,98,000		(59,400)	
			1,38,600	
	Self-occupied portion [Ground Floor]			
	Annual Value		Nil	
	[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 x 30%)			
	Sales consideration [60,000 x Rs. 60 per share]		36,00,000	
	Less: Cost of acquisition, higher of -		(30,00,000)	
	- Actual cost [60,000 x Rs. 40 per share]	24,00,000		
	- Lower of			
	FMV on 31.1.2018 [60,000 x 50]	30,00,000		
	Actual sales consideration [60,000 x 60]	36,00,000		
	Long-term capital gains u/s 112A (since shares are held for a period of more than 12 months before transfer)			6,00,000
IV	**Income from Other Sources**			
	Royalty from artistic book		2,88,000	
	Less: Expenses incurred for earning royalty		(40,000)	
			2,48,000	
	Interest on savings bank deposits		30,000	
				2,78,000
	Gross Total Income			30,16,600
	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 (Rs. 14,000 x 2)	(28,000)		
	Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Amit	(39,000)		
	Insurance premium paid on life insurance policy of father **not** allowable, even though father is dependent on Mr. Amit	-	(67,000)	
	Deduction 80QQB under section		(1,90,000)	
	Royalty [Rs. 2,88,000 x 15/18 = Rs. 2,40,000, restricted to amount brought into India in convertible foreign exchange Rs. 2,30,000 minus Rs. 40,000 expenses already allowed as deduction while computing royalty income]			
	Deduction 80TTA under section		(10,000)	
	Interest on savings bank account, restricted to Rs. 10,000			(2,67,000)
	Total Income			27,49,600

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Computation of tax liability of Mr. Amit for A.Y.2026-27 under the normal provisions of the Act

Particulars	Rs.	Rs.
Tax on total income of Rs. 27,49,600		
Taxon LTCG of Rs.4,75,000, the sum exceeding Rs.1.25 lakh @12.5%		59,375
Tax on remaining total income of Rs. 21,49,600		
Up to Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000[@5% of Rs. 2.50 lakh]	12,500	
Rs. 5,00,001 – Rs. 10,00,000 [@20% of Rs. 5,00,000]	1,00,000	
Rs. 10,00,001 – Rs. 21,49,600 [@30% of Rs. 11,49,600]	3,44,880	4,57,380
		5,16,755
Add: Health and education cess@4%		20,670
Total tax liability		**5,37,425**
Tax liability (rounded off)		**5,37,430**

Computation of adjusted total income and AMT of Mr. Amit for A.Y. 2026-27

Particulars	Rs.
Computation of adjusted total income	
Total income as per the normal provisions of the Act	**27,49,600**
Add: Deduction u/s 80QQB	1,90,000
Adjusted Total Income	**29,39,600**
Alternative Minimum Tax@18.5%	5,43,826
Add: Health and education cess@4%	21,753
AMT liability	**5,65,579**
AMT liability (rounded off)	**5,65,580**

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

Therefore, liability as per section 115JC is Rs. 5,65,580.

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Question 7:

Mr. Anand, a resident Indian aged 45 years, has provided you the following information for the previous year ended on 31.03.2026

(i) 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 Rs. 200 lakhs. Export turnover received in India in convertible foreign exchange on or before 30.9.2026 is Rs. 120 lakhs. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is Rs. 35 lakhs.

(ii) Mr. Anand sold equity shares of different Indian companies on 14th March, 2026:

Name	Sale value (per share)	Purchase price (per share)	Acquired on	No. of shares	FMV as on 31.1.2018
Sam Ltd.	Rs. 150	Rs. 120 (STT paid at acquisition)	2nd Feb, 2026	2000	-
Jam	Rs. 100	Rs. 72 (STT	16th April,	1250	50

Ltd.		paid at acquisition)	2017		

CII – F.Y. 2017-18: 272; F.Y. 2025-26: 376

Sale proceeds were subject to brokerage of 0.1% and securities transaction tax of 0.125% on the gross consideration.

(iii) He made payment of Rs. 90,000 on 1.9.2025 vide cheque towards medical insurance as lumpsum premium for himself and his wife till 31.8.2029. He also made cash payment of Rs. 7,500 towards preventive health checkup for himself and his wife.

(iv) He received royalty of Rs. 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 16% of value of books and expenditure made for earning this royalty was Rs. 40,000. The amount remitted to India till 30th September, 2026 is Rs. 2,50,000.

(v) He received income-tax refund of Rs.15,750 (including interest Rs. 1,750) relating to the assessment year 2025-26.

(vi) He occupies ground floor of his residential building and has let out first floor for residential use for a monthly rent of Rs. 15,000. He has paid municipal taxes of Rs. 30,000 for the current financial year. Both floors are of equal size. He has taken a loan from bank of Rs. 50 lakhs for the construction of this property in 2020 and has repaid Rs. 2,05,000 (including interest Rs.1,00,000) during the year 2025-26.

(vii) Mr. Anand deposited Rs. 1,30,000 in Public Provident Fund and Rs. 80,000 in 5 years term deposit in the name of his minor son, Aman.

You are required to compute the total income and tax liability of Mr. Anand under section 115BAC as well as under normal provisions for the A.Y. 2026-26. Ignore AMT provisions.

(RTP Sept 24)

Computation of total income and tax liability of Mr. Anand for A.Y. 2026-27 under section 115BAC

	Particulars	Rs.	Rs.	Rs.
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]		1,80,000	
	Less: Municipal taxes paid by him in the P.Y. 2025-26 pertaining to let out portion [Rs. 30,000/2]		(15,000)	
	Net Annual Value (NAV)		1,65,000	
	Less: Deduction u/s 24			
	(a) 30% of Rs. 1,65,000	(49,500)		
	(b) Interest on loan [Rs. 1,00,000/2]	(50,000)	(99,500)	
	Self-occupied portion [Ground Floor]		65,500	
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			
	Net Annual Value (NAV)		Nil	
	Less: Interest on loan [Not allowable under section 115BAC]		Nil	65,500

II.	**Profits and gains of business or profession**			
	Income from SEZ unit			**35,00,000**
III.	**Capital Gains**			
	Short-term capital gains on sale of equity shares of Sam Ltd. (since held for not more than 12 months)			
	Full Value of Consideration [2000 x Rs. 150]	3,00,000		
	Less: Brokerage @ 0.1%	(300)		
	Net sale consideration	2,99,700		
	Less: Cost of acquisition [Rs. 2000 x 120]	(2,40,000)	59,700	
	Long-term capital gains on sale of equity shares of Jam Ltd. (since held for more than 12 months)			
	Full Value of Consideration [1250 x Rs. 100]	1,25,000		
	Less: Brokerage @ 0.1%	(125)		
	Net sale consideration	1,24,875		
	Less: Cost of acquisition [No indexation benefit would be available]	(90,000)	34,875	**94,575**
	Higher of cost of acquisition of Rs. 90,000 (72 x 1250) and Rs. 62,500, being lower of FMV of Rs. 62,500 and full value of consideration of Rs. 1,25,000			
	Income from Other Sources			
	Royalty from artistic book		2,88,000	
	Less: Expenses incurred for earning royalty		(40,000)	
			2,48,000	
	Interest on income-tax refund		1,750	
				2,49,750
	Gross Total Income			**39,09,825**
IV.	**Less: Deduction under Chapter VI-A [Not allowable under section 115BAC]**			-
	Total Income			**39,09,825**
	Total Income (Rounded off)			**39,09,830**
	Tax on total income of Rs. 39,09,830			
	Tax on LTCG exceeding Rs. 1.25 lakhs @12.5% u/s 112A			-
	Tax on STCG of Rs. 59,700 @20% u/s 111A			11,940
	Tax on remaining total income of Rs. 38,15,255			
	Up to Rs. 4,00,000@0%		Nil	
	Rs. 4,00,001 - Rs. 8,00,000 [@5% of Rs. 4 lakhs]		20,000	
	Rs. 8,00,001 - Rs. 12,00,000 [@10% of Rs. 4 lakhs]		40,000	
	Rs. 12,00,001 - Rs. 16,00,000 [@15% of Rs. 4 lakhs]		60,000	
	Rs. 16,00,001 - Rs. 20,00,000 [@20% of Rs. 4 lakhs]		80,000	
	Rs. 20,00,001 - Rs. 24,00,000 [@25% of Rs. 4 lakhs]		1,00,000	
	Rs. 24,00,001 - Rs. 38,15,255 [@30% of Rs. 14,15,255]		4,24,577	7,24,577
				7,36,517
	Add: Health and education cess@4%			29,461

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	Tax liability		7,65,978
	Tax liability (Rounded off)		7,65,980

Computation of total income and tax liability of Mr. Anand for A.Y. 2026-27 under normal provisions of the Act

Particulars	Rs.	Rs.	Rs.
Gross Total Income as per section 115BAC			**39,09,825**
Less: Interest on loan for self occupied property [Rs. 1,00,000/2]			(50,000)
Gross Total Income as per normal provisions of the Act			**38,59,825**
Less: **Deduction u/s 10AA** [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA @50% of export profits, since P.Y.2025-26, being the 7th year of operations]			(10,50,000)
[Profits of the SEZ x Export Turnover received in India in convertible foreign exchange on or before 30.9.2026/Total Turnover] x 100%			
[Rs. 35 lakhs x Rs. 120 lakhs/ Rs. 200 lakhs x 50%]			
Less: **Deduction under Chapter VI-A**			
Deduction under section 80C			
Repayment of housing loan	(1,05,000)		
Public Provident Fund	(1,30,000)		
5 years Term deposit (not allowed as deduction in the name of minor son)	-		
Restricted to	(2,35,000)	(1,50,000)	
Deduction under section 80D			
Medical insurance premium [90,000 x 1/5]	(18,000)		
Preventive health check up of Rs. 7,500, subject to maximum of Rs. 5,000	(5,000)	(23,000)	
Deduction under section 80QQB			
Royalty [Rs. 2,88,000 x 15/16 = Rs. 2,70,000, restricted to amount brought into India in convertible foreign exchange Rs. 2,50,000 minus Rs. 40,000 expenses already allowed as deduction while computing royalty income]		(2,10,000)	(3,83,000)
Total Income			**24,26,825**
Total Income (Rounded off)			**24,26,830**
Tax on total income of Rs. 24,26,830			
Tax on LTCG exceeding Rs. 1.25 lakhs @12.5% u/s 112A			-
Tax on STCG of Rs. 59,700 @20% u/s 111A			11,940
Tax on remaining total income of Rs. 23,32,255			
Up to Rs. 2,50,000		Nil	

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Rs. 2,50,001 - Rs. 5,00,000[@5% of Rs. 2,50,000]	12,500	
Rs. 5,00,001 - Rs. 10,00,000[@20% of Rs. 5,00,000]	1,00,000	
Rs. 10,00,001 - Rs. 23,32,255[@30% of Rs. 13,32,255]	3,99,677	5,12,177
		5,24,117
Add: Health and education cess@4%		20,965
Tax liability		**5,45,082**
Tax liability (rounded off)		**5,45,080**

Mr. Anand Tax Liability under Normal Provisions is Lower than Tax under 115BAC.

Question 8:

Mr. Rohit, a resident individual, aged 65 years, is a qualified medical practitioner. He runs his own clinic. Income & Expenditure A/c of Mr. Rohit for the year ending March 31st 2026 is as under:

Expenditure	₹	Income	₹
To Salary to Staff	8,20,000	By Consultation Fees	22,00,000
To Administrative Expenses	5,90,000	By Salary received from Care Hospital Pvt. Ltd.	1,80,000
To Conveyance Expenses	24,000	By Rental Income from House Property	78,000
To Power & Fuel	24,000	By Dividend from Foreign Companies	10,000
To Interest on Housing Loan	1,00,000		
To interest on Education Loan for son	26,000		
To Amount paid to scientific research association approved & notified u/s 35	25,000		
To Net Profit	8,59,000		
Total	24,68,000	Total	24,68,000

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Following is the further information relating to Financial Year 2025-2026:

(i) He is working part-time with Care Hospital Pvt. Ltd. His Salary details are as under :

Basic Pay	₹ 13,000 p.m.
Transport Allowance	₹ 2,000 p.m.
Total	₹ 15,000 p.m.

Further, during P.Y. 2025-26 his son had undergone a medical treatment in Care Hospital Pvt. Ltd. free of cost. The hospital would have charged a sum of ₹ 1,00,000 for a similar treatment to unrelated patients.

(ii) He owns a residential house. The ground floor of the house (50% portion) is self-occupied by him while first floor of the house (50% portion) has been rented out since 01/10/2025. The reconstruction of the entire house was started on 01.04.2025 and was completed on 30.09.2025. The monthly rent is ₹ 10,000. The tenant also pays ₹ 3,000 p.m. as power back-up charges. He took a housing loan of ₹ 12 lakhs on 01.04.2025. Interest on housing loan for the period 01.04.2025 to 30.09.2025 was ₹ 60,000 and for the period 01.10.2025 to 31.03.2026 was ₹ 40,000.

During the year, he also paid municipal taxes for the F.Y. 2024-25 ₹ 4,000 and F.Y. 2025-26 ₹ 6,000.

(iii) Other Information:

(a) Payment of salary of ₹ 25,000 per month to sister-in-law of Mr. Rohit, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rate is ₹ 20,000 per month.

(b) Conveyance expenses include a sum of ₹ 12,000 incurred for conveyance from house to Care Hospital Pvt. Ltd. and vice-versa in relation to his employment.

(c) Power and fuel expenses include a sum of ₹ 6,000 incurred for generator fuel for providing power back up to the tenant.

(d) Administrative expenses include a sum of ₹ 10,000 paid as Municipal Taxes for his house.

(e) Clinic Equipment details are :

Opening W.D.V. of Clinic Equipment as on 01.04.2025 was ₹ 1,00,000 and fresh purchase made on 28.08.2025 for ₹ 25,000 which was paid in cash.

(f) He also paid tuition fees of ₹ 40,000 for his Grand Daughter, which is debited to his capital a/c.

(g) He availed a loan of ₹ 8,00,000 from bank for higher education of his son. He repaid principal of ₹ 50,000 and interest of ₹ 26,000 during P.Y. 2025-2026.

You are required to compute his net taxable income and net tax liability for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(PEP Jan 25)

Computation of net taxable income and net tax liability of Mr. Rohit for A.Y. 2026-27 under the normal provisions of the Act

Particulars		₹	₹
I Income from Salaries			
Basic Pay (₹ 13,000 x 12)		1,56,000	
Transport Allowance (₹ 2,000 x 12) [Fully taxable]		24,000	
Cost of treatment for son in Care Hospitals Pvt. Ltd. [Exempt, since value of medical treatment provided to an employee's family member in any hospital maintained by the employer is excluded from the definition of perquisite]		Nil	
Gross Salary		1,80,000	
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		(50,000)	
Net Salary		1,30,000	
Less: Set off of loss from house property		(41,500)	
			88,500
II Income from house property			
Let out portion [First floor]			
Gross Annual Value [Rent received is taken as GAV = ₹ 10,000 p.m. x 6 months]		60,000	
Less: Municipal taxes paid in the P.Y. 2023-24 pertaining to let out portion [(₹ 4,000 + ₹ 6,000)/2], allowable since it is paid during the year, even if it relates to earlier years		(5,000)	
Net Annual Value (NAV)		55,000	
Less: Deduction u/s 24			

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(a) 30% of ₹ 55,000	(16,500)		
(b) Interest on housing loan [(₹ 60,000 (+) ₹ 40,000)/2]	(50,000)	(66,500)	
(11,500)			
Self-occupied portion [Ground Floor]			
Annual Value	Nil		
Less: Deduction u/s 24			
Interest on housing loan for reconstruction [Since not for Purchase or Construction]			
₹1,00,000 [(₹ 40,000 + ₹ 60,000)/2] restricted to	(30,000)	(30,000)	
Loss from house property [Setoff with salaries]		(41,500)	
III Profits and gains of business or profession			
Net profit as per Income and Expenditure account		8,59,000	
Add: Items of expenditure not allowable while computing business income			
(a) Excessive salary paid to sister-in law [allowed, since sister-in law does not fall within the definition of relative]	Nil		
(b) Conveyance expenses in relation to her employment with Care Hospital Pvt. Ltd. debited to Income and Expenditure A/c, not allowed	12,000		
(c) Power and fuel expenses incurred for providing power back up to tenant not deductible	6,000		
(d) Municipal tax paid relating to residential house included in administrative expenses, not deductible	10,000		
(e) Interest on housing loan for reconstruction of residential house	1,00,000		
(f) Interest on education loan for son	26,000		
		1,54,000	
		10,13,000	
Less: Allowable expenditure			
Depreciation on Clinic equipments			
- On Opening WDV ₹ 1,00,000 @15%	(15,000)		
- On additions during the year ₹ 25,000, no depreciation is allowable, since payment was made in cash and hence, it will not form part of actual cost.	Nil		
		(15,000)	
		9,98,000	
Less: Items of income to be treated separately under the respective head of income			
(i) Salary received from Care Hospitals Pvt. Ltd.	(1,80,000)		
(ii) Rental income from house property	(78,000)		
(iii) Dividend from foreign companies	(10,000)		
		(2,68,000)	
			7,30,000
Note – Mr. Rohit, is a medical professional and if he claims that his profits and gains from profession are lower than ₹ 11,00,000 (50% of gross receipts i.e., ₹ 22,00,000) and his total income exceeds the			

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maximum amount not chargeable to tax, he would be required to maintain books of accounts and get them audited from an accountant by virtue of section 44ADA(4).			
IV Income from Other Sources			
Power back up charges from tenant (₹ 3,000 p.m. x 6 months)	18,000		
Less: Actual expenditure incurred for providing power back up	(6,000)		
		12,000	
Dividend from foreign companies		10,000	
			22,000
Gross Total Income			8,40,500
Less: Deduction under Chapter VI-A Deduction under section 80C – Tuition fee paid for grand child is not allowable		Nil	
Deduction under section 80E - Interest on loan taken for higher education of her son is deductible		(26,000)	
Principal repayment of loan taken for education is not deductible		Nil	
			(26,000)
Total Income			8,14,500
Net tax liability			
Tax on total income of ₹ 8,14,500			
Up to ₹3,00,000		Nil	
₹ 3,00,001 – ₹ 5,00,000 [@5% of ₹ 2,00,000]		10,000	
₹ 5,00,000 – ₹ 8,14,500 [@20% of ₹ 3,14,500]		62,900	
			72,900
Add: Health and education cess @4%			2,916
Net tax liability			75,816
Net tax liability (rounded off)			75,820

Question 9:

Mr. X, age 83 years, a resident individual, gives the following particulars of his receipts for A.Y. 2024-25 :

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

Compute his total income and Income Tax thereon for A.Y. 2026-27 considering that assessee has opted out of Default tax regime.

(PEP Jan 25)

Computation of total income and tax liability of Mr. X for A.Y. 2026-27

	₹	₹
I Income from Salaries		

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

Question 10:

Mrs. S.C. Bose (aged 62 years) is a widow of a public sector employee who died during his service in 2011. She earns income from business of running a flower bouquet shop at Kolkata and income from royalty from writing books of science and sells in India and abroad. Profit & Loss account for the year ended 31st March, 2026 furnished by her is given below:

Particulars	₹	Particulars	₹
To Opening stock	1,00,000	By Sales of flower bouquet	36,75,000
To Purchases	15,66,000	By Family pension from PSU through bank	3,60,000
To Salaries and wages	4,90,000	By Royalty form California University for books sold (Foreign exchange brought into India)	4,25,000
To Expenses relating to books authored by her	75,000	By Dividend (Net of TDS)	4,50,000
To Expenses in connection with dividends	12,000	By Interest on FDR (No TDS deducted)	76,000
To Repairs & Maintenance	3,25,000	By Closing stock	1,36,000
To Amount paid to IIT Chennai for scientific research projects	35,000		
To Computers and other electronic items (purchased on 01-12-2024)	4,50,000		

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To Net Profit	20,69,000	Total	51,22,000
Total	51,22,000		

Additional Information:

(i) Purchases include ₹ 2 lakhs relate to flowers and creepers directly purchased from a farmer in cash on 26.09.2025.

(ii) Repairs & Maintenance includes one-time deposit of ₹ 2,00,000 paid to electricity and water department.

(iii) Computers and other electronic items includes ₹ 1,00,000 paid for television and washing machine for her household use.

(iv) Salary & wages includes salary paid ₹ 2,40,000 to her illiterate brother (reasonable salary as per market rate is ₹ 1,80,000)

(v) She purchased a residential house for ₹ 110 lakhs for which loan of ₹ 75 lakhs was taken from State Bank of India. Accrued interest was ₹ 3,37,500 till 31-03-2026 which was paid on 10-04-2026. No principal amount and interest was paid by Mrs. S.C. Bose till 31-03-2026. Ground floor of the house was used for shop and first floor was occupied for her residence.

(vi) She purchased an electric vehicle on 30-09-2025 for ₹ 25 lakhs for business purposes.

(vii) She sold 10,000 listed shares of SBCL Ltd. for ₹ 11,66,000 on 11-12-2025 which were purchased for ₹ 2,65,000 on 16.08.2025. STT was paid on purchase and sale both.

Compute total income of Mrs. S.C. Bose under default tax regime u/s 115BAC and optional tax regime of the Income-tax Act, 1961

(May 25 15M)

Computation of total income of Mrs. S.C. Bose for A.Y. 2026-27 under default tax regime under section 115BAC(1A)

	Particulars		₹	₹
I	**Income from house property**			
	Self-occupied portion [First Floor]			
	Annual Value		Nil	
	Less: Deduction u/s 24			
	Interest on housing loan [Not allowed under default tax regime]		Nil	
				Nil
II	**Profits and gains from business or profession**			
	Net profit		20,69,000	
	Add: Items of expenditure not allowable while computing business income			
	- Expenses relating to books authored by her [Allowed as deduction considering royalty income is taxable under the head "Profits and gains from business or profession"]	Nil		
	[**Note** - Royalty income may be taxed under the head "Income from other Sources". In such case, expenses relating to books would not be allowed as deduction while computing business income and allowed from royalty income while computing "Income from Other Sources".]			

	- Expenses in connection with dividends [Not allowed since expense is in respect of dividend taxable under the head "Income from Other Sources"]	12,000		
	- Amount paid to IIT Chennai from scientific research projects, not allowable under default tax regime	35,000		
	- Computers and other electronic items [Capital expenditure not allowed as deduction]	4,50,000		
	- Payment to a farmer exceeding ₹ 10,000 in cash for purchase of flower and creepers [Not disallowed under section 40A(3), since payment to farmer comes under exclusion]	Nil		
	- One-time deposit to electricity and water department, not allowed as deduction	2,00,000		
	- Excessive salary paid to brother [Disallowed under section 40A(2), since brother falls under the definition of relative and salary paid is in excess of market rate] [₹ 2,40,000 – ₹ 1,80,000]	60,000	7,57,000	
			28,26,000	
	Less: Items of income to be treated separately under the respective head of income			
	- Family pension from PSU [Taxable under the head "Income from Other Sources"]	(3,60,000)		
	- Royalty from California University [No adjustment is required since royalty is taxable under the head "Profits and gains from business or profession"]	Nil		
	[**Note** - Royalty income may be taxed under the head "Income from Other Sources". In such case, the income has to be reduced while computing business income.]			
	- Dividend [Taxable under the head "Income from Other Sources"]	(4,50,000)		
	- Interest on FDRs [Taxable under the head "Income from Other Sources"]	(76,000)	(8,86,000)	
			19,40,000	
	Less: Allowable expenditure			
	- Interest on residential house used for shop [₹ 3,37,500/2][2] [Since the interest is paid on or before due date of filing return of income, disallowance under section 43B would not be attracted.]		(1,68,750)	
	- **Depreciation**			
	On Computer and other electronic items other than television and washing machine [₹ 3,50,000 x 40% x 50%, since it is purchased and put to use for less than 180 days]	(70,000)		
	On residential house used for shop [₹ 1,10,00,000 x 10% x 50% for ground floor]	(5,50,000)		

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	On electric vehicle [₹ 25,00,000 x 40%]	(10,00,000)	(16,20,000)	
				1,51,250
III	**Capital Gains**			
	Sale consideration on sale of listed shares of SBCL Ltd.		11,66,000	
	Less: Cost of acquisition		(2,65,000)	
	Short term capital gains taxable under section 111A [Since shares are held for less than 12 months and STT has been paid]			9,01,000
	Income from Other Sources			
IV	Family pension from PSU	3,60,000		
	Less: Lower of 33-1/3% of ₹ 3,60,000 or ₹ 25,000 allowed as deduction	(25,000)	3,35,000	
	Dividend [₹ 4,50,000/90%]	5,00,000		
	Less: Expenditure to the extent of 20% of dividend	(12,000)	4,88,000	
	[**Note** - If it is assumed that expenditure are in the nature of expenses other than interest expenses, no deduction would be allowed from dividend income.]			
	Interest on FDRs		76,000	8,99,000
	Gross Total Income			19,51,250
	Less: Deduction under section 80QQB and 80TTB [Not allowable under default tax regime]			Nil
	Total Income			19,51,250

Computation of total income of Mrs. S.C. Bose for A.Y. 2026-27 under the optional tax regime of the Income-tax Act, 1961

	Particulars	₹	₹
	Gross Total Income as per default tax regime u/s 115BAC		19,51,250
	Less: Interest on borrowings for self-occupied property [₹ 3,37,500 / 2]	(1,68,750)	
	100% deduction under section 35(2AA) for amount paid to IIT Chennai from scientific research projects	(35,000)	(2,03,750)
			17,47,500
	Add: Excess deduction from family pension [₹ 25.000 - ₹ 15,000] [Lower of 33-1/3% of ₹ 3,60,000 or ₹ 15,000 as deduction is allowed from family pension under optional tax regime]		10,000
	Gross Total Income as per optional tax regime		17,57,500
	Less: Deduction under Chapter VI-A		
	Deduction under section 80QQB		
	Deduction for royalty income of ₹ 3,50,000 [₹4,25,000 – ₹ 75,000], restricted to ₹ 3,00,000	(3,00,000)	
	Deduction under section 80TTB		
	Interest on FDRs assuming FDRs are with banks, restricted to	(50,000)	

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	[**Note** - If it is assumed that FDRs are not with banks, co-operative society engaged in banking business or post office, deduction under section 80TTB would not be available.]		(3,50,000)
	Total Income		**14,07,500**

Question 11:

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

Profit & Loss account for the year ended 31st March, 2026

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

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Other information:

(i) **Opening and closing stock of finished goods were undervalued by 10%. Opening stock of ₹ 14,50,000 and Closing stock of ₹ 15,58,000 was shown.**

(ii) **Salaries & wages include following items:**

(a) **Contributed 20% of basic salary in National Pension Scheme referred in section 80CCD regarding salary paid to an employee Mr. Ramesh who has withdrawn basic salary of ₹ 5,00,000 and Dearness allowance is 40% of basic salary. 50% of Dearness allowance forms part of the salary.**

(b) **Some of the employees opted for retirement under the voluntary retirement scheme; a sum of ₹ 3,40,000 was paid to them on 1st January, 2026.**

(iii) **Interest on loan includes interest paid @ 15% per annum on loan of ₹ 12,00,000 which was taken from State Bank of India on 01.05.2023 for purchase of new electric car of ₹ 15,00,000. The car is used for personal purpose. No amount is repaid so far.**

(iv) **Depreciation allowable as per Income-tax Rules, 1962 is ₹ 4,50,000 but during the calculation of such depreciation following addition was not considered:**
Motor car purchased for ₹ 3,00,000 for supply of finished goods to dealers on 25-08-2025.

(v) **An asset was purchased for ₹ 6,00,000 on 23.7.2022 for conducting scientific research and the deduction was claimed under section 35 of the Income-tax Act, 1961. This asset was sold on 05-09-2025 for a consideration of ₹ 4,00,000.**

(vi) **Administrative expenses includes expenditure of ₹ 1,75,000, paid to a scientific research association approved under section 35. Out of₹ 1,75,000, ₹ 50,000 was utilised towards the purchase of land by the research association.**

(vii) He received ₹ 3,00,000 from a debtor which was written off as bad in the year 2018-19. Amount due from the debtor (which was written off as bad) was ₹ 5,00,000, out of which tax officer had only allowed ₹ 3,00,000 as deduction in computing the total income for assessment year 2018-19.

Compute the total income and tax liability of Mr. Ganesh for the assessment year 2026-27 assuming that he wants to pay tax under section 115BAC

(RTP May 25)

Computation of total income of Mr. Ganesh for A.Y. 2026-27 [Under DTR]

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

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	business income under section 41(3) in the year of sale to the extent of lower of amount of sale proceeds i.e., ₹ 4,00,000 or the amount of deduction allowed u/s 35 i.e., ₹ 6,00,000			
	- Contribution to scientific research association approved u/s 35 [Not allowable under section 35(1)(ii) as per default tax regime]	1,75,000		
	- Depreciation as per books of A/c	6,17,000	19,80,000	
			73,54,500	
	Less: Depreciation as per Income-tax Rules	(4,50,000)		
	Depreciation on Motor car purchased for supply of finished goods [₹ 3,00,000 x 15%]	(45,000)	(4,95,000)	
	Less: Items of income credited to profit and loss account but not taxable or taxable under any other head of income - Bad debt recovered [The excess of amount recovered i.e., ₹ 3,00,000 over the amount due after bad debt allowance i.e., ₹ 2,00,000 will be taxable as business income u/s 41(4). Since the entire ₹ 3 lakhs is credited to the profit and loss account, ₹ 2 lakhs has to be reduced]	(2,00,000)	**68,59,500**	
	- Winning from lottery [Taxable under the head "Income from other sources"]	(31,500)	(2,31,500)	**66,28,000**
	Income from other sources Winning from lottery [₹ 31,500 x 100/70] **Gross Total Income** Less: Deduction under Chapter VI-A Deduction under section 80EEB [Not allowable under default tax regime] **Total Income**			**45,000** **66,73,000** **Nil** **66,73,000**

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Computation of tax liability of Mr. Ganesh for A.Y.2026-27

Particulars	₹	₹
Tax on winning from lottery @30% of ₹ 45,000		13,500
Tax on total income (excluding winning from lottery) of ₹ 66,28,000		
Up to ₹ 4,00,000 @0%	Nil	
₹ 4,00,001 – ₹ 8,00,000[@5% of ₹ 4 lakhs]	20,000	
₹ 8,00,001 – ₹ 12,00,000[@10% of ₹ 4 lakhs]	40,000	
₹ 12,00,001- ₹ 16,00,000 [@15% of ₹ 4 lakhs]	60,000	
₹ 16,00,001- ₹ 20,00,000 [@20% of ₹ 4 lakhs]	80,000	
₹ 20,00,001- ₹ 24,00,000 [@25% of ₹ 4 lakhs]	1,00,000	
₹ 24,00,001- ₹ 66,28,000 [@30% of ₹ 42,28,000]	12,68,400	
		15,68,400
		15,81,900

Add: Surcharge @10% [Since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		1,58,190
		17,40,090
Add: Health and education cess@4%		69,604
Tax liability		18,09,694
Tax liability (rounded off)		18,09,690

Question 12:

Mr. Vivek is an advocate and furnishes you the receipts and payments account for the financial year 2025-26.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening Balance (01.04.2025) Cash & Bank	80,000	Staff salary and bonus to clerks	17,50,000
Fee from legal services	49,60,000	Other general and administrative expenses	22,00,000
Motor car loan from HDFC @12% p.a. interest	5,00,000	Office rent	1,48,000
Sale receipts of 5,275 listed equity shares (sold on 31st March 2026)	5,95,000	Life Insurance Premium (Sum Assured ₹ 5,00,000)	49,000
		Motor car (Acquired in January 2025 by way of NEFT)	9,50,000
		Books bought by way of A/c payee cheque in the month of May, June and September 2025 (annual publications)	80,000
		Computer acquired on 1.11.2025 for professional use (payment made by A/c payee cheque)	52,000
		Domestic drawings	6,23,000
		Motor car maintenance	72,000
		Public Provident Fund subscription	1,50,000
		Closing balances (31.03.2026) Cash & Bank	
	61,35,000		

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Other information:

(i) Listed equity shares on which STT was paid were acquired in August 2017 for ₹ 1,21,800. The fair market value of such shares as on 31st January 2018 was ₹ 80 per share.

(ii) Motor car was put to use for both official and personal purposes.1/3rd of the motor car is for personal purpose. No interest on car loan was paid during the previous year 2025-26.

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

expenses in respect to the flat during the P.Y. 2025-26:
(a) Municipal taxes ₹ 8,200 per annum
(b) House insurance ₹ 11,000
As per interest certificate issued by Punjab National Housing Finance Limited for the financial year 2025-26, he paid ₹ 1,80,000 towards principal and ₹ 2,01,500 as interest.

(iv) He earned ₹ 1,20,000 in share speculation business and lost ₹ 1,80,000 in commodity speculation business.

(v) Mr. Vivek received a gift of ₹ 21,000 each from four of his family friends.

(vi) He contributed ₹ 1,21,000 to PM Cares Fund by way of bank draft.

(vii) He donated to a registered political party ₹ 3,50,000 by way of cheque.

(viii) He follows cash system of accounting.

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

(MTP 2 May 25 15M)

Computation of total income and tax liability of Mr. Vivek for A.Y. 2026-27

Particulars	₹	₹	₹
Income from house property			
Gross annual value1 (₹ 35,000 x 12)		4,20,000	
Less: Municipal taxes paid by Mr. Vivek		8,200	
Net annual value		4,11,800	
Less: Deductions under section 24			
(a) 30% of Net Annual Value		(1,23,540)	
(b) Interest on house borrowing (allowed in full in case of let out property)		(2,01,500)	86,760
Profits and gains of business or profession			
Income from profession			
Fees from legal services		**49,60,000**	
Less: Expenses allowable as deduction			
- Staff salary and bonus	17,50,000		
- Other general and administrative expenses	22,00,000		
- Office rent	1,48,000		
- Motor car maintenance (₹ 72,000 x 2/3)	48,000		
- Car loan interest – not allowable, since Mr. Vivek follows cash system of accounting and no interest is paid during the previous year)	-	41,46,000	
		8,14,000	
Less: Depreciation u/s 32			
- Motor car ₹ 9,50,000 x 15% x 50% x 2/3, being put to use for less than 180 days	(47,500)		
- Books being annual publications [₹ 80,000 x 40%]	(32,000)		
- Computer @40% of ₹ 52,000 x 50%, since the same is put to use for less than 180 days	(10,400)	(89,900)	

		7,24,100	
For the P.Y. 2025-26, the gross receipts of Mr. Vivek is ₹ 49,60,000. Since, it does not exceed ₹ 50,00,000, he is eligible to pay tax under presumptive tax scheme under section 44ADA.			
In such case, his professional income would be ₹ 24,80,000, being 50% of ₹ 49,60,000.			
It is more beneficial for Mr. Vivek to declare profit of ₹ 7,24,100 as per books of accounts which is lower than the profits computed on presumptive basis under section 44ADA. However, for declaring lower profits, he has to maintain books of account under section 44AA and get the same audited under section 44AB			
Income from share speculation business	1,20,000		
Less: Loss from commodity speculation business set off against income from share speculation business. Balance loss of ₹ 60,000 from commodity speculation business to be carried forward to A.Y. 2026-27	(1,20,000)	Nil	**7,24,100**
Capital Gains			
Long-term capital gains on sale of 5,275 listed shares			
Sale consideration		5,95,000	
Less: Cost of acquisition is higher of		(4,22,000)	**1,73,000**
- Cost of acquisition	1,21,800		
- Lower of ₹ 4,22,000 (₹ 80 x 5,275), being fair market value as on 31.1.2018 and ₹ 5,95,000, being full value of consideration on transfer	4,22,000		
Income from other sources			
Cash Gift of ₹ 84,000 i.e., ₹ 21,000 x 4, received from his four friends is taxable u/s 56(2)(x), since aggregate amount of cash gifts exceeds ₹ 50,000			**84,000**
Gross Total Income			**10,67,860**
Less: Deductions under Chapter VI-A			
Section 80C			
Life insurance premium	(49,000)		
Repayment of housing loan	(1,80,000)		
PPF subscription	(1,50,000)		
	(3,79,000)		
Restricted to ₹ 1,50,000		(1,50,000)	
Section 80G			
Contribution to PM Cares Fund (100% of ₹ 1,21,000) by way of bank draft		(1,21,000)	
Section 80GGC			
Donation to registered political party made by way of cheque		(3,50,000)	

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			(6,21,000)
Total Income			**4,46,860**
Tax liability Computation			
Tax @12.5% under section 112A on long-term capital gains exceeding ₹ 1,25,000 i.e. on ₹ 48,000			6,000
Tax @5% on ₹ 23,860 [₹ 2,73,860 (total income excluding LTCG u/s 112A) - ₹ 2,50,000, being basic exemption limit]			1,193
			7,193
Less: Rebate u/s 87A [Since the total income does not exceed ₹ 5 lakhs, rebate u/s 87A would be available. Rebate u/s 87A is not available on tax on LTCG taxable u/s 112A]			(1,193)
			6,000
Add: Health and Education cess@4%			240
Tax liability			**6,240**

Question 13:

Mr. Subhash, a manufacturer and distributor of fertilizers and other agricultural products, aged 61 years, provides the following information for the A.Y. 2026-27:

Trading and Profit and Loss Account of Mr. Subhash

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

Additional information:

(a) The turnover of Mr. Subhash for the financial year ending 31st March 2025 was ₹ 3.08

crores.

(b) Closing stock of P.Y. 2025-26 was undervalued by ₹ 25,000.

(c) Rates and taxes include ₹ 5,000 paid towards late filing of his Income-tax return for Assessment Year 2025-26 under section 234F of Income-tax Act, 1961.

(d) Salaries include ₹ 15,000 paid on single day by way of cash to his accountant.

(e) Interest paid on loan of ₹ 10,00,000 taken from a Non-Banking Finance company. Out of the loan, amount of ₹ 2 lakhs was used for personal purpose and the balance was used for business purpose. No TDS was deducted while payment of interest.

(f) Mr. Subhash paid ₹ 45,000 by cheque during the year towards a health insurance premium for himself, his spouse, and his children.

(g) General expenses include an amount of ₹ 20,000 paid by cheque towards an advertisement published in a souvenir released by a local political party.

(h) He received an income-tax refund during the year, which includes ₹ 2,000 towards interest.

(i) Depreciation charged is as per Income-tax Rules, 1962, however, it does not include depreciation on a new machinery purchased and put to use on 23rd September, 2025 for manufacturing activity. The cost of the vehicle is ₹ 3,10,000.

(j) Advance Tax paid during the year is ₹ 15 lakhs.

You are required to compute the tax liability of Mr. Subhash for the A.Y. 2026-27 under both the regimes.

(MTP 1 Sept 25 15M)

Computation of Total Income of Mr. Subhash for the A.Y. 2026-27 under default tax regime

Particulars	₹	₹	₹
Income from house property			
Annual value (Rent received has been taken as annual value, due to absence of information relating to expected rent in the question)		7,20,000	
Less: Deduction u/s 24(a)			
30% of Annual Value		(2,16,000)	5,04,000
Profits and gains of business or profession			
Net profit as per profit and loss account		75,43,815	
Add: **Expenses/Payments debited to profit and loss account but not allowed**			
- Fee for late filing of income-tax return for A.Y. 2025-26 – disallowed under section 37	5,000		
- Salary paid to an accountant in cash exceeding ₹ 10,000 – disallowed under section 40A(3)	15,000		
- Interest paid to NBFC on loan which is used for personal purposes (₹ 1,20,000 x 2,00,000 / 10,00,000) – not allowed as per section 37	24,000		
- Interest paid to NBFC on which tax is not deducted attracts disallowance @30% of ₹ 96,000 [Since Mr. Subhash's turnover for the immediately preceding previous year i.e., P.Y. 2024-25 exceeds ₹ 1 crore, he is required to deduct tax at source. Disallowance@30% of interest is attracted for non- deduction of tax at source]	28,800		

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[Practically NOT correct – Discussed in Class]			
- Advertisement expenses towards an advertisement in a souvenir published by local political party [Disallowed under section 37(2B)]	20,000		
- Income-tax paid for F.Y. 2024-25	3,45,000		
- Interest paid on late payment of GST - allowed, since it is not for infraction of law but is compensatory in nature.	-	4,37,800	
Add: Undervaluation of Closing stock		25,000	
		80,06,615	
Less: **Income chargeable under other heads and income not chargeable to tax but credited to profit and loss account**			
- Dividend income from Indian companies	17,20,000		
- Interest on FDs (Net of taxes) (Taxable under the head "Income from other sources")	1,08,000		
- Rent received (Taxable under the head "Income from house property")	7,20,000		
- Income-tax refund	18,000	25,66,000	
		54,40,615	
Less: Depreciation on machinery purchased and put to use on 23.9.2024 [₹ 3,10,000 x 15%]		46,500	**53,94,115**
[Additional depreciation not available under default tax regime]			
Income from Other Sources			
Dividend income		17,20,000	
Interest on fixed deposits (₹ 1,08,000 x 100/90)		1,20,000	
Interest on income-tax refund		2,000	**18,42,000**
Gross Total Income			**77,40,115**
Less: Deduction under Chapter VI-A			
Section 80D [Not available under default tax regime]			-
Section 80GGC [Not available under default tax regime]			-
Total Income			**77,40,115**
Total Income (Rounded off)			**77,40,120**

Computation of tax liability of Mr. Subhash for the A.Y.2026-27 under default tax regime

Particulars		₹
Up to ₹4,00,000	Nil	
₹ 4,00,001 – ₹ 8,00,000 [i.e., ₹ 4,00,000@5%]	20,000	
₹ 8,00,001 – ₹ 12,00,000 [i.e., ₹ 4,00,000@10%]	40,000	
₹12,00,001 – ₹ 16,00,000 [i.e., ₹ 4,00,000@15%]	60,000	
₹16,00,001 – ₹ 20,00,000 [i.e., ₹ 4,00,000@20%]	80,000	
₹20,00,001 – ₹ 24,00,000 [i.e., ₹ 4,00,000@25%]	1,00,000	
₹ 24,00,001 above [i.e., 53,40,120 @30%]	16,02,036	19,02,036
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		1,90,204
		20,92,240

Add: Health and Education cess@4%	83,690
Tax Liability	**21,75,930**

Computation of Total Income of Mr. Subhash for the A.Y. 2026-27 under optional tax regime

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

Computation of tax liability of Mr. Subhash for the A.Y.2026-27 under optional tax regime

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

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Question 14:

Mr. Rajesh (aged 67 years) reported a net profit of Rs. 3,95,11,290 for the previous year 2025-26 after debiting/crediting the following items:

Debits:

(a) Rs. 15,000 paid to a Gurudwara registered u/s 80G of the Income-tax Act, 1961, in cash where no cheques are accepted.

(b) Contribution of Rs. 35,500 to a university approved under section 35(1)(ii) for scientific research.

(c) Interest amounting to Rs. 1,75,000 was paid on a loan obtained from a bank on 15th July 2023, which was utilized for purchasing an electric vehicle. The vehicle was acquired for the exclusive personal use of Mr. Rajesh's wife.

(d) Salaries & wages includes contribution of 20% of basic salary in National Pension Scheme referred in section 80CCD for an employee, Mr. Ganesh who has withdrawn basic salary of Rs. 4,00,000 and Dearness allowance is 40% of basic salary. 50% of Dearness allowance forms part of the salary

(e) Purchase of timber for Rs. 25,00,000 under a forest lease for business purposes. Ignore TCS.

Credits:

(i) Mr. Rajesh sold goods to his brother for a consideration of Rs. 6,00,000, whereas the fair market value of these goods was Rs. 9,00,000.

(ii) During the year, Mr. Rajesh received Rs. 3,00,000 from a debtor previously written off as bad in F.Y. 2021-22 (original amount Rs. 4,00,000). However, only Rs. 2,50,000 was permitted as deduction in the return of income for A.Y. 2022-23.

(iii) Short term capital gains of Rs. 10,00,000 on transfer of listed equity shares in a company on which STT is paid. Date of transfer is 5.8.2025.

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Other information:

1. Closing stock of P.Y. 2025-26 was undervalued by Rs. 25,000.
2. Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax law.
3. Mr. Rajesh purchased a new car of Rs. 14,00,000 on 1st August, 2025 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.
4. A plot of land which was used by Mr. Rajesh for his Industrial undertaking for last 10 years was compulsorily acquired by the Central Government on 07.10.2023. The compensation of Rs. 15,00,000 was received on 27.01.2026. Such property was purchased by him on 08.10.2006 for Rs. 2,50,000. He purchased another plot of land for his industrial undertaking on 15.04.2026 for Rs. 7,00,000. The government has also paid Rs. 1,05,000 as interest on such compensation on 28.02.2026.

   Cost Inflation Indices: F.Y. 2025-26: 376; F.Y. 2023-24: 348, F.Y. 2006-07: 122
5. Mr. Rajesh also made the following payments during the previous year 2025-26
   - Lump-sum premium of Rs. 1,20,000 paid on 30th March, 2026 for the medical policy taken for self and spouse. The policy shall be effective for five years i.e. from 30th March, 2026 to 29th March, 2031.
   - Rs. 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable by Mr. Rajesh for the assessment year 2026-27 if he **opts out of the default tax regime** under section 115BAC.

(MTP 2 Sep 25 15M)

Computation of total income of Mr. Rajesh for A.Y. 2026-27 under normal provisions of the Act

	Particulars	Rs.	Rs.	Rs.
I	**Income from business or profession**			
	Net profit as per profit and loss account		3,95,11,290	
	Add: **Items of expenditure debited but not allowable while computing business income**			
	- Donation to Gurudwara in cash [Not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount	15,000		

	is already debited, the same has to be added back while computing business income]			
	- Contribution to a university approved and notified u/s 35(1)(ii) for scientific research [Eligible for deduction @100%. Since, 100% of the expenditure is already debited to profit and loss account, no adjustment is required]	-		
	- Interest on loan taken for purchase of e-vehicle [Interest on loan for purchase of e-vehicle for personal purpose is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income]	1,75,000		
	- Employer's contribution to NPS in excess of 14% of salary [Employer's contribution to the extent of 14% of salary i.e., basic salary plus dearness allowance forming part of salary would be allowed as deduction. Thus, excess contribution i.e., Rs. 12,800 [Rs. 80,000, being 20% of Rs. 4,00,000 less Rs. 67,200 being 14% of Rs. 4,80,000 (Rs. 4,00,000 + 20% of Rs. 4,00,000] has to be added back	12,800		
	- Sale of goods to brother at less than FMV [The provisions of section 40A(2) are not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of Rs. 3 lakh]	-	2,02,800	
			3,97,14,090	
	Less: **Items of income credited but not taxable or taxable under any other head of income**			
	- Bad debt recovered [The excess of amount recovered i.e., Rs. 3 lakhs over the amount due after bad debt allowance i.e., Rs. 1,50 lakhs will be taxable as business income. Since the entire Rs. 3 lakhs is credited to the profit and loss account, Rs. 1.50 lakhs has to be reduced]	(1,50,000)		
	- Short term capital gains on transfer of listed equity shares	(10,00,000)	(11,50,000)	
			3,85,64,090	
	Add: Undervaluation of Closing stock		25,000	
			3,85,89,090	
	Less: **Allowable expenditure**			
	Depreciation on car [Rs. 14 lakh x 15%, since car is put to use for more than 180 days in the P.Y.2024-25]		(2,10,000)	
				3,83,79,090

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II	**Capital Gain**			
	Short term capital gains			
	Short term capital gains on transfer of listed equity shares [111A]		10,00,000	
	Long term capital gains			
	Compulsory acquisition of industrial plot by the Central Government taxable as per section 45(5)			
	Compensation received	15,00,000		
	Less: Indexed cost of acquisition [Rs. 2,50,000 x 348/122] [YOT =PY 23-24]	(7,13,115)		
	Long-term capital gain [Since such plot is held for more than 24 months]	7,86,885		
	Less: Exemption u/s 54D			
	Acquisition of industrial plot within 3 years from the date of transfer	(7,00,000)	86,885	
				10,86,885
III	**Income from Other Sources**			
	Interest on enhanced compensation		1,05,000	
	Less: 50% as deduction		(52,500)	52,500
	Gross Total Income			**3,95,18,475**
	Less: **Deduction under Chapter VI-A**			
	Deduction under section 80D - Mediclaim premium for self and spouse [In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant previous years. [Rs. 1,20,000/6 years, being relevant previous years in which the insurance is in force]	(20,000)		
	- Preventive health check up of self and spouse [Preventive health check up paid in cash allowed to the extent of Rs. 5,000]	(5,000)	(25,000)	
	Deduction under section 80EEB [Since the loan is sanctioned by Bank during the P.Y. 2022-23, interest on loan taken for purchase of e-vehicle is allowed to the extent of Rs. 1,50,000]		(1,50,000)	
	Deduction under section 80G [Donation of Rs. 15,000 to Gurudwara not allowable as deduction since amount exceeding Rs. 2,000 paid in cash]		-	(1,75,000)
	Total income			**3,93,43,475**
	Total income (Rounded off)			**3,93,43,480**

Computation of tax payable by Mr. Rajesh for A.Y.2026-27

Particulars	Rs.	Rs.
Tax on Rs. 10 lakhs, being short term capital gains on transfer of listed equity shares @20% u/s 111A		2,00,000

Tax on Rs. 86,885, being long term capital gains on compulsory acquisition of industrial plot @20% u/s 112 [Remember Year of Transfer PY 23-24]		17,377
Tax on balance income of Rs. 3,82,56,595 [Senior Citizen]		
Up to Rs.3,00,000	Nil	
Rs. 3,00,001 - Rs. 5,00,000 [@5% of Rs. 2 lakh]	10,000	
Rs. 5,00,001 - Rs.10,00,000 [@20% of Rs.5,00,000]	1,00,000	
Rs.10,00,001 - Rs. 3,82,56,595 [@30% of Rs. 3,72,56,595]	1,11,76,979	1,12,86,979
		1,15,04,356
Add: Surcharge @15% on Rs. 2,17,377		32,607
Add: Surcharge @25% on Rs. 1,12,86,979		28,21,745
		1,43,58,708
Add: Health and education cess@4%		5,74,348
Total Tax Liability		1,49,33,056
Tax Liability (rounded off)		1,49,33,060

Question 15:

Mr. K is a 48-year-old resident individual. The details of income earned for the P.Y. 2025-26 from diversified businesses and investment portfolio are as under:

(i) He runs two businesses:

- **A manufacturing business with profit of ₹ 10,00,000.**
- **A speculative business with loss of ₹ 7,00,000.**

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(ii) He incurred a loss of ₹ 2,15,000 from a let-out property and also earned an income of ₹ 50,000 from the activity of owning and maintaining race horses. For earning this income, he incurred an expense of ₹ 5,000.

(iii) He has earned short-term capital gains of ₹ 50,000 from equity shares sold on 10.05.2025 on which STT was paid, and long-term capital loss of ₹ 75,000 from other assets sold on 15.10.2025.

(iv) Mr. K took divorce from his wife in April 2025 and the custody of their minor son is given to Mrs. K. Following the divorce, he transferred ownership of house property to his wife. During the financial year, the property generated rental income of ₹ 5,00,000.

(v) Mr. K deposits cash of ₹ 50,000 every month into the bank account of his minor son. During the P.Y. 2025-26, interest income of ₹ 25,000 is generated in his son's bank account.

(v) He has also contributed a sum of ₹ 2 lakh to an electoral trust and incurred expenditure of ₹ 30,000 on advertisement in a brochure of a political party.

(vi) He authored an investment portfolio book and received royalty income of ₹ 4,10,000 during the P.Y. 2025-26 from a publisher in Germany. The royalty is calculated at 16% of book sales value. He incurred ₹ 60,000 as expenditure for earning this income. Out of the total royalty, ₹ 2,90,000 was remitted to India by 31st August 2026, and the balance remained in abroad till 30.9.2026.

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

(RTP Jan 26)

Computation of total income of Mr. K for the A.Y.2026-27 under normal provision of the Act

Particulars	₹	₹
I House Property		
Rental Income of ₹ 5 lakhs shall be taxable in the hands of Mrs. K since it is a case of transfer of house property to his spouse in connection with an agreement to live apart. In such case, the transferee shall be the owner of the house property and rental income will be taxed in the hands of transferee.		-
Set off of loss from house property to be restricted to ₹ 2 lakhs by virtue of section 71(3A). Balance loss of ₹ 15,000 has to be carried forward to A.Y. 2027-28		
II Income from business		
Income from manufacturing business	10,00,000	
Loss from speculation business		
As per section 73(1), loss from speculation business can be set off only against profit from any other speculation business. Therefore, loss from speculation business of ₹ 7,00,000 has to be carried forward to A.Y. 2027-28	-	
Less: Set off of loss from house property to the extent of ₹ 2 lakhs	(2,00,000)	**8,00,000**
III Capital Gains		
Short-term capital gain u/s 111A	50,000	
Long term capital loss	-	**50,000**
As per section 74(1), long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 75,000 has to be carried forward to A.Y. 2027-28		
IV Income from Other Sources		
Royalty Income [₹ 4,10,000 - ₹ 60,000]	3,50,000	
Interest income from son's bank account [Income of the minor will be included in the income of Mrs. K as Mrs. K is maintaining the child.]	-	
Income from the activity of owning and maintaining race horses	50,000	
Less: Expenses incurred to earn this income	(5,000)	**3,95,000**
Gross Total Income		**12,45,000**
Less: Deduction under section 80GGC	(2,00,000)	
Contribution to an electoral trust is allowed as deduction assuming it is paid otherwise than in cash. Expenditure of ₹ 30,000 incurred on advertisement in a brochure of political party is not eligible for deduction under section 80GGC		
Deduction under section 80QQB (Refer working note below)	(2,30,000)	**(4,30,000)**
Total Income		**8,15,000**

Working Note

Deduction allowable under section 80QQB for the A.Y.2026-27

Particulars	₹
Royalty ₹ 4,10,000 x 15/16 = ₹ 3,84,375	
Restricted to	
Amount brought into India in convertible foreign exchange within the prescribed time	2,90,000
Less: Expenses already allowed as deduction while computing royalty income	(60,000)

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Deduction u/s 80QQB	2,30,000

Question 16:

Mr. Vaibhav, a resident individual aged 46 years, engaged in the business of plywood and sculptures, maintains his books of account under section 44AB. He follows the mercantile system of accounting and regularly files his return of income. The profit and loss account for the year ended on 31.3.2026 shows a net profit of ₹ 51,42,000 after debiting/ crediting the following:

(i) During the year, Mr. Vaibhav had taken professional services from a lawyer in relation to a business dispute. The legal fees was amounted to ₹ 1,00,000. Tax has been deducted on time but did not deposit it with the government within the due date. The TDS was later on deposited on 15th November 2026.

(ii) Vaibhav had renovated his office by engaging in the services of his brother, as the existing office premises had become very old and required refurbishment. The total payment made for the renovation amounted to ₹ 2,50,000 which is reasonable to the extent of ₹ 1,50,000.

(iii) He purchased goods worth ₹ 30,000 from Vishnu & Co., a micro enterprise, on March 01, 2026. According to the written agreement between them, the payment was to be made by 05th April 2026. However, he made payment to Vishnu & Co on 15th April 2026.

(iv) Depreciation as per profit and loss account is ₹ 13,66,000.

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Additional Information:

(a) As per restructuring agreement with the bank, the bank has converted unpaid interest of ₹ 6,00,000 into a new loan account repayable in 20 equal annual installments. The first installment was paid in March 2026. Vaibhav claimed the entire interest amount of ₹ 6,00,000 as an expense while computing his business income.

(b) Depreciation as per Income-tax Rules, 1962 is ₹ 12,00,000.

(c) He contributed ₹ 50,000 towards Tier I account of NPS during the year. Further, he has invested in five-year term deposit of ₹ 1.5 lakhs.

(d) He employed 90 new employees during the P.Y. 2025-26, the details of whom are as follows:

No. of employees	Date of employment	Regular / Casual	Total monthly emoluments per employee (₹)
20	1.4.2025	Regular	24,000
25	1.5.2025	Casual	24,500
30	1.8.2025	Regular	26,000
15	1.9.2025	Casual	23,500

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

(e) Mr. Vaibhav had sculptures in the form of capital assets acquired in January 2015, for ₹ 1,80,000. Later on, in F.Y. 2023-24, he started sculpture business and converted these capital assets into stock-in-trade for his business. Fair market value at the time of conversion was ₹ 3,50,000. Subsequently, he sold the stock-in-trade on June 10, 2025, for ₹ 5,00,000. No entry has been made in books for conversion and sale of converted sculptures.

You are required to compute the total income and tax liability of Mr. Vaibhav for the A.Y. 2026-27 if he opts out of the default tax regime.

CII for F.Y. 2014-15: 240; F.Y. 2023-24: 348; F.Y. 2025-26: 376

(RTP Jan 26)

Computation of total income of Mr. Vaibhav for A.Y. 2026-27 under normal provisions of the Act

Particulars	₹	₹	₹
I Income from business or profession			
Net profit as per profit and loss account **Add: Items of expenditure not allowable while computing business income**		51,42,000	
- Depreciation as per books of accounts	13,66,000		
- Payment for professional services [Since the tax was deducted on time, but such tax has not been paid on or before the due date specified in section 139(1),	₹ 30,000		
[₹ 1,00,000 x 30%] has to be disallowed in F.Y. 2024-25 under section 40(a)(ia) and has to be added back]			
- Payment for renovation of office [Unreasonable payment made to brother for renovating his office has to be added back as per section 40A(2)]	1,00,000		
- Payment to M/s Vishnu & Co, a micro enterprise, for purchase of raw material [Not Allowable as per section 43B(h) since payment was made to a micro enterprise and the same was not within the time specified in the written agreement]	30,000		
- Conversion of interest into loan [Conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted into loan shall be allowed as deduction only in the year in which the converted loan is actually paid.]	5,70,000		
Accordingly, only ₹ 30,000 shall be allowed as deduction in P.Y. 2025-26 [₹ 6 L/ 20 installments] and Balance 5.7L Disallowed			
- Payment received from sale of stock-in-trade converted from capital assets [Sale consideration - FMV as on date of conversion]	1,50,000	22,46,000	
		73,88,000	
Less: Depreciation as income-tax Rules, 1962		(12,00,000)	**61,88,000**
II Capital Gains			
Sale consideration		3,50,000	
Less: Indexed cost of acquisition [₹ 1,80,000 x 348/ 240]		(2,61,000)	
Long term capital gains [Indexation benefit is available since the property is transferred before 23.7.2024]			**89,000**
Gross Total Income			**62,77,000**
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
- Investment in five-year deposit		(1,50,000)	
Deduction under section 80CCD(1B)			
- Contribution in NPS		(50,000)	

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Deduction under section 80JJAA (See working note below)		(17,28,000)	**(19,28,000)**
Total Income			**43,49,000**

Computation of tax liability of Mr. Vaibhav for A.Y. 2026-27 under normal provisions of the Act

Particulars	₹	₹
Tax @20% on LTCG of ₹ 89,000 on sale of Sculptures [Since the property is transferred before 23.7.2024]		17,800
Tax at slab rate on balance income of ₹ 42,60,000		
Up to ₹ 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 - ₹ 42,60,000 [@ 30% of ₹ 32,60,000]	9,78,000	10,90,500
		11,08,300
Add: Health and education cess@4%		44,332
Tax liability		**11,52,632**
Tax liability (Rounded off)		**11,52,630**

Computation of adjusted total income and AMT of Mr. Vaibhav for A.Y. 2026-27

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

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@10% and cess@4%. Therefore, tax liability as per section 115JC is ₹ 12,86,140.

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AMT Credit to be carried forward under section 115JEE

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

Working Note

Computation of Deduction under section 80JJAA

Particulars	₹
Additional employee cost = ₹ 24,000 × 12 × 20 = ₹ 57,60,000 **Deduction under section 80JAA** = 30% of ₹ 57,60,000	17,28,000

Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 30 regular employees employed on 1.8.2025 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000.
Therefore, only 20 employees employed on 1.4.2025 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2025-26 is deemed to be the additional employee cost.

Question 17:

Mr. Ram, a resident individual aged 58 years, is engaged in the manufacturing of textile items. Statement of Profit and Loss shows a net profit (after deprecation but before tax) of ₹ 52,00,000 for the financial year ended 31st March, 2026 after debiting/crediting the following items:

(i) Depreciation as per Income-tax Rules: ₹ 28,00,000 including additional deprecation on new plant & machinery of ₹ 1,50,000.

(ii) Interest amounting to ₹ 2,10,000 for short payment of advance tax as per section 234B relating to the assessment year 2025-26.

(iii) ₹ 3,50,000 paid to a contractor for carrying out whitewash work at factory premises. Tax was not deducted at source on this payment and the contractor did not file his return of income for the relevant PY.

(iv) Contribution to Prime Minister National Relief Fund - ₹ 3,00,000 paid by way of cheque.

(v) Expenditure towards advertising charges in a brochure of a political party registered under section 29A of Representation of the People Act, 1951- ₹ 40,000 paid by way of cheque.

(vi) Interest on term loans obtained from a co-operative bank not paid before the due date of filing of return of income - ₹ 2,60,000.

(vii) Contribution towards pension scheme of employees - ₹ 1,50,000. The eligible salary and dearness allowance for the pension scheme referred to under section 80CCD is ₹ 10,00,000.

(viii) Industrial power tariff concession of ₹ 2,50,000 received from the Central Government.

(ix) Interest from banks on fixed deposits (gross) - ₹ 1,50,000

(x) Cash gift from father - ₹ 90,000

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Additional Information:

(i) Expenditure pertaining to previous financial year (F.Y. 2024-25) was allowed on due basis, but paid in current financial year in cash on 18.01.2026: ₹ 35,000

(ii) Audit fee for the previous year 2024-25: ₹ 75,000. TDS deducted but not deposited in the relevant previous year. However, TDS was deposited on 31.12.2025.

You are required to compute the total income and tax liability of Mr. Ram under both the taxation regimes (normal as well as under section 115BAC) and suggest the one which is more beneficial to him. Ram prepares his accounts on mercantile basis.

Cost Inflation Index for F.Y. 2021-22: 317; F.Y. 2024-25: 363.

(PYP Sep 25 15M)

Computation of total income and tax liability of Mr. Ram for A.Y. 2026-27 under default tax regime under section 115BAC

Particulars		₹	₹
I Profits and gains from business or profession			
Net profit as per Statement of Profit and Loss		52,00,000	

***Add*: Items of expenditure not allowable while computing business income**			
- Additional depreciation [Not allowable under default tax regime]	1,50,000		
- Interest u/s 234B on short payment of advance tax [Not allowed]	2,10,000		
- Payment to contractor without deduction of TDS [30% of payment made to contractor is disallowed under section 40(a)(ia) since tax was not deducted at source and contractor did not file his return of income]	1,05,000		
- Contribution to Prime Minister Relief Fund [Disallowed since it is not wholly and exclusively incurred for business purpose]	3,00,000		
- Advertising charges in a brochure of a political party [Disallowed under section 37(2B)]	40,000		
- Interest on term loan to co-operative bank [Disallowed under section 43B, since interest is not paid before due date of filing of return of income]	2,60,000		
- Contribution towards pension scheme of employees [14% of salary and dearness allowance is allowed as deduction in respect of contribution towards pension scheme. Accordingly, excess contribution of ₹ 10,000, being ₹ 1,50,000 – ₹ 1,40,000 (14% of ₹ 10 lakhs) is disallowed]	10,000	10,75,000	
		62,75,000	
***Less*: Items of income to be treated separately under the respective head of income**			
- Industrial power tariff concession received from Central Government [Any assistance in the form of concession received from the Central Government would be treated as income. Since it is already credited to statement of profit and loss, no adjustment is required]	-		-
- Interest from banks on fixed deposits [Taxable or otherwise under the head "Income from Other Sources"]	(1,50,000)		
- Cash gift from father [Taxable or otherwise under the head "Income from Other Sources"]	(90,000)	(2,40,000)	
		60,35,000	
Add: Deemed Income under section 40A(3A) for aggregate cash payment exceeding ₹ 10,000 in a single day which was allowed in the P.Y. 2024-25 on due basis		35,000	
		60,70,000	
***Less*:** 30% of ₹ 75,000, representing audit fees for the P.Y. 2023-24 for which tax was deducted but not deposited would have been disallowed while computing deduction for P.Y.2024-25. Since the tax is deposited in P.Y.2025-26, ₹ 22,500 would be allowable as deduction in the A.Y.2025-26		(22,500)	
			60,47,500

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II Income from Other Sources			
Interest from banks on fixed deposits		1,50,000	
Cash gift from father [Cash gift received from father, being a relative is not taxable]		-	1,50,000
Gross Total Income			61,97,500
Less: Deduction under section 80G [Not allowable under default tax regime]			Nil
Total Income			61,97,500
Tax on ₹ 61,97,500			
Up to ₹ 4,00,000 @0%		Nil	
₹ 4,00,000 - ₹ 8,00,000 [₹ 4 lakhs @5%]		20,000	
₹ 8,00,000 - ₹ 12,00,000 [₹ 4 lakhs @10%]		40,000	
₹ 12,00,000 - ₹ 16,00,000 [₹ 4 lakhs @15%]		60,000	
₹ 16,00,000 - ₹ 20,00,000 [₹ 4 lakhs @20%]		80,000	
₹ 20,00,000 - ₹ 24,00,000 [₹ 4 lakhs @25%]		1,00,000	
₹ 24,00,000 - ₹ 61,97,500 [₹ 37,97,500@30%]		11,39,250	14,39,250
Add: Surcharge @10% [Since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]			1,43,925
			15,83,175
Add: HEC@4%			63,327
Tax liability			16,46,502
Tax liability (Rounded off)			16,46,500

Computation of total income and tax liability of Mr. Ram for A.Y. 2026-27 under the optional tax regime of the Income-tax Act, 1961

	₹	₹
Gross Total Income/ Total Income as per default tax regime u/s 115BAC		61,97,500
Less: Additional depreciation		(1,50,000)
Gross Total Income as per optional tax regime		60,47,500
Less: Deduction under Chapter VI-A		
Deduction under section 80G		
Contribution to Prime Minister Relief Fund		(3,00,000)
Deduction under section 80GGC - Expenditure towards advertising charges in a brochure of a political party incurred by an individual not allowed as deduction		Nil
Total Income		57,47,500
Tax on ₹ 57,47,500		
Up to ₹ 2,50,000	Nil	
₹ 2,50,000 - ₹ 5,00,000 [₹ 2.50 lakhs @5%]	12,500	
₹ 5,00,000 - ₹ 10,0000 [₹ 5 lakhs @20%]	1,00,000	
₹ 10,00,000 - ₹ 57,47,500 [₹ 47,47,500 @30%]	14,24,250	
		15,36,750
Add: Surcharge @10% [Since total income exceeds ₹ 50 lakhs but does		1,53,675

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not exceed ₹ 1 crore]		
		16,90,425
Add: HEC@4%		67,617
Tax liability		**17,58,042**
Tax liability (Rounded off)		**17,58,040**

Since the tax liability of Mr. Ram under optional tax regime is lower than the tax liability computed under section 115BAC, it would be beneficial for him to opt out of the default tax regime under section 115BAC for A.Y. 2026-27.

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