

# CA | CMA INTER INCOME TAX

# The *Learn Contextually* GOAT Notes

May 2026, Sept 2026 & Jan 2027

June 2026 & Dec 2026



Clarity  
Confidence  
Success





# Tax GOAT Notes

This book was written with one goal: To make income tax simple, clear, and easy to understand while staying true to the law. Every word has been chosen with care to ensure that the content is precise but still easy to follow.

The focus of this book is clarity. It's not about solving endless problems or using complicated language. Instead, it's about breaking down the provisions in a way that helps you truly understand them.

Each concept has been carefully explained to remove any confusion or vagueness. The aim is to help you see income tax for what it is—logical and manageable.

Trust me, This is the best book ever on Income tax  
you ever come across

Wishing you Clarity, Confidence and Success,

CA Ram Harsha

#0A6847 - Headings

#C84C32 - Key Words

#7030A0 - Key Words

#133E87 - Normal Text

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,





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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]
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# 1. Basics of Income tax



## 1. Meaning of Tax

There are 2 main types of taxes:

- **Direct Taxes:** These are taxes imposed directly on an individual's income or wealth. The taxpayer **cannot pass this burden to someone else**. E.g., Income tax.
- **Indirect Taxes:** These taxes are **levied on** the price of goods or services. In this case, **the person who pays the tax can transfer the burden to another person**. E.g., GST, Customs.



## 2. Power to levy taxes

### Taxes can be Levied only through Constitution

Article 265	✓ No tax can be levied or collected without a law.
Power to Levy and Collect	✓ Article 246 and the Seventh Schedule grant these powers.
7 <sup>th</sup> Schedule to Constitution	✓ Union List - Only Parliament ✓ State List - Only State Legislatures ✓ Concurrent List - Both Parliament and State
Entry 82 of Union List in 7 <sup>th</sup> Schedule to Article 246 has given power to parliament to make laws on taxes on income other than agricultural income.	



## 3. Income tax Act, 1961

Scope and Implementation	✓ Applies to: The whole of India. ✓ Effective Date: 1st April, 1962.
Content of Income tax Act 1961	✓ Contains sections 1 to 298 and ✓ Schedules I to XIV [14 Schedules]
Section, Subsection and Clause	✓ <b>Section:</b> Contain sub-sections or clauses. ✓ <b>Sub-section:</b> Interrelated parts of a section and all subsections together completes the concept of whole section. ✓ <b>Clause:</b> Independent parts of a section, not related to each other.
Provisos and Explanations	✓ <b>Proviso:</b> This contains exceptions or conditions in section/subsection/clause. ✓ <b>Explanation:</b> Contains Clarification relating to a provision in a section/subsection/clause. <b>Example:</b> 1. Sections 80GGB and 80GGC allow deductions for contributions to political parties or electoral trusts.



2. Proviso to 80GGB/80GGC: Contributions made in cash are not eligible for deductions under these sections.
3. Explanation: The term "political party" refers to a party registered under Section 29A of the Representation of the People Act, 1951.



#### 4. Various sources of Income tax Law

Concepts	Details
<b>Finance Act</b>	<ul style="list-style-type: none"> <li>✓ Presented annually by the finance minister in Parliament's Budget Session.</li> <li>✓ Becomes law after approval by both houses and President's assent.</li> </ul> <p><b>First Schedule Parts:</b></p> <ul style="list-style-type: none"> <li>✓ Part I: Tax rates for the Current AY 2025-2026.</li> <li>✓ Part II: TDS rates for the Current FY 2025-2026.</li> <li>✓ Part III: Tax rates for Salaries and advance tax for Current FY 2025-2026 for Normal Tax Regime.</li> <li>✓ Part IV: Rules for net agricultural income calculation.</li> </ul>
<b>Income-tax Rules, 1962</b>	<ul style="list-style-type: none"> <li>✓ Rules made by CBDT to implement the Act and updated as needed.</li> <li>✓ Includes sub-rules, provisos (exceptions), and Explanations (clarifications).</li> <li>✓ Should be studied alongside the Income-tax Act for a comprehensive understanding.</li> </ul>
<b>Circulars and Notifications</b>	<ul style="list-style-type: none"> <li>✓ Circulars are Issued by CBDT to clarify issues and interpret sections of the Act. They are binding for the department but NOT to taxpayers.</li> <li>✓ Notifications are Issued by the Central Government to enforce provisions or amend rules, binding on both the department and taxpayers.</li> </ul>
<b>Legal Decisions of Courts</b>	<ul style="list-style-type: none"> <li>✓ <b>Case Laws:</b> Court rulings are essential for interpreting tax laws and handling unforeseen issues.</li> </ul> <p><b>Note:</b> Supreme Court rulings are binding nationwide, while High Court rulings apply within their states.</p>



#### 5. Charging Section [Section 4]

- ✓ **Tax Rates:** Levied based on rates specified in the Annual Finance Act or the Income-tax Act or both.
- ✓ **Scope:** Applies to every "person" as defined under section 2(31). They are Individuals, HUFs, AOPs, BOIs, Firms, Companies, Local Authorities, Any other artificial Judicial Persons etc.



- ✓ **Amount Liabile:** Total Income which is earned during the previous year's and not the assessment year. [Exceptions: Sections like 172, 174, 174A, 175, and 176]



## 6. Computation of Total Income and Tax Liability

Step 1: Determine Residential Status	
Step 2: Decide Tax Regime	
Step 3: Compute Income under Each head of Income	<p><b>5 heads of income:</b></p> <ul style="list-style-type: none"> <li>• Salaries,</li> <li>• Income from House Property,</li> <li>• Profits and Gains of Business/Profession,</li> <li>• Capital Gains,</li> <li>• Other Sources</li> </ul> <p>✓ <b>Exemptions:</b> Consider Exemptions [Note 1]</p> <p>✓ <b>Deductions:</b> Deduct all eligible expenses/allowances under each head to find net taxable income per category.</p>
<p><b>Note 1: Section 14A</b></p> <p>✓ <b>Disallowance:</b> Expenses directly or indirectly attributable to exempt income are non-deductible.</p> <p>✓ <b>Assessing Officer's Role:</b> The Assessing Officer can estimate these expenses based on a CBDT-prescribed method.</p>	
Step 4: Apply Clubbing of Income and then Set off and Carry Forward of Losses	
Step 5: Gross Total Income	
Step 6: Deductions from GTI to Arrive Total Income	
Step 7: Compute Tax	
Step 8: Calculate Alternate Minimum Tax [AMT]	<p>✓ Applies only under optional tax regime with profit-linked or investment-linked deductions.</p> <p>[Detailed Discussion under the Last Chapter]</p>
Step 9: Evaluate Beneficial Tax Regime	<p>✓ Taxpayers can compare tax liability under, DTR (115BAC) and OTR and Chooses the regime with LOW Tax Liability</p>



## 7. Important Definitions

<p><b>Assessee</b> [Section 2(7)]</p>	<p>Any Person who is liable to pay tax or any other sum payable under this act and Includes:</p> <p>✓ Every Person on whom proceedings for assessment has been taken for:</p> <ul style="list-style-type: none"> <li>• their own income,</li> <li>• another's income,</li> <li>• losses, or</li> <li>• refunds</li> </ul> <p>✓ <b>Deemed Assesseees:</b> Persons treated as Assesseees under specific provisions of the Act.</p>
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	<p>✓ <b>Assessee in Default:</b> Those failing to meet tax obligations, like not deducting or depositing tax as required.</p> <p>Note: Every assessee is a "person," but not all persons are assessees.</p>
<b>Assessment [Section 2(8)]</b>	The assessment procedure determines an assessee's income, either through normal assessment or reassessment of previously assessed income.
<b>Definition of Person [Section 2(31)]</b>	
<b>Individual</b>	Covers natural persons (both male and female), including minors or individuals with unsound mind. Tax assessments in such cases may involve guardians or representatives.
<b>Hindu Undivided Family (HUF)</b>	<p>✓ A Hindu Undivided Family (HUF) is regarded as a distinct entity for tax assessment. However, HUF is not defined in the Act.</p> <p>✓ It consists of all male descendants of a common ancestor, their wives, and unmarried daughters.</p> <p>✓ 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.</p> <p>✓ <b>Key Aspects of HUF:</b></p> <ul style="list-style-type: none"> <li>• <b>Coparcenary Rights for Daughters:</b> 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.</li> <li>• <b>Formation by Status:</b> 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.</li> <li>• <b>Schools of Hindu Law:</b> 2 schools govern inheritance rules for HUFs <ul style="list-style-type: none"> <li>➤ <b>Dayabhaga School (West Bengal, Assam):</b> Members acquire rights to family property only upon the death of the family head.</li> <li>➤ <b>Mitakshara School (rest of India):</b> Members acquire rights by birth, giving each member a share even while ancestors are alive.</li> </ul> </li> </ul>
<b>Company [Section 2(17)]</b>	<p>✓ The term "Company" under the Income-tax Act has a wider meaning compared to the Companies Act, 2013.</p> <p>✓ <b>It includes:</b></p> <ul style="list-style-type: none"> <li>• <b>Indian Companies:</b> As defined under Section 2(26).</li> <li>• <b>Foreign Companies:</b> Any Body corporate incorporated under the laws of a country outside India.</li> </ul>





	<ul style="list-style-type: none"> <li>• <b>Institutions/Associations/Organizations</b> which are assessed as companies under the Indian Income-tax Act, 1922 or the current Act (before April 1, 1970).</li> <li>• <b>CBDT Declared Companies:</b> Entities declared as companies by the CBDT (Central Board of Direct Taxes).</li> </ul>
<b>Domestic Company</b> [Section 2(22A)]	<ul style="list-style-type: none"> <li>✓ An "Indian company" or</li> <li>✓ Any other company that arranges to declare and pay dividends in India from income taxable in India.</li> </ul>
<b>Indian Company</b> [Section 2(26)]	<ul style="list-style-type: none"> <li>✓ To qualify as an "Indian company," the following conditions must be met:               <ol style="list-style-type: none"> <li>1. It must be formed and registered under the Companies Act, 1956 / 2013.</li> <li>2. Its registered or principal office must be located in India.</li> </ol> </li> <li>✓ <b>And Includes:</b> (if registered/principal office is in India):               <ul style="list-style-type: none"> <li>• <b>Corporations</b> established under Central, State, or Provincial Acts (e.g., Financial Corporations, State Road Transport Corporations).</li> <li>• Institutions, associations, or bodies declared as companies by the CBDT.</li> <li>• Companies formed under any law in force in India, including Jammu and Kashmir or Union Territories (e.g., Dadra and Nagar Haveli, Pondicherry, Goa, Daman and Diu).</li> </ul> </li> </ul>
<b>Foreign company</b> [Section 2(23A)]	<ul style="list-style-type: none"> <li>✓ Foreign company means a company which is not a domestic company</li> </ul>
A company is further classified into 2 primary categories based on public interest:	
<b>Widely Held Company</b>	<p>A company is considered "widely held" (i.e., one in which the public is substantially interested) if it satisfies any of the following criteria as per Section 2(18) of the Income-tax Act, 1961:</p> <ol style="list-style-type: none"> <li><b>Government or RBI Ownership or Participation:</b> <ul style="list-style-type: none"> <li>✓ A company owned by the Central/State Government or RBI.</li> <li>✓ At least 40% of shares are held (individually or jointly) by the Government, RBI, or an RBI-owned corporation.</li> </ul> </li> <li><b>Section 8 of Companies Act, 2013:</b> <ul style="list-style-type: none"> <li>✓ Registered under Section 8 of the Companies Act, 2013.</li> <li>✓ Formed to promote social, cultural, or environmental causes (e.g., commerce, art, education, charity) without distributing dividends to its members.</li> </ul> </li> <li><b>Companies with No Share Capital and Declared by CBDT</b> to have substantial public interest for specified assessment years.</li> <li><b>Nidhi or Mutual Benefit Society:</b> <ul style="list-style-type: none"> <li>✓ Declared under Section 620A of the Companies Act, 1956 by the Central Government.</li> <li>✓ Primarily accepts deposits from its members.</li> </ul> </li> </ol>





	<p>e. Cooperative Society Ownership:</p> <ul style="list-style-type: none"><li>✓ A company where at least 50% of the voting shares are unconditionally allotted/acquired and held throughout the year by one or more cooperative societies.</li></ul> <p>f. Public Limited Company:</p> <ul style="list-style-type: none"><li>✓ Not a private company under the Companies Act, 1956.</li><li>✓ Fulfils any of these conditions:<ol style="list-style-type: none"><li>1. Equity Shares Listed: Its equity shares were listed on a recognized stock exchange in India as of the last day of the relevant year.</li><li>2. Ownership by Specific Entities: At least 50% (or 40% for certain Indian companies) of voting equity shares are unconditionally held by:<ul style="list-style-type: none"><li>• Government,</li><li>• A statutory corporation,</li><li>• A widely held company, or</li><li>• A wholly owned subsidiary of a widely held company.</li></ul></li></ol></li></ul>	
Closely Held Company	<ul style="list-style-type: none"><li>✓ Any company that does not meet the criteria for being widely held is classified as a "closely held company."</li><li>✓ All private limited companies fall under this category, as the public does not hold substantial interest in them.</li></ul>	
Firm	<ul style="list-style-type: none"><li>✓ As defined under the Partnership Act, it includes both general partnerships and Limited Liability Partnerships (LLPs).</li><li>✓ Minors admitted to the benefits of a partnership are also considered partners.</li></ul>	
Association of Persons [AOP]	<ul style="list-style-type: none"><li>✓ Represents groups formed for a shared goal or business, where individuals work together for joint income.</li></ul>	
Body of Individuals [BOI]	<ul style="list-style-type: none"><li>✓ Refers to individuals, such as trustees or executors, who receive income jointly for a common benefit.</li><li>✓ A BOI generally lacks the voluntary association typical of AOPs.</li></ul>	
Difference between AOP and BOI		
Criteria	AOP	BOI
Membership	<ul style="list-style-type: none"><li>✓ Can include both individuals and entities (e.g., companies, firms)</li></ul>	<ul style="list-style-type: none"><li>✓ Only individuals can be members</li></ul>
Formation Purpose	<ul style="list-style-type: none"><li>✓ Formed voluntarily by members with a common purpose or goal</li></ul>	<ul style="list-style-type: none"><li>✓ No requirement for a shared purpose or intention</li></ul>
Local Authority	<ul style="list-style-type: none"><li>✓ Includes municipal boards, district committees, and other bodies with government-entrusted management of local resources.</li></ul>	



<b>Artificial Juridical Persons</b>	✓ Refers to <b>non-human entities with legal standing</b> , such as universities, Bar Councils, and deities. <b>[Not Natural Persons]</b>
<b>India [2(25A)]</b>	The term "India" includes: <ul style="list-style-type: none"> <li>✓ Territory of India (per Article 1 of the Constitution)</li> <li>✓ Territorial waters, seabed, subsoil beneath these waters</li> <li>✓ Continental shelf</li> <li>✓ Exclusive economic zone</li> <li>✓ Specified maritime zones (as per the 1976 Act)</li> <li>✓ Airspace above its territory and territorial waters</li> </ul>



## 8. Definition of Income [Section 2(24)]

The Income-tax Act, 1961 provides an inclusive definition of income. This means that **the definition is not exhaustive and can include additional forms of income not explicitly mentioned**. Below are the specific items included in the definition of income:

- Profits and Gains:** All profits and gains **derived from business or profession**.
- Dividends:** Any dividends **received from shares** in companies.
- Perquisites:** The value of any **perquisite or profit in lieu of salary**, which is taxable under sections 17(2) and 17(3).
- Personal Expense Allowances:** Any allowance given **to meet personal expenses** at the place of employment or residence, or to compensate for increased living costs.
- Remuneration of Directors:** The value of any benefit or perquisite received from a company **by a director or a person with substantial interest in the company**, including any payment made by the company for obligations that would otherwise be the responsibility of the director or such person.
- Representative Assessee Benefits:** The value of benefits or perquisites received **by any representative assessee or beneficiary**, including amounts paid by the representative for the beneficiary.
- Business or Profession Profits:** Profits and gains from business or profession chargeable under **various specified sections** of the Act (e.g., sections 28(ii), 28(iii), etc.).
- Deemed Profits:** **Profits deemed chargeable** to tax under sections 41 or 59.
- Perquisites from Business or Profession:** The value of **any benefit or perquisite** taxable under section 28(iv).
- Capital Gains:** Any capital gains chargeable under section 45.
- Winnings from Games:** Winnings from **lotteries, crossword puzzles, races (including horse races), card games, gambling, or any betting forms**. This includes:
  - ✓ **Lottery:** Winnings from any scheme involving chance.



- ✓ **Card Games:** Includes game shows or entertainment programs where participants compete for prizes.
- 12. **Employee Contributions:** Any sums received from employees as contributions to provident funds (PF), superannuation funds, Employees State Insurance (ESI), or other welfare funds.
- 13. **Keyman Insurance Policies:** Amounts received under keyman insurance policies, including bonuses allocated on such policies. A keyman insurance policy is a life insurance policy taken on the life of an employee or a person connected to the business.
- 14. **FMV of Inventory converted into Capital Asset.**
- 15. **Forfeited Advances:** Any sum of money received as an advance that is forfeited due to the failure of negotiations for transferring a capital asset (as per Section 56(2)(ix)).
- 16. **Inadequate Consideration:** Any money or property received without consideration or for inadequate consideration (as per Section 56(2)(x)).
- 17. **Employment Termination Payments:** Compensation or payments received due to termination of employment or modification of employment terms (as per Section 56(2)(xi)).
- 18. **Life Insurance Policy Payments:** Sums received under life insurance policies (other than ULIPs and keyman policies) that exceed the total premiums paid during the policy term, not claimed as deductions under other provisions (as per Section 56(2)(xiii)).
- 19. **Government Assistance:** Any assistance in the form of subsidies, grants, cash incentives, duty drawbacks, waivers, or reimbursements received from the Central or State Government or any authority, in cash or kind. However, subsidies or grants that are accounted for in determining the actual cost of depreciable assets are excluded from this definition.



## 9. Concept of Capital and Revenue receipts

### 1. Regular Receipt vs. Casual Receipt

- ✓ **Regular Receipt:** This refers to income that is expected to come in regularly from defined sources, like salaries or rental income.
- ✓ **Casual Receipt:** Even irregular or one-time earnings, such as winnings from lotteries or crossword puzzles, are considered taxable income.

### 2. Revenue Receipt vs. Capital Receipt

- ✓ **Revenue Receipt:** Typically, income consists of revenue receipts, which are earnings from regular business activities.
- ✓ **Capital Receipt:** While capital receipts (like money from selling assets) are usually not considered income, the Act includes certain capital gains (profits from selling capital assets like land or jewellery) as taxable income.



### 3. Net Receipt vs. Gross Receipt

- ✓ **Net Receipt:** Income is **calculated as net receipts**, which means total earnings minus any allowable expenses incurred to earn that income.
- ✓ **Gross Receipt:** Gross receipts are **the total income before expenses**. The Income-tax Act specifies which expenses can be deducted to arrive at net income. Some businesses may have their income calculated based on a percentage of gross receipts.

### 4. Due Basis vs. Receipt Basis

- ✓ **Due Basis:** Income can be taxed **when it is earned**, regardless of whether it has been received in cash.
- ✓ **Receipt Basis:** Alternatively, **some income is taxed only when it is actually received**. For example, interest on compensation is taxed only when the payment is received.

**Note:** The **method of accounting used** by the taxpayer (either cash or mercantile) will **determine how income is recognized** for tax purposes.

### 5. Application of Income vs Diversion of Income:

- ✓ **Application of Income:** When income is **used to fulfil an obligation** (voluntary or self-imposed) after it reaches the taxpayer, it is called application of income, **and the taxpayer is responsible for paying tax on it**.
- ✓ **Diversion of Income:** If income is **redirected or transferred to another person** before it reaches the taxpayer, due to an overriding obligation, it is considered diversion of income, **and the taxpayer is not taxed on it**.

**Note:** Tests to be applied to determine whether a receipt is a capital or revenue - Refer ICAI SM Page 1.33 to 1.35 [Edition 2025 - Applicable for May 26 | Sept 26 | Jan 27]





## 10. Agricultural Income [Section 2(1A)]

### Agricultural Income Definition under Section 2(1A)

The definition of agricultural income in Section 2(1A) is broad and includes income from cultivators and land owners who rent out the land. Agricultural income can be received in cash or kind and arises in 3 ways.

#### 1. Rent or Revenue from Agricultural Land

- ✓ Income must be derived from land situated in India used for agricultural purposes.
- ✓ Conditions for this income to be classified as agricultural:
  - i. It must be derived from land.
  - ii. The land must be located in India (income from foreign agricultural land is taxable).
  - iii. The land must be used for agricultural activities.
- ✓ Rent can be received by landowners or original tenants from sub-tenants, and revenue includes income beyond just rent, such as fees for leasing land.

#### 2. Income Derived from Agricultural Activities

- ✓ **Agriculture:** NOT defined in the Act. It generally refers to cultivation involving human skill and labor, including basic operations <sup>absolutely necessary</sup> (e.g., tilling, sowing) and subsequent operations <sup>continuation to B.O</sup> (e.g., weeding, harvesting).

**Note:** Activities like dairy farming or poultry and rearing of live stock, butter and cheese making are not considered agriculture.

##### Whether income from nursery constitutes agricultural income?

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.

- ✓ **Processes to Render Produce Market-Ready:** Income from processes that make agricultural produce fit for market (e.g., thrashing, cleaning) is considered agricultural income, provided these processes are ordinary and necessary.
- ✓ **Sale of Agricultural Produce:** Income from selling agricultural produce by cultivator or receiver of rent, is agricultural income if derived from land in India used for agriculture.

**Note:** If the produce undergoes processes beyond ordinary market preparation, the income may be partly agricultural and partly business income. When income is both agricultural and business in nature, specific rules apply for apportionment:

- ✓ **Rule 7:** For income from growing and manufacturing products, the market value of agricultural produce used as raw material in business is deducted from total income. [Further The market value of Produce used in manufacture is considered as Agriculture Income<sup>#</sup>]



✓ **Determining Market Value:**

- ✓ If the produce can be sold in its raw form or after ordinary processing, the market value is based on the average selling price during the relevant year.
- ✓ If the produce cannot be sold in its raw form, the market value is calculated by adding cultivation expenses, land revenue or rent, and a reasonable profit determined by the Assessing Officer.

Rule	Income Source	Agricultural Income <sup>#</sup> (%)	Business Income* (%)
7A	Sale of rubber products derived from rubber plants grown by the seller in India	65%	35%
7B	✓ Sale of coffee grown and cured by the seller in India	75%	25%
	✓ Sale of coffee grown, cured, roasted, and grounded by the seller in India	60%	40%
8	Sale of tea grown and manufactured by the seller in India	60%	40%

\*Business Income - Taxable Income under PGBP.

<sup>#</sup>The above Agriculture Income shall be considered in Aggregation for Tax Computation Purpose.

### 3. Income from Farm Buildings

Income derived from farm buildings necessary for agricultural operations is also considered as agricultural income provided the following conditions are satisfied:

1. **Ownership and Occupancy:** The building is owned and occupied by the receiver of rent or revenue from the land, or by the cultivator/receiver of rent in kind for land where agricultural processing occurs.
2. **Purpose of Building:** The building is used solely for agricultural purposes. Use for other purposes, including letting for residence or business, disqualifies it as agricultural income. Further the building must be:
  - ✓ On or in the immediate Vicinity of the land.
  - ✓ It must be required by the landowner or cultivator for residence or storage due to their connection to the land.
3. **Additional Conditions:** At least 1 of the following must be met:
  - ✓ The land should be assessed to land revenue or subject to a local rate collected by government officers or
  - ✓ If not assessed to land revenue, it should:
    - Not be located within a municipality or cantonment area with a population of 10,000 or more.
    - Not situated within a specified aerial distance from a populated area, based on population size.



Shortest aerial distance from the local limits of a municipality or cantonment board	Population according to the last preceding census which have been published before the first day of the previous year
≤ 2 kms	> 10,000
>2 kms but ≤ 6 kms	> 1,00,000
>6 kms but ≤ 8kms	> 10,00,000

Area	Shortest Aerial Distance	Population of the municipality / CB	Treated as Agricultural Land?
A	1 km	9,000	Yes
B	1.5 kms	12,000	No
C	2 kms	11,00,000	No
D	3 kms	80,000	Yes
E	4 kms	3,00,000	No
F	5 kms	12,00,000	No
G	6 kms	8,000	Yes
H	7 kms	4,00,000	Yes
I	8 kms	10,50,000	No
J	9 kms	15,00,000	Yes

**Would income arising from transfer of agricultural land situated in urban area be agricultural income?**

No, as per Explanation 1 to section 2(1A), the capital gains arising from the transfer of urban agricultural land would not be treated as agricultural income under section 10 but will be taxable under section 45.

#### Indirect connection with land

Non-agricultural income does not become agricultural merely on account of its indirect connection with the land. Examples are below:

**Example:** X was the managing agent of a company. He was entitled for a commission at the rate of 10% p.a. on the annual net profits of the company. A part of the company's income was agricultural income.

Since X received remuneration under a contract for personal service calculated on the profits earned by the company; such remuneration does not constitute agricultural income.

**Example:** Whether income from sale of milk is an agricultural income?

The regularity with which the sales of milk were affected and quantity of milk sold showed that the assessee carried on regular business of producing milk and selling it as a commercial proposition. Hence, it was not agricultural income.

**Example:** Income from the sale of such forest trees of spontaneous growth does not constitute agricultural income. [unaided by human skill and labour]



**Examples of Agricultural income:**

- ✓ Income derived from **saplings or seedlings** grown in a nursery.
- ✓ Income from **growing of flowers and creepers**.
- ✓ Rent received from **land used for grazing of cattle** required for agricultural activities.
- ✓ Income from **growing of bamboo**.

**Example of Non-agricultural income:**

- ✓ **Making and selling of Butter** by societies from cream sold by farmers.
- ✓ Income from **breeding of livestock**.
- ✓ Income from **poultry farming**.
- ✓ Income from **fisheries**.
- ✓ Income from **dairy farming**.

**11. Previous Year and Assessment Year**

For May 26 | Sep 26 | Jan 27 Exams - **P.Y. 2025 - 2026** and **A.Y. 2026 - 2027**

**Assessment year [Sec 2(9)]:**

- ✓ It refers to a **period of 12 months** that begins on April 1st each year.
- ✓ The **income earned during the previous year** is taxable in the immediately following **assessment year**.

For example, income earned in the previous year 2025-26 is taxable in the assessment year 2026-27.

**Previous year [Sec 3]:**

The previous year refers to the **financial year immediately preceding the assessment year**.

**Examples:**

1. Assessment year 2026-27. A is running a business from 1993 onwards. Determine the previous year.

Ans: The previous year will be 1.4.2025 to 31.3.2026.

2. A chartered accountant sets up his profession on 1st July, 2024. Determine the previous year for the assessment year 2026-27.

Ans: The previous year will be from 1.7.2025 to 31.3.2026.

**12. Certain cases when Income of a Previous Year will be assessed in the Previous Year itself**

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.



### 13. Undisclosed Sources of Income

#### 1. Cash Credits [Section 68]:

- ✓ **Main Provision:** If any sum is credited in the books of an assessee for a previous year and the assessee does not provide a satisfactory explanation to A.O. regarding its nature and source, the sum may be treated as income for that previous year.
- ✓ **Sum credited in name of Loan or Borrowing:** If the credited sum is a loan or borrowing, the explanation must also be provided by the person in whose name the credit is recorded, and it must be satisfactory to the Assessing Officer.
- ✓ **Sum credited in name of Share Capital/Premium:** For closely held companies, explanations for credited amounts as share application money, share capital, or share premium in whose name the credit is recorded must also be satisfactory to A.O.

This section does not apply if any sum credited is in the name of Venture Capital Funds or Companies registered with SEBI.

#### 2. Unexplained Investments [Section 69]:

If an assessee makes investments not recorded in their books and fails to provide a satisfactory explanation to A.O., the value of those investments may be taxed as deemed income for that financial year.

#### 3. Unexplained Money, Bullion, etc. [Section 69A]:

If an assessee is found to own money, bullion, jewellery, or other valuable articles not recorded in their books and does not provide a satisfactory explanation to A.O. for their acquisition, the value of those items may be deemed income for that financial year.

#### 4. Investments, assets etc., Not Fully Disclosed [Section 69B]:

- ✓ If an assessee has made investments or owns bullion, jewellery, or other valuable articles, and the amount spent on these items exceeds what is recorded in the books, the excess amount may be treated as income if no satisfactory explanation is provided.



- ✓ **Example:** If an assessee owns 300 grams of gold valued at ₹25,000 but recorded a cost of ₹15,000, the Assessing Officer can add ₹10,000 as income if no satisfactory explanation is given.

#### 5. Unexplained Expenditure [Section 69C]:

If an assessee incurs expenditure without a satisfactory explanation of its source, the Assessing Officer can treat this unexplained expenditure as income for that financial year.

Further such expenditure will not be allowed as a deduction under any head of income.

#### 6. Borrowing or Repayment on Hundi [Section 69D]:

- ✓ Amounts borrowed on a hundi or any amount due there on is repaid without an account-payee cheque are deemed income for the year in which they were borrowed or repaid.
- ✓ If an amount has been taxed as income upon borrowing, it will not be assessed to tax again on repayment. Further the amount repaid includes interest component.



### 14. Rates of Tax, Surcharge & Cess

Particulars	Amount
A. Basic Tax	XXXX
B. Add: Surcharge	XXX
C. Sub Total [A+B]	XXXX
D. Less: Rebate 87A / Marginal Relief	(XXX)
E. Sub Total [C-D]	XXXX
F. Add: HEC@ 4%	XXX
G. Gross Total [E+F]	XXXX

#### 1. Income Tax Rates:

- ✓ Income tax is charged on every person at the rates prescribed for the year by the Annual Finance Act or the Income-tax Act, 1961, or both.

#### 2. Surcharge:

- ✓ Surcharge is an additional tax levied over and above the income tax, calculated as a percentage of basic income tax component.
- ✓ It is applicable when total income exceeds specified threshold.

#### 3. Health and Education Cess: [Theory Question Probability]

- ✓ The total income tax, including any applicable surcharge, is further increased by a "Health and Education cess," calculated at 4% of the combined income tax and surcharge.
- ✓ This cess applies to all types of assessees, including individuals, Hindu Undivided Families (HUF), Associations of Persons (AOPs), Bodies of Individuals (BOIs), artificial juridical persons, firms, local authorities, co-operative societies, and companies.
- ✓ The cess is levied to provide quality health services and education.



## 15. Rates of Tax for Individual/HUF/AOP/BOI and AJP

### Individuals, HUFs, AoPs, BoIs, and Artificial Juridical Persons

#### A. Default Tax Regime (Section 115BAC)

- ✓ Tax is calculated at Concessional rates subject to **forgoing certain exemptions and deductions**.

#### B. Optional Tax Regime (Regular Provisions)

- ✓ Pay tax at Normal rates **without foregoing exemptions and deductions**

### A. Concessional Tax Rates under Default Tax Regime

#### 1. Assessee and Rates of Tax:

Individuals, HUFs, AoPs, BoIs, or artificial juridical persons who exercises not to opt out of the regime under Section 115BAC(6) must pay tax on their total income (excluding income taxed at special rates under Chapter XII, such as Sections 111A, 112, 112A, 115BB, 115BBJ) **at concessional rates**, subject to conditions specified under Section 115BAC(2).

Income slab	Tax Rate
1. Up to ₹ 4,00,000	NIL
2. ₹ 4,00,001 to ₹ 8,00,000	5%
3. ₹ 8,00,001 to ₹ 12,00,000	10%
4. ₹ 12,00,001 to ₹ 16,00,000	15%
5. ₹ 16,00,001 to ₹ 20,00,000	20%
6. ₹ 20,00,000 to ₹ 24,00,000	25%
7. Above ₹ 24,00,000	30%

#### 2. Conditions to be satisfied:

- 1) **Certain Deductions/Exemptions Not Allowed [115BAC (2)]**: The following exemptions and deductions **are NOT Allowed** when computing total income, including:

#### Disallowances under Income from Salaries

- ✓ **10(5)** - Leave travel concession
- ✓ **10(13A)** - House rent allowance
- ✓ **10(14)** - Special allowances for personal expenses (except prescribed ones)
- ✓ **Section 16** -
  - Entertainment allowance
  - Professional tax

#### Disallowances under House Property

- ✓ **Section 24(b)** - Interest on loans **for self-occupied property**

#### Disallowances under PGBP

- ✓ **Section 32(1)(ia)** - Additional depreciation
- ✓ **Section 35** - Deductions for contributions u/s 35(1)(ii), (ia), (iii) and (2AA)
- ✓ **Section 35AD** - Investment-linked tax incentives





- ✓ **10AA** - Tax holiday for SEZ units

#### Disallowances under Other Sources

- ✓ **10(17)** - Daily/constituency allowance for MPs/MLAs
- ✓ **10(32)** - Income of minor child included in parent's income [1,500 p.a.]

#### Disallowances under Chapter VIA Deductions

- ✓ Chapter VI-A deductions (Sec 80C to 80U)
- ✓ However, **the following are eligible for deduction:**
  - Deduction towards Employers Contribution to NPS U/s 80CCD(2),
  - Deduction towards CG Contribution to Agnipath Scheme U/s 80CCH(2),
  - Deduction towards Additional Employee cost (Sec 80JJAA).

### 2) Certain Losses Not allowed to setoff or carry forward:

- ✓ Setoff of Any loss, **carried forward losses or Depreciation from earlier years** if such loss or depreciation **related to above disallowances**.
- ✓ Setoff of **Any loss, under the head House property with other heads of income**.

### 3) Max Depreciation Rate:

- ✓ Depreciation for any Block of Asset **is max restricted to 40% on WDV of the block**. [Even if such BOA eligible for higher rate]
- ✓ Additional depreciation is **not allowed at all**.

### 4) Allowances/Perquisites:

- ✓ **No exemptions or deductions** for allowances or perquisites under any other laws.
- ✓ E.g., Perquisite exemption up to 50/- Per meal is **Not allowed**.

### 5) Additional Adjustments:

- ✓ Loss or depreciation referred to in (2) above **would be deemed to have been already given effect to** and **NO further deduction** for such loss or depreciation shall be allowed for any subsequent year.
- ✓ If **unabsorbed additional depreciation under Sec 32(1)(iia) exists as of April 1, 2023**, adjustments will be made to the WDV of assets by **adding back such unabsorbed depreciation amounts** that is not allowed to be setoff or carry forward by virtue of choosing DTR.

#### Example:

If Mr. X has unabsorbed depreciation as of April 1, 2023, including additional depreciation under Section 32(1)(iia), and opts for the default tax regime under Section 115BAC for the assessment year 2024-25, **he cannot set off this unabsorbed additional depreciation** against current income. The WDV of the asset block on 01.04.2023 will be increased by the unabsorbed amount not allowed for set-off.



### 3. Time limit for exercising the option to shift out of the default tax regime

Criteria	Assesseees with No Income from Business/Profession	Assesseees with Income from Business/Profession
Time limit for Exercising Option	Along with the return of income under Section 139(1) for the relevant previous year	On or before the due date specified under Section 139(1) for filing the return of income
Flexibility	Can choose to pay under the default regime in one year and opt out in another year	Once exercised, applies to subsequent assessment years
Withdrawal of Option	Not applicable	Can withdraw the option only once and pay tax under the normal tax regime for such previous year
Re-Eligibility	Not Applicable	Cannot OPT IN again unless ceases to have business income
AMT Liability	Not liable for AMT under Section 115JC [If chooses DTR]	
AMT Credit	Not eligible to claim AMT credit	
Annual Exercise of Option of Shifting Out	Compute total income and tax under both regimes and determine the beneficial option	Not Applicable



### B. Regular / Normal Tax Regime

The slab rates for A.Y. 2025-26 applicable to an Individual/HUF/AOP/BOI/ Artificial Juridical Person, which **has exercised the option of shifting out of the default tax regime**, are as follows:

#### Tax slabs for Resident Normal Citizen

Slab	Tax rate
Up to ₹2,50,000	NIL
₹2,50,001 to ₹5,00,000	5% of income exceeding ₹2,50,000
₹5,00,001 to ₹10,00,000	₹12,500 + 20% of income exceeding ₹5,00,000
Above ₹10,00,000	₹1,12,500 + 30% of income exceeding ₹10,00,000

#### Tax Slabs for Resident Senior Citizens\* (Aged $\geq 60$ years or more $< 80$ years)

Total Income Range	Tax Rate/Amount
Up to ₹3,00,000	NIL
₹3,00,001 to ₹5,00,000	5% of income exceeding ₹3,00,000
₹5,00,001 to ₹10,00,000	₹10,000 + 20% of income exceeding ₹5,00,000
Above ₹10,00,000	₹1,10,000 + 30% of income exceeding ₹10,00,000

#### Tax Slabs for Resident Very Senior Citizens\* (Aged $\geq 80$ years)

Total Income Range	Tax Rate/Amount
Up to ₹5,00,000	NIL
₹5,00,001 to ₹10,00,000	20% of income exceeding ₹5,00,000
Above ₹10,00,000	₹1,00,000 + 30% of income exceeding ₹10,00,000

\*For Non-residents the BEL is always 2,50,000/- irrespective of age.

The CBDT clarified in Circular No. 28/2016, dated 27-07-2016, that **an individual born on 1st April is considered to have attained the specific age on 31st March**, the day before their birthday.

For income tax purposes, this means:

- ✓ A resident individual whose **60th birthday falls on 1st April 2026** is deemed to have **attained 60 years of age on 31st March 2026** (P.Y. 2025-26) and qualifies for the higher basic exemption limit of ₹3 lakh for A.Y. 2026-27.
- ✓ Same for Very Senior citizen.





## 16. Incomes taxable at special rates irrespective of Regime

- ✓ These special rates apply regardless of the tax regime (default or optional). These are income specific tax rates. Special rates are applied to the relevant income components separately.
- ✓ These rates are same for all person including companies, firms, societies etc.
- ✓ For Resident Individuals and HUFs, The Un-utilised Basic Exemption Limit, if any - Can be utilised to set off against STCG u/s 111A and then LTCG u/s 112 / 112A.  
[No setoff to 115BB, 115BBJ, 115BBE]

Section	Special Income Category	Rate of Tax
<b>112<sup>#</sup></b>	A. Long-Term Capital Gains (LTCG) (Excluding Section 112A Gains):	
	• Transfer of land/building/both by a resident individual or HUF, Acquired Before 23.7.2024	Lower of 20% with indexation or 12.5% without indexation
	• Transfer of any other capital assets	12.5% without indexation
	B. LTCG on transfer of unlisted securities/shares of CHC's by non-residents.	12.5% without indexation and foreign currency fluctuations
<b>112A<sup>**</sup></b>	LTCG on equity shares, equity-oriented funds, or business trust units (STT paid)	12.5% on LTCG Exceeding ₹1.25 lakh
<b>111A<sup>#</sup></b>	Short-Term Capital Gains (STCG) on equity shares, equity-oriented funds, or business trust units (STT paid)	20%
<b>115BB<sup>#</sup></b>	Winnings from lotteries, crossword puzzles, horse races, card games, gambling, betting	30%
<b>115BBJ<sup>#</sup></b>	Net winnings from online games	30%
<b>115BBE</b>	Unexplained income or expenditure referred under 68,69,69A etc.,	60%

\*Sec. 87A Rebate is not available for LTCG u/s 112A under OTR.

# Sec. 87A Rebate is not available for All Special Incomes under DTR.

### Taxation of Unexplained Money, Investments, etc. (Section 115BBE)

Aspect	Details
<b>Tax Rate</b>	60%
<b>Surcharge</b>	25% of the tax
<b>Effective Tax Rate</b>	78% (This includes: 60% tax + 25% surcharge + 4% cess on the total of tax and surcharge)
<b>Basic Exemption Limit</b>	No basic exemption is allowed for this income.
<b>Allowances/Expenditures</b>	No allowances or expenditures shall be allowed in computing such deemed income.
<b>Set Off of Losses</b>	No set off of any loss shall be allowable against income brought to tax under sections 68, 69, 69A, 69B, 69C, or 69D.



## 17. Surcharge for Individual/HUF/AOP/BOI and AJP

Total Income <i>Including Dividend and Capital Gains u/s 111A, 112 and 112A</i> Exceeding	But Not Exceeding [≤]	Rate of Surcharge	
		Under DTR	Under OTR
1. 50 Lakhs	1 Crore	10%	10%
2. 1 Crore	2 Crore	15%	15%
Total Income <i>Excluding Dividend and Capital Gains u/s 111A, 112 and 112A</i> Exceeding [Refer Note]	But Not Exceeding [≤]	Rate of Surcharge	
		Under DTR	Under OTR
3. 2 Crore	5 Crore	25%	25%
4. 5 Crore [Only for OTR]		25%	37%
5. Total Income <i>Including Dividend and Capital Gains u/s 111A, 112 and 112A</i> Exceeding 2 Crore AND NOT falling under above categories	NA	15%	15%

**Note:** Rate of Surcharge shall not exceed 15% in respect of tax on Dividend, Capital Gains under 111A, 112 and 112A [i.e., 10 / 15 as the case may be]

Further, All other incomes including Lottery Income and other casual incomes are liable for surcharge at 10 / 15 / 25 / 37 as the case may be.



## 18. Marginal Relief for Individual/HUF/AOP/BOI and AJP

Total Income Exceeding ₹50 lakhs But Not Exceeding ₹1 crore
1. Compute tax on total income + 10% surcharge 2. Compute tax on ₹50 lakhs PLUS Total Income - ₹50 lakhs 3. If 1 > 2, Relief = 1 - 2. [If negative, Ignore]
Total Income Exceeding ₹1 Crore BUT NOT Exceeding ₹2 crore
1. Compute tax on total income + 15% surcharge 2. Compute (tax on ₹1 crore + 10% surcharge) PLUS (Total Income - ₹1 crore) 3. If 1 > 2, Relief = 1 - 2. [If negative, Ignore]
Total Income Exceeding ₹2 Crore BUT NOT Exceeding ₹5 crore
1. Compute tax on total income + 25% surcharge 2. (Compute tax on ₹2 crore + 15% surcharge) PLUS (Total Income - ₹2 crore) 3. If 1 > 2, Relief = 1 - 2. [If negative, Ignore]
Total Income Exceeding ₹5 Crore
1. Compute tax on total income + 37% surcharge. 2. (Compute tax on ₹5 crores + 25% surcharge) PLUS (Total Income - ₹5 crores) 3. If 1 > 2, Relief = 1 - 2. [If negative, Ignore]
<b>Note:</b> This Category of Exceeding 5 Crore doesn't apply to DTR as Maximum surcharge rate under 115BAC cannot Exceed 25%



**Special note:** If total income includes dividend income or capital gains, the surcharge on such income cannot exceed 15%. This is important for calculating marginal relief for cases where total income exceeds ₹ 2 crores.



### 19. Income Tax Rates for Firm/LLP/Local Authority

Particulars	Rate/Description
<b>Income Tax</b>	Flat 30% on the total income.
<b>Surcharge</b>	12% on income tax if total income exceeds ₹1 crore.
<b>Marginal Relief</b>	Available and Calculation is on similar logic for Individuals



### 20. Co-operative Societies and Rates of Tax

Slab rate	Tax Rates [Normal Regime]
i. Total income does not exceed ₹ 10,000	10% of the total income
ii. Total income exceeds ₹ 10,000 but does not exceed ₹ 20,000	₹ 1,000 plus 20% of the amount by which the total income exceeds ₹ 10,000
iii. Total income exceeds ₹ 20,000	₹ 3,000 plus 30% of the amount by which the total income exceeds ₹ 20,000

**Note:**

- ✓ **Section 115BAE:** Manufacturing co-operative societies, resident in India, can opt for concessional tax rates.
- ✓ **Section 115BAD:** Other co-operative societies, resident in India, can also opt for concessional tax rates.

### Concessional Tax Rates for Co-operative Societies

Type of Co-operative Society	Tax Rate
✓ <b>Manufacturing co-operative society</b> (set up and registered on or after 1.4.2023 and starts manufacture before 31.3.2024)	15% of income derived from or incidental to manufacturing or production of an article or thing [u/s 115BAE]
✓ <b>Other resident co-operative society</b> opting for concessional tax regime.	22% of total income u/s 115BAD

**Important Notes:**

- ✓ Co-operative societies opting for concessional rates u/s 115BAD or 115BAE must comply with certain conditions, and the total income will be computed without certain deductions. [Similar conditions given for DTR u/s 115BAC]
- ✓ The provisions of alternate minimum tax u/s 115JC do not apply to co-operative societies opting for sections 115BAD or 115BAE.

### Surcharge and Marginal Relief for Co-operative Societies

Total Income	Surcharge Rate
(a) Total income > ₹ 1 crore but ≤ ₹ 10 crore Marginal Relief Similar to Individuals	7% of income-tax [Same rate of surcharge for Special incomes also]



(b) Total income > ₹ 10 crore <b>Marginal Relief Similar to Individuals</b>	12% of income-tax [Same rate of surcharge for Special incomes also]
(c) Co-operative societies opting for section 115BAD or 115BAE	✓ 10% of income-tax computed under section 115BAD or 115BAE. ✓ <b>NO marginal relief is applicable.</b>



## 21. Domestic Companies and Rates of Tax

Tax Rates	
Total turnover or gross receipts in the P.Y. 2023-24 ≤ ₹ 400 crore	25% of the total income
In any other case	30% of the total income
Domestic manufacturing company (set up and registered on or after 1.10.2019 and commences manufacture before 31.3.2024) opting for section 115BAB	15% of income derived from or <b>incidental to manufacturing or production</b> of an article or thing
Domestic company <b>opting for section 115BAA</b>	22% of total income

### Concessional Tax Regimes for Domestic Companies (Sections 115BAA and 115BAB)

<b>Eligibility</b>	Domestic companies can opt for Section 115BAA or Section 115BAB, subject to conditions.
<b>Conditions</b>	<b>No Deductions</b> under Section 10AA, 33AB, 33ABA, 35(1)(ii)/(iia)/(iii), 35(2AA), 35(2AB), 35AD, 35CCC, 35CCD, additional depreciation under Section 32(1)(iia), and Chapter VI-A deductions (except Sections 80JJAA and 80M).
<b>Set-Off Restrictions</b>	Brought forward losses and unabsorbed depreciation related to the excluded deductions <b>cannot be set off.</b>

### Surcharge for Domestic Companies

Total Income	Surcharge Rate
(a) Total income > ₹ 1 crore but ≤ ₹ 10 crore <b>[Marginal relief similar to individuals]</b>	7% of income-tax computed in accordance with the slab rates
(b) Total income > ₹ 10 crore <b>[Marginal relief similar to individuals]</b>	12% of income-tax computed in accordance with the slab rates
(c) Domestic company opting for section 115BAA or 115BAB	10% of income-tax computed under section 115BAA or 115BAB. <b>No marginal relief applicable.</b>





## 22. Foreign Companies and Rates of Tax

Income	Tax Rate
Royalties and fees for technical services (FTS) received from Government or Indian concern (specific agreements)	50%
Other income	35%

### Surcharge and Marginal Relief for Foreign Companies

Total Income	Surcharge Rate
a. Total income > ₹ 1 crore but ≤ ₹ 10 crore	2% of income-tax computed in accordance with the rates given above
b. Total income > ₹ 10 crore	5% of income-tax computed in accordance with the rates given above

### Common Notes for Domestic and Foreign Companies:

- ✓ Special Rates for Capital Gains: Special rates under sections 112, 112A, and 111A are applicable to both Domestic and Foreign Companies.
- ✓ Marginal Relief: Marginal relief is available for both types of Companies and computation is on similar logic for individuals.



## 23. Rebate For Resident Individuals Under Section 87A

### Rebate Under Default Tax Regime

Criteria	Details
<b>Eligibility</b>	Individual residents in India paying tax under the default tax regime as per Section 115BAC.
<b>Total Income* ≤ ₹ 12,00,000</b>	Rebate = Lower of Basic Tax amount or ₹ 60,000/- [Fin Act 2025]
<b>Total Income &gt; ₹ 12,00,000</b>	<b>Marginal Rebate Calculation Steps:</b> A: Total Income - ₹ 12,00,000 B: Compute Basic Tax on Total Income C: If B > A, then Rebate = B - A [Biggest Controversial amendment]
<b>Maximum Rebate Limit</b>	a. The rebate shall not exceed the amount of income-tax (as computed before allowing such rebate) on the total income of the assessee. b. Further Rebate shall not exceed income tax computed u/s 115BAC(1A) [i.e., Tax on Normal Incomes under DTR] [Fin Act 2025]

Note:

- ✓ Tax on Special Incomes is not eligible for Rebate u/s 87A.
- ✓ Special incomes are to be considered while calculating 12 Lakhs Limit. But Rebate cannot exceed Tax on Normal Incomes calculated as per 115BAC(1A). [Fin Act 2025]

[This Treatment is different for Optional Tax Regime, discussed after this]



### Rebate Under Optional Tax Regime

Criteria	Details
<b>Eligibility</b>	Individual residents in India paying tax under the optional tax regime (normal provisions of the Act).
<b>Total Income <math>\leq</math> ₹ 5,00,000</b>	Rebate = Lower of Basic Income Tax Payable or ₹ 12,500
<b>Maximum Rebate Limit</b>	The rebate shall not exceed the amount of income-tax (as computed before allowing such rebate) on the total income of the assessee.

#### Important Notes relate to Rebate:

- ✓ Rebate under section 87A is allowed from Basic income-tax computed before adding Health and education cess on income-tax.
- ✓ Rebate under section 87A is, however, **NOT AVAILABLE** in respect of tax payable on long-term capital gains taxable u/s 112A.  
[However, Tax on other special incomes is eligible for rebate 87A under OTR]



#### 24. Partial Integration of Agricultural Income with Non-Agricultural Income

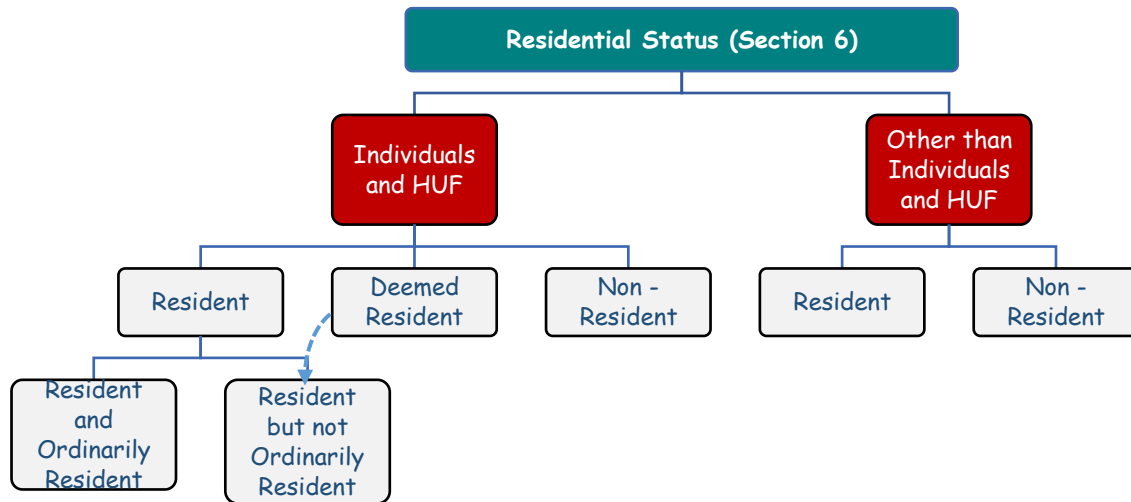
<b>Definition</b>	Agricultural income is exempt, but partial integration allows for indirect taxation of agricultural income.
<b>Applicability</b>	Individuals, HUF, AOPs, BOIs, and artificial juridical persons.
<b>Conditions</b>	<ul style="list-style-type: none"> <li>✓ Net agricultural income must exceed ₹ 5,000 per annum</li> <li>✓ Non-agricultural income must exceed the Basic Exemption Limit</li> </ul>
<b>Exclusions</b>	Aggregation provisions do not apply to companies, LLPs, firms, co-operative societies, and local authorities.

### Tax Calculation Steps

<b>Step 1</b>	Compute Basic tax on Total Income [Including Net Agriculture Income]
<b>Step 2</b>	Compute Basic tax on [Net Agriculture Income + Basic Exemption Limit]
<b>Step 3</b>	Final Basic Tax = Step 1 - Step 2
<b>Step 4</b>	<ul style="list-style-type: none"> <li>✓ Add surcharge on Final Basic Tax. [Rates based on Non-Agri Income Limits]</li> <li>✓ Reduce Rebate if any applicable under Section 87A.</li> <li>✓ Consider Marginal Relief</li> </ul>
<b>Step 5</b>	Add Health and Education cess at 4%.



## 2. Residential Status



### 1. Basic Residential Status of Individuals [3 Categories]

#### I. Basic Conditions (B) [Section 6(1)]

An individual is treated as a resident in India for the relevant previous year if they satisfy **ANY ONE** of the following conditions:

1. The individual **has stayed in India** for a total period of 182 days or more during the relevant previous year **or**
2. The individual has stayed in India for a total period of 60 days or more during the **relevant previous year** **AND** has been in India for 365 days or more during past 4 years immediately preceding the relevant previous year.

Note: If both the above conditions are **not satisfied**, the individual is a non-resident.

<b>Meaning of Stay</b>	<ul style="list-style-type: none"> <li>✓ Stay <b>with in territorial waters</b> (up to 12 nautical miles from the coastline).</li> <li>✓ <b>Even stay on a ship or boat</b> within territorial waters is treated as stay in India.</li> </ul>
<b>Place of Stay and Continuity aspect</b>	<ul style="list-style-type: none"> <li>✓ Stay <b>need not to be continuous</b>.</li> <li>✓ Stay <b>need not be at the individual's usual place of residence, business, or employment</b>.</li> </ul>
<b>Counting Days</b>	<ul style="list-style-type: none"> <li>✓ <b>Both the date of departure and the date of arrival are counted</b> as days in India.</li> </ul>
<b>Residency vs. Citizenship</b>	<ul style="list-style-type: none"> <li>✓ Residential status is different from citizenship, place of birth, or domicile.</li> <li>✓ An individual <b>can be a resident in multiple countries</b> for tax purposes despite having only one domicile.</li> </ul>

#### Non-Applicability of B2 [Exceptions to B2]:

The following categories of individuals are **treated as residents in India only** if their stay during the relevant previous year amounts to **182 days or more**:





Exception	Details
1	An Indian citizen who leaves India during the relevant previous year: <ul style="list-style-type: none"> <li>✓ For the Purpose of Employment outside India or</li> <li>✓ As a member of the crew of an Indian ship.</li> </ul>
2	Indian citizen or person of Indian origin who, being outside India, visits India during the relevant previous year.

## II. Special Residential Status Provisions with High Indian Source of Income [6(1)]

An Indian citizen or Person of Indian origin who is visiting India is treated as Resident if they satisfy the following conditions:

### Condition related to Stay [Any ONE]:

- ✓ Stay in India for 182 days or more during the relevant previous year.

OR

- ✓ 1. Stay in India for at least 120 days in the relevant previous year AND for 365 days or more during the past 4 years immediately preceding the relevant previous year.

AND

- 2. Condition Related to Total Income: Such individual has total income (other than income from foreign sources) exceeding ₹ 15 lakhs during the relevant previous year

**Note:** If an individual became resident due to 120 Days + 15 Lakh Criteria, He will always be RNOR. [This logic is diff from 182 days - Discussed in Class]

## III. Deemed Resident (Section 6(1A))

Notwithstanding anything contained u/s 6(1) -

An individual is deemed to be a resident in India if he is an Indian citizen whose total income other than Income from foreign Sources Exceeds ₹15 lakhs during the relevant previous year AND not liable to tax in any other country or territory due to domicile, residence, or any other similar criteria.

### Meaning of Foreign sources:

- ✓ Income accruing or arising outside India [Except Income from a business controlled in India or a profession set up in India] or
- ✓ Income not deemed to accrue or arise in India is also excluded.

### Meaning of "Liable to Tax":

- ✓ Refers to an income tax liability on a person under the laws of a specific country.
- ✓ Includes individuals who have been subsequently exempted from such liability under that country's laws.

### Observations:

- ✓ Only an Indian citizen can be a deemed resident.
- ✓ An individual who is not an Indian citizen but a person of Indian Origin cannot be deemed resident u/s 6(1A).
- ✓ Stay in India is not necessary for being a deemed resident u/s 6(1A).
- ✓ 💡 Deemed Resident is always a Resident but NOT Ordinarily Resident [RNOR].



### Clarification on determination of period of stay in India for an Indian citizen, being a crew member?

The CBDT issued Notification No. 70/2015 on August 17, 2015, which introduced Rule 126 in the Income-tax Rules, 1962, to compute the period of stay for these individuals.

#### Period to be Excluded:

- ✓ Commencing from the date entered in the Continuous Discharge Certificate (CDC) when the crew member joins the ship for the eligible voyage.
- ✓ Till the date entered in the CDC regarding signs off from the ship after completing the voyage.

#### Meaning of Eligible Voyage:

A voyage undertaken by a ship engaged in international traffic for the carriage of passengers or freight for which:

- ✓ The voyage originates from a port outside India and has a destination at a port in India.
- The voyage originates from a port in India and has a destination at a port outside India



## 2. Determining ROR Status of Individuals

### Categories of persons

- ✓ Only individuals and Hindu Undivided Families (HUF) can be "Resident but Not Ordinarily Resident" in India.
- ✓ All other classes of assesseees can be either a Resident or Non-Resident.

### Definition of Not Ordinarily Resident

The following criteria's will decide the ultimate ordinarily residential status:

A person is considered "Not Ordinarily Resident" if they satisfy ANY ONE of the following conditions specified under Section 6(6):

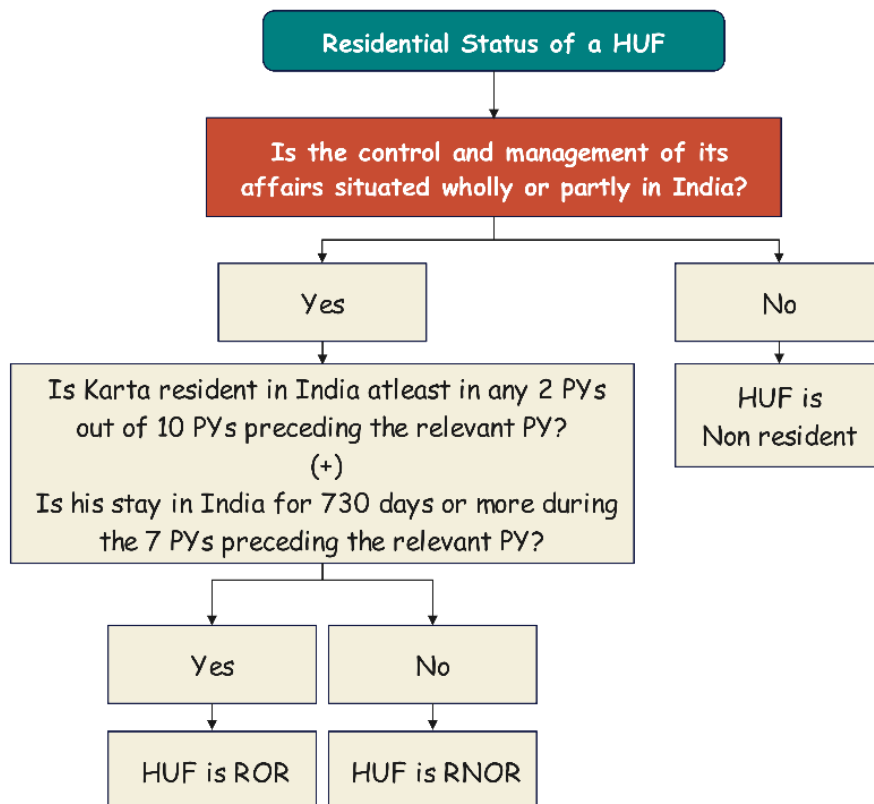
1. **A1:** The individual has been a non-resident in India in any 9 out of the 10 previous years preceding the RPY.
2. **A2:** The individual has been in India for a period of 729 days or less during the past 7 previous years preceding the RPY.
3. **Special Resident:** The individual is an Indian citizen or a person of Indian origin (who, being outside India, visits India in any previous year) having total income exceeding ₹15 lakhs during the previous year (excluding foreign sources) and has been in India for 120 days or more but less than 182 days during that previous year.
4. **Deemed Resident:** The individual is an Indian citizen who is deemed to be a resident in India under Section 6(1A).

**Alternative way:** An individual doesn't satisfy ALL the above criteria's, then such an individual becomes Resident and ordinarily resident [ROR]. In other words if he satisfies ALL the following then he is ROR:

1. He is resident for at least 2 years out of 10 years preceding RPY AND
2. He stayed for 730 days or more during past 7 years Preceding RPY AND
3. He is Not a Resident as per Special residential status provision [II] AND
4. He is Not a Deemed Resident u/s 6(1A)



### 3. Residential Status of HUF



#### Meaning of "Control and Management":

1. It refers to the **central control and management**, not just the day-to-day business operations.
2. It means the **de facto control and management**, not just the right to control or manage.
3. The **business may be conducted from outside India**, but the control and management could still be within India.
4. The **place of control may be different** from the usual place of business or registered office.
5. Control and management imply the **functioning of the controlling and directing power at a particular place with some degree of permanence**.

Remember for a particular Previous Year, the HUF may be ROR and Karta may be Non-Resident for the same previous year.



### 4. Residential Status of Firms, AOPS AND BOIS

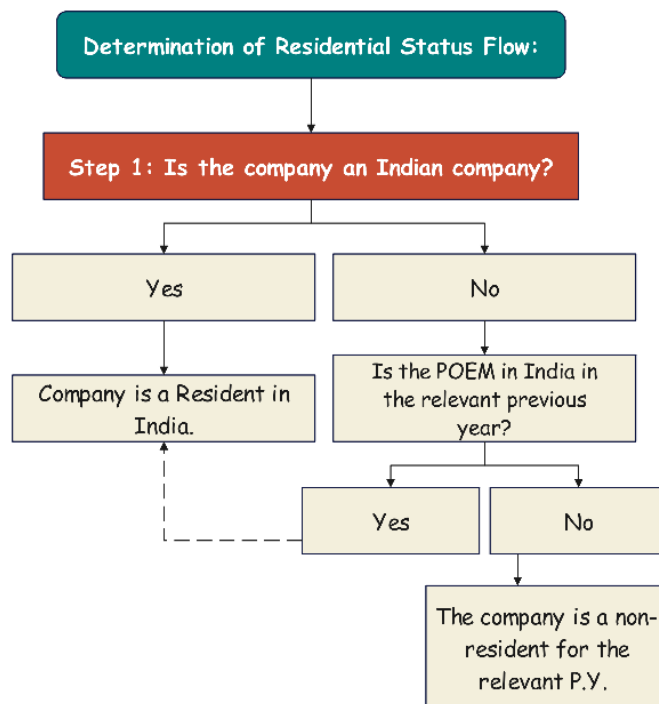
**Resident:** A firm, AoP and BoI would be resident in India if the control and management of its affairs is situated wholly or partly in India.

**Non-resident:** Where the control and management of the affairs is situated wholly outside India, the firm, AoP and BoI would become a non-resident.

💡 The Residential Status of The Partners/ Members Is Immaterial While Determining the Residential Status Of A Firm/AOP/BOI.



## 5. Residential Status of Companies



### Meaning of POEM:

The place where key management and commercial decisions essential for conducting the company's business as a whole are substantively made.



## 6. Residential Status of Local Authorities and Artificial Juridical Persons

**Resident:** Local authorities and artificial juridical persons would be resident in India if the control and management of its affairs is situated wholly or partly in India.

**Non-resident:** Where the control and management of the affairs is situated wholly outside India, they would become non-residents.



## 7. Scope of Total Income (Section 5)

Source or Receipt of Income	ROR	RNOR	NR
1. Income received or deemed to be received in India. [Receipt Principle]	Taxable	Taxable	Taxable
2. Income accruing or arising, or deemed to accrue or arise, in India. [Source Principle]	Taxable	Taxable	Taxable
3. Income derived from a business controlled or profession set up in India, even if it accrues outside India.	Taxable	Taxable	Non-taxable
4. Income accruing or arising and received or deemed to be received, both outside India	Taxable	Non-taxable	Non-taxable

**Summary:**

- ✓ For a ROR - Global Income is taxable.
- ✓ For RNOR and NR - Taxable only if either source or receipt is in India.
- ✓ Further, for RNOR even if source and receipt, both are outside BUT if it is from Business controlled from or setup from India then it is taxable.

**Clarification on Non-Resident Seafarer's Income Tax Liability:**

Non-resident seafarers' salary for services performed outside India on a foreign-going ship (Indian or foreign flag) is not taxable in India if received directly into an NRE account in an Indian bank.

**Meaning of Receipt of Income:** The receipt of income refers to only the first occasion when the recipient gets the money under his control. Subsequent remittance or transmission of that amount from one place or person to another does not constitute receipt of income.

**Meaning of Accrue & Due:**

- ✓ Accrue refers to the right to receive income, whereas due refers to the right to enforce payment of the same.
- ✓ In other words, when the right to receive income becomes vested in the assessee, it is said to accrue or arise.
- ✓ Similarly, on Government securities, interest payable on specified dates arise during the period of holding, day to day, but will become due for payment on the specified dates.

**Example:** Interest on Government securities is usually payable on specified dates, say on 1st January and 1st July. In all such cases, the interest would be said to accrue from 1st July to 31st December and on 1st January, it will fall due for payment.

**Explanations to Section 5:**

- ✓ Once income is included in total income and taxed based on accrual, it cannot be taxed again in the same or subsequent years based on actual or deemed receipt.
- ✓ Income accruing outside India is not deemed received in India just because it appears in an Indian balance sheet.

**8. Income Deemed to be received in India [Sec 7]**

The following Incomes are received or deemed to be received in India:

- Contribution in excess of 12% of Salary to Recognised provident Fund or interest credited in excess of 9.5% p.a. (Annual accretion to the credit of RPF)
- Amount transferred from unrecognised provident fund to recognised provident fund (being the employer's contribution and interest thereon)
- Contribution by the Central Government or any other employer in the P.Y. under a pension scheme referred u/s 80CCD





## 9. Income Deemed to Accrue or Arise in India [Section 9]

Certain types of income are deemed to accrue or arise in India, even if they arise outside India.

### Business Connections / Property / Source / Capital Asset [Section 9(1)(i)]

1. **Business Connection:** Any Income accruing or arising in any place outside India whether directly or indirectly, through or from business connections in India.

**Exceptions:** For Non-Residents the following are NOT Deemed to accrue or arise in India even though there is a business connection:

- a. Business with operations partly outside India [Explanation 1(a)]:
  - ✓ Only the income reasonably attributable to operations carried out in India is taxable in India.
  - ✓ Income from operations outside India is not deemed to accrue in India.
- b. Purchase of goods in India for export [Explanation 1(b)]:
  - ✓ No income is deemed to accrue in India if the non-resident's operations are confined to purchasing goods in India for export.
- c. Collection of news and views in India [Explanation 1(c)]:
  - ✓ Non-residents engaged in news agencies or publishing (newspapers, magazines, etc.) are not deemed to accrue in India, if the activities are confined to collecting news and views in India for transmission outside India.
- d. Shooting of films in India [Explanation 1(d)]:

No income is deemed to accrue in India for shooting films, if the non-resident is:

  - An individual who is not an Indian citizen [Non-resident],
  - A firm with no partners who are Indian citizens or residents, or
  - A company with no shareholders who are Indian citizens or residents.
- e. Display of rough diamonds in Special Notified Zones (SNZs) [Explanation 1(e)]:
  - ✓ A foreign company engaged in diamond mining is not deemed to accrue in India from activities of displaying uncut and unassorted diamonds in SNZs notified by the Central Government.

2. **From Property in India:** Any Income accruing or arising in any place outside India whether directly or indirectly, through or from property situated (movable, immovable, tangible, intangible) or assets or sources, in India is deemed to accrue in India. [Examples: Rent from property, interest on deposits with Indian companies.]

3. **Capital Gains on Transfer:** Any Income accruing or arising in any place outside India whether directly or indirectly, through or from capital gains from transferring capital assets in India are deemed to accrue in India, irrespective of asset type or payment location.

### Income from salaries earned in India [Section 9(1)(ii)]

- ✓ Salary for services rendered in India is deemed to accrue in India.





- ✓ Salary for leave or rest period related to services rendered in India provided it forms part of terms of service contract.

#### **Salary Paid by Government for services rendered Outside India [Section 9(1)(iii)]**

- ✓ Salaries payable by the Government to Indian citizens for services rendered outside India are deemed to accrue in India.
- ✓ The Indian citizen may be a resident or non-resident.
- ✓ If salary is paid to other than an Indian citizen by Government then this section doesn't apply and Hence Not taxable.
- ✓ **Exemptions:** Allowances and perquisites paid outside India by government are exempt under Section 10(7).

#### **Dividends [Section 9(1)(iv)]**

Dividends paid by Indian companies outside India are deemed to accrue in India and are taxable for shareholders.

#### **Interest [Section 9(1)(v)]**

Interest is deemed to accrue in India if payable by:

- The Government
- A Resident in India.

**Exception:** In the following cases the interest is not taxable when the borrowed money is used for:

- ✓ A Business or Profession conducted outside India, or
- ✓ Generating Income from any source outside India.

- A Non-resident for debts used in business or profession in India.

**Exception:** The same is not taxable if the debts are used outside India or Debts are used in India for purpose other than business/profession.

#### **Royalty [Section 9(1)(vi)]**

Royalty is deemed to accrue in India if payable by:

- The Government
- A Resident in India

**Exception:** In the following cases the royalty is not taxable

- ✓ In respect of transfer or any right or use of any property or information used for a business or profession conducted outside India, or
- ✓ Generating income from any source outside India.

- A Non-resident for rights or services used in India only when the royalty is in respect of

- ✓ Business or Profession carried in India or
- ✓ For Generating income from any source in India.

**Lumpsum Royalty Not Deemed to Accrue in India:** Lumpsum royalty payments made by a resident to a non-resident for the transfer of rights in respect of computer software supplied along with computer hardware, under a scheme approved by the



government (Policy on Computer Software Export, 1986), are not deemed to accrue or arise in India.

a. **Meaning of Royalty:**

The term 'royalty' refers to **consideration for:**

- ✓ **Transfer** of rights in patents (including grant of license), inventions, models, designs, secret formula, process, trademark or similar property
- ✓ **Imparting information** regarding the **use or working of** patents, inventions, designs, etc.
- ✓ **Use** of patents, inventions, models, designs, etc.
- ✓ **Imparting information** related to technical, industrial, commercial, or scientific knowledge, experience or skill.
- ✓ Use or right to **use industrial, commercial, or scientific equipment**.
- ✓ **Transfer** of rights (including granting of license) in respect of **copyrights, literary, artistic or scientific work** including films or video tapes for use in connection with television or tapes **for use in connection** with radio broadcasting., etc.  
**Note:** Consideration for **sale, distribution or exhibition of cinematographic films** is covered within the scope of royalty.
- ✓ Rendering services in **connection with the activities listed above**.

The definition of royalty **covers both industrial and copyright royalties** but excludes income that would be taxed under capital gains.

b. **Consideration for Use or Right to Use of Computer Software:**

Consideration for the **use or right to use computer software** is considered **Royalty**. This includes the granting of licenses, irrespective of the medium used for transfer.

c. **Consideration in Respect of Rights, Property, or Information**

Royalty includes consideration for any right, property, or information, even if:

- ✓ The **payer does not have possession or control** of the right/property.
- ✓ The **payer does not directly use** the right/property.
- ✓ The right/property is **not located in India**.

d. **Meaning of "Process"**

The term "process" includes **transmission by satellite, cable, optic fibre, or any similar technology**, whether or not the process is secret.

**Fees for Technical Services [Section 9(1)(vii)]**

FTS will be deemed to accrue in India **if payable by:**

i. **The Government**

ii. **A Resident in India**

**Exception:** In the following cases the **FTS is not taxable** in respect of technical services used:

- ✓ For a business or profession **conducted outside India, or**
- ✓ **Generating income from any source outside India.**

iv. **A Non-resident only when the FTS is in respect of services used for**



- ✓ Business or Profession carried in India or
- ✓ For Generating income from any source in India.

**Clarification On Interest, Royalty and FTS:** Income by way of interest, royalty, or fees for technical services, covered under clauses (v), (vi), and (vii) of Section 9(1), will be included in the total income of the non-resident:

- ✓ Whether or not, the non-resident have a residence, place of business, or business connection in India.
- ✓ The non-resident has not rendered services in India.

i.e., The income will be deemed to accrue or arise in India, and be subject to Indian tax, even if the services are rendered outside India.

**Any sum of money paid by a Resident Indian to a Non-corporate NR or Foreign Company or to a RNOR [Section 9(1)(viii)]**

If the aggregate sum of money paid by a resident Indian to a non-corporate non-resident, foreign company, or RNOR exceeds ₹50,000 and is chargeable under Section 56(2)(x), it will be deemed to accrue or arise in India.

**Note:** It does not apply to property (movable or immovable) transferred outside India without or for inadequate consideration to a non-corporate non-resident, foreign company, or RNOR.

**Summary of Interest on Borrowed Loan, Royalty and Fees for Technical Services**

Amount Paid By	Interest	Royalty	FTS
Government	T	T	T
Resident In India [Generally Taxable]	T	T	T
Exceptions: If used for			
✓ B/P conducted O/S India	NT	NT	NT
✓ Any other source of Income O/S India	NT	NT	NT
Non-resident [Generally Not Taxable]	NT	NT	NT
Exceptions: If used for			
✓ B/P conducted IN India	T	T	T
✓ Any other source of Income IN India	NT	T	T

T = Taxable i.e., Deemed to Accrue or Arise in India

NT = Not Taxable i.e., Not Deemed to Accrue or Arise in India

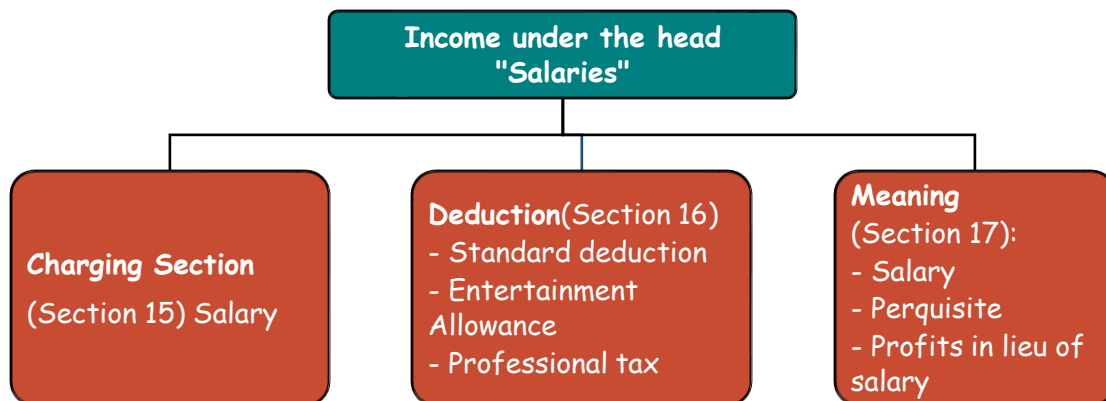
**Note:** The above amounts can be received by either residents or non-residents for giving loans, allowing to use patents or software or providing technical services.



## 3. Salaries



### 1. Introduction



#### 1. Employer-Employee Relationship:

- ✓ Payments made by an employer to an employee for services rendered are chargeable to tax as salaries.
- ✓ The relationship of employer and employee must exist for income to be chargeable under the head 'salaries'

#### 2. Full-time or Part-time Employment: Income is charged under the head "salaries" whether the employee is a full-time or part-time.

#### 3. Forgoing of Salary:

- ✓ After accrual, waiving salary does not relieve the employee from tax liability.

Example:

Mr. A, an employee instructs his employer that he is not interested in receiving the salary for April 2024 and the same might be donated to a charitable institution.

#### 4. Surrender of Salary:

- ✓ Salary surrendered to the Central Government under the Voluntary Surrender of Salaries Act (Exemption from taxation), 1961 is exempt from tax.

#### 5. Salary Paid Tax-Free:

- ✓ If the employer pays the tax on the employee's salary, the employee's income includes both salary and the tax paid by the employer. In other words, the tax paid by employer is also treated as benefit and taxed as income.
- ✓ However, Income-tax paid by the employer on non-monetary perquisites is exempt under Section 10(10CC).

#### 6. Place of accrual of salary and Section 9(1):

- ✓ Pension and Leave salary paid abroad for services rendered in India is deemed to accrue in India.
- ✓ Salaries payable by the Government to a citizen of India for services outside India are deemed to accrue in India.



### Exemptions for Non- Indian Citizens (Section 10(6))

#### 1. Remuneration of Officials of Foreign Embassies (Section 10(6)(ii))

The remuneration received by an official of an embassy, high commission, legation, commission, consulate, or trade representation of a foreign state, is exempt.

**Conditions:**

- ✓ Remuneration of our Corresponding officials in foreign countries must have similar exemption.
- ✓ The above officials must be subjects of the respective countries and not engaged in other business or employment in India.

#### 2. Remuneration from Foreign Enterprises for services in India (Section 10(6)(vi))

Remuneration of a foreign national as an employee of a foreign enterprise for services rendered by him during their stay in India, is exempt.

**Conditions:**

- ✓ The foreign enterprise must not engage in business in India.
- ✓ The employee's stay in India must not exceed 90 days during the previous year.
- ✓ The remuneration must not be deductible from the employer's income under the Act.

#### 3. Salary for Employment on Foreign Ships (Section 10(6)(viii))

Salary Income of a non-citizen non-residents for services rendered on a foreign ship is Exempt provided their stay in India does not exceed 90 days during the previous year.

#### 4. Remuneration for Training (Section 10(6)(xi))

Remuneration received by foreign government employees during their training in India is exempt from tax if the training is undertaken at an establishment, office, or undertaking owned by:

- ✓ The Central or State Government
- ✓ Government Company or statutory corporation
- ✓ Any society which is wholly financed by the Central Government or any State Government(s) or jointly by the Central and one or more State Governments.

**Note:** Exemption under section 10(6) and 10(7) would be available to an assessee irrespective of the regime under which he pays tax.



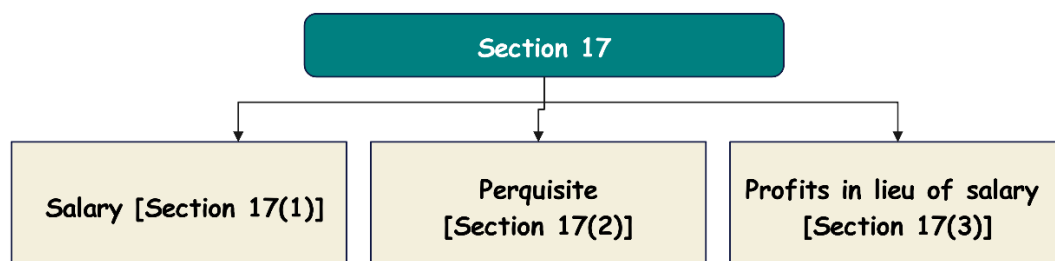


## 2. Basis of Charge [Section 15]

- ✓ **Basic Charge:** Salary is chargeable to tax on **due basis** or **receipt basis**, whichever is **earlier**.
- ✓ **Advance Salary:** **Advance salary**, it is **taxed in the year of payment** and cannot be taxed again when it becomes due. [taxed irrespective of due] [Relief u/s 89 is also available]
- ✓ **Arrears of Salary:**
  - If **arrears of salary** has been **taxed on due basis**, it cannot be taxed again when it is paid later.
  - Salary arrears **must be charged on due basis**. However, **sometimes it may not be possible** to tax it on due basis.
  - **Example:** If the Central Government announces an increase in HRA in the P.Y. 2025-26 which is effective from 1.1.2024, then the arrears from 1.1.2024 to 31.3.2025 will be taxed in the previous year in which they are paid. Here also, relief under section 89 is available. [As per Pay commission guidelines]
- ✓ **Advance Against Salary:** This refers to **an advance taken by the employee** from the employer, **which is typically adjusted against future salary payments**. This type of advance is **not taxable on receipt basis**.
- ✓ **Loan from Employer:** A loan taken by an employee from the employer, **repayable in specified instalments**, is also **not taxable on receipt basis**.



## 3. Salary, Perquisite and Profits in Lieu of Salary [Section 17]



### Definition of Salary (Section 17(1))

The term "**salary**" includes:

1. Wages
2. Annuity or Pension
3. Gratuity
4. Fees, Commission, **Perquisites**, or **Profits in lieu of salary** or in addition to salary or wages
5. Advance of Salary
6. Leave Salary (leave encashment).
7. Provident Fund:
  - a. The portion of **Annual accretion to the balance in a recognized provident fund** to the extent is taxable.
  - b. **Transferred balance in a recognized provident fund** to the extent it is taxable.



8. **Pension Scheme Contributions:** Contributions made by the Central Government or any employer to an employee's pension scheme under Section 80CCD.
9. **Agniveer Corpus Fund Contributions:** Contributions made by the Central Government to the Agniveer Corpus Fund for individuals enrolled in the Agnipath Scheme under Section 80CCH.

**Allowances [These are part of wages and Salaries]**

- ✓ Allowances are monetary payments made by employers to employees for specific expenditures, either personal or related to job performance.
- ✓ Most allowances are taxable unless specific exemptions apply.

Fully Taxable under both regimes	Differential treatment	Fully Exempt under the optional tax regime	Fully Exempt under both tax regimes
<ol style="list-style-type: none"> <li>1. Entertainment Allowance [Govt Employee deduction available under OTR]</li> <li>2. Dearness Allowance</li> <li>3. Overtime Allowance</li> <li>4. Fixed Medical Allowance</li> <li>5. City Compensatory Allowance (to meet increased cost of living in cities)</li> <li>6. Interim Allowance</li> <li>7. Servant Allowance</li> <li>8. Project Allowance</li> <li>9. Tiffin/Lunch/Dinner Allowance</li> <li>10. Any other cash allowances</li> <li>11. Warden Allowance</li> <li>12. Non-practicing Allowance</li> <li>13. Transport allowance to employee other than blind/ deaf and dumb/ orthopedically handicapped employee</li> </ol>	<ol style="list-style-type: none"> <li>1. House Rent Allowance [u/s 10(13A)] - Fully Taxable under DTR only</li> <li>2. Special Allowances [u/s 10(14)] - Discussed later.</li> </ol> <p><b>Exceptions:</b></p> <ol style="list-style-type: none"> <li>a) Travelling allowance</li> <li>b) Daily allowance</li> <li>c) Conveyance allowance</li> <li>d) Transport allowance to blind/ deaf and dumb/ orthopedically handicapped employee [up to Rs. 3200/- p.m. is exempt]</li> </ol> <p>Note: The exceptions in (a) to (d) above are partly exempt under both the tax regimes.</p>	<ol style="list-style-type: none"> <li>i. Allowances to High Court Judges</li> <li>ii. Salary, Allowances and pension paid by the United Nations Organization</li> <li>iii. Sumptuary allowance granted to High Court or Supreme Court Judges</li> </ol>	<p>Allowance granted to Indian citizens by Government for services rendered outside India [Section 10(7)]</p>



#### 4. Taxability Of House Rent Allowance [Section 10(13A)]

Metro Cities (i.e., D,K,M,C)	Exemption in other Cities
Least of the following:	Least of the following:
1. HRA actually received for the relevant period	1. HRA actually received for the relevant period
2. Rent paid minus 10% of salary <sup>@</sup> for the relevant period	2. Rent paid minus 10% of salary <sup>@</sup> for the relevant period
3. 50% of salary <sup>@</sup> for the relevant period	3. 40% of salary <sup>@</sup> for the relevant period
<sup>@</sup> Salary = Basic Salary + D.A. (For Retirement benefits) + Commission (% of turnover)	



### Conditions for Section 10(13A) Exemption:

1. Exemption available **only under Optional tax Regime**.
2. **Exemption not available** if the taxpayer:
  - ✓ Lives in their own house
  - ✓ Has not paid rent [Not incurred rent expenditure].
3. **Exemption** is available **only** for the relevant period for which **rented accommodation is occupied**.



### 5. Special Allowances to meet expenses on duties or personal expenses [Section 10(14)]

#### Allowances for Performance of Duties [Section 10(14)(i)]

- ✓ Allowances granted exclusively **for official purposes**.
- ✓ Allowances as per Rule 2BB:
  - Helper Allowance, Research Allowance, Uniform Allowance - **Fully Taxable under DTR and Exempt to the extent spent for official purpose under OTR**
  - Travelling allowance, Daily allowance, Conveyance allowances - **Exempt under Both regimes, to the extent of spent for the official purpose**.

#### Allowances for Personal purpose [Section 10(14)(ii)]

- Allowances granted **to meet personal expenses**.
- **Exemptions are given for certain personal allowances only under Optional Tax Regime**.

S. No.	Name of Allowance	Extent to which allowance is exempt
1.	<ul style="list-style-type: none"> <li>✓ Special Compensatory (Hilly Areas) Allowance or</li> <li>✓ High-Altitude Allowance or</li> <li>✓ Uncongenial Climate Allowance or</li> <li>✓ Snow Bound Area Allowance or</li> <li>✓ Avalanche Allowance</li> </ul>	₹ 800 or ₹ 300 per month depending upon the specified locations  <b>₹ 7,000 per month in Siachen area of Jammu and Kashmir</b>
2.	<ul style="list-style-type: none"> <li>✓ Border area allowance or</li> <li>✓ remote locality allowance or</li> <li>✓ difficult area allowance or</li> <li>✓ disturbed area allowance</li> </ul>	₹ 1,300 or ₹ 1,100 or ₹ 1,050 or ₹ 750 or ₹ 300 or ₹ 200 per month <b>depending upon the specified locations</b>
3.	Tribal Areas/Schedule Areas/Agency Areas Allowance [Specified States]	₹ 200 per month
4.	<b>Transport Sector Employee:</b> Any allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in the course of running such <b>transport from one place to another</b> , provided that such employee is <b>not in receipt of daily allowance</b>	Lower of <b>70% of such allowance or maximum of ₹ 10,000 per month</b>



5.	Children Education Allowance	₹ 100 per month per child upto a maximum of 2 children
6.	Any allowance granted to an employee to meet the hostel expenditure on his child	₹ 300 per month per child upto a maximum of 2 children
7.	Compensatory Field Area Allowance [Specified areas in Specified States]	₹ 2,600 per month
8.	Compensatory Modified Field Area Allowance [Specified areas in Specified States]	₹ 1,000 per month
9.	Any special allowance in the nature of counter insurgency allowance granted to the members of the armed forces operating in areas away from their permanent locations	₹ 3,900 per month
10.	Underground Allowance granted to an employee who is working in uncongenial, unnatural climate in underground mines	₹ 800 per month
11.	Any special allowance in the nature of high Altitude allowance granted to the member of the armed forces operating in high altitude areas	For altitude of 9,000 to 15,000 feet: ₹ 1,060 per month For above 15,000 feet: ₹ 1,600 per month
12.	Special compensatory highly active field area allowance granted to the member of the armed forces	₹ 4,200 per month
13.	Island (duty) allowance granted to the member of the armed forces in Andaman & Nicobar and Lakshadweep Group of Islands	₹ 3,250 per month

Any assessee claiming exemption at 7 & 8 and 9 shall not be entitled to exemption at 2.

### Both Regimes - Transport Allowance for Disabled Employees

Granted to an employee who is blind, deaf and dumb, or orthopedically handicapped (with disability in the lower extremities) to cover commuting expenses between residence and place of duty.

Exempt up to ₹ 3,200 per month - irrespective of tax regime

### Allowances which are fully exempt only under the optional tax regime

1. Allowance for High Court and Supreme Court Judges:  
Allowances paid to Judges of High Courts and the Supreme Court under the specific provisions of the High Court Judges (Conditions of Service) Act, 1954 and Supreme Court Judges (Salaries and Conditions of Services) Act, 1958 are exempt from tax.
2. Allowances from the United Nations Organisation (UNO):  
✓ Salary and allowances received by employees of the UNO are exempt from tax under the United Nations (Privileges and Immunities) Act, 1947.



- ✓ Pensions received from the UNO under the same Act are also fully exempt.

### 3. Sumptuary Allowance:

- ✓ High Court Judges and Supreme Court Judges receive a sumptuary allowance, which is fully exempt from tax under the relevant service Acts:
  - High Court Judges (Conditions of Service) Act, 1954
  - Supreme Court Judges (Conditions of Service) Act, 1958

Allowances payable outside India [Section 10(7)]: Allowances or perquisites paid outside India by the Government to a citizen of India for services rendered outside India are exempt from tax. This exemption is available irrespective of tax regime



## 6. Pension

### Types of pensions:

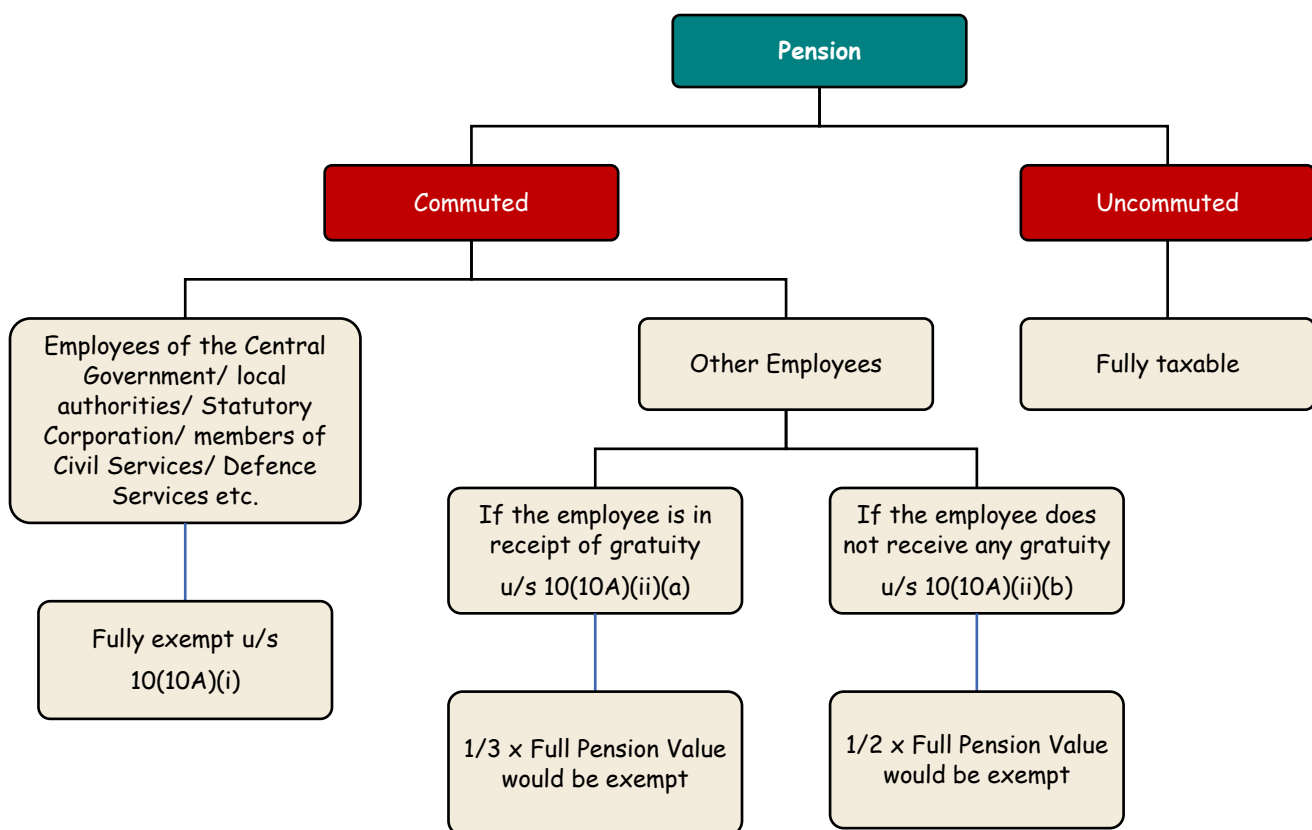
#### i. Uncommuted Pension:

- ✓ Refers to periodic pension payments.
- ✓ Fully taxable in the hands of both government and non-government employees.

#### ii. Commuted Pension:

- ✓ Refers to a lump sum amount received by commuting the whole or part of the pension.

### Exemption in respect of Commuted Pension [Section 10(10A)]



Full Pension Value = (Commuted pension received ÷ Commutation percentage) × 100



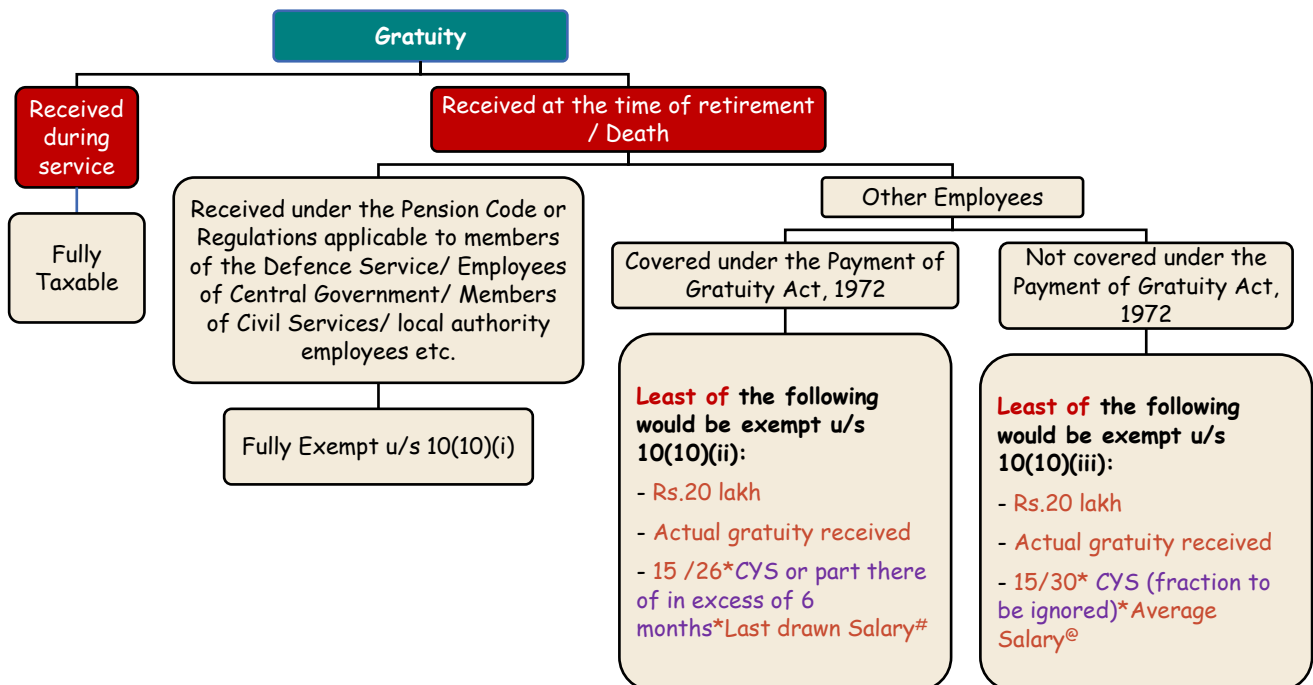


### Other Exemptions related to Pensions:

- ✓ Judges of the Supreme Court and High Court will be entitled to the exemption of the commuted portion u/s 10(10A)(i).
- ✓ Pension received by recipient of gallantry awards or family pension received by family members thereof is exempt u/s 10(18) subject to:
  - The receipt of award shall be an employee of the Central or State Government
  - A recipient of one of the following gallantry awards:
    - Param Vir Chakra, Maha Vir Chakra, Vir Chakra
    - Any other gallantry award notified by the Central Government
- ✓ Disability pension granted to disabled personnel of armed forces who have been invalided on account of disability attributable to or aggravated by such service is exempt. However, Personnel who retired normally (e.g., reached retirement age) or left for reasons other than a disability, are not exempt. [uncommuted pension]  
**Note:** Disability pension includes for service element and disability element.
- ✓ Family Includes:
  - a) Spouse and children.
  - b) Parents, brothers, and sisters who are wholly or mainly dependent on the individual.
- ✓ All the above exemptions related to pensions are exempt irrespective of the regime under which he pays tax. [10(10A) - Commuted Pension, u/s 10(18)]



## 7. Gratuity [Section 10(10)]



CYS - Completed Years of Service



### Meaning of Salary:

# Salary = Basic + Any D.A.

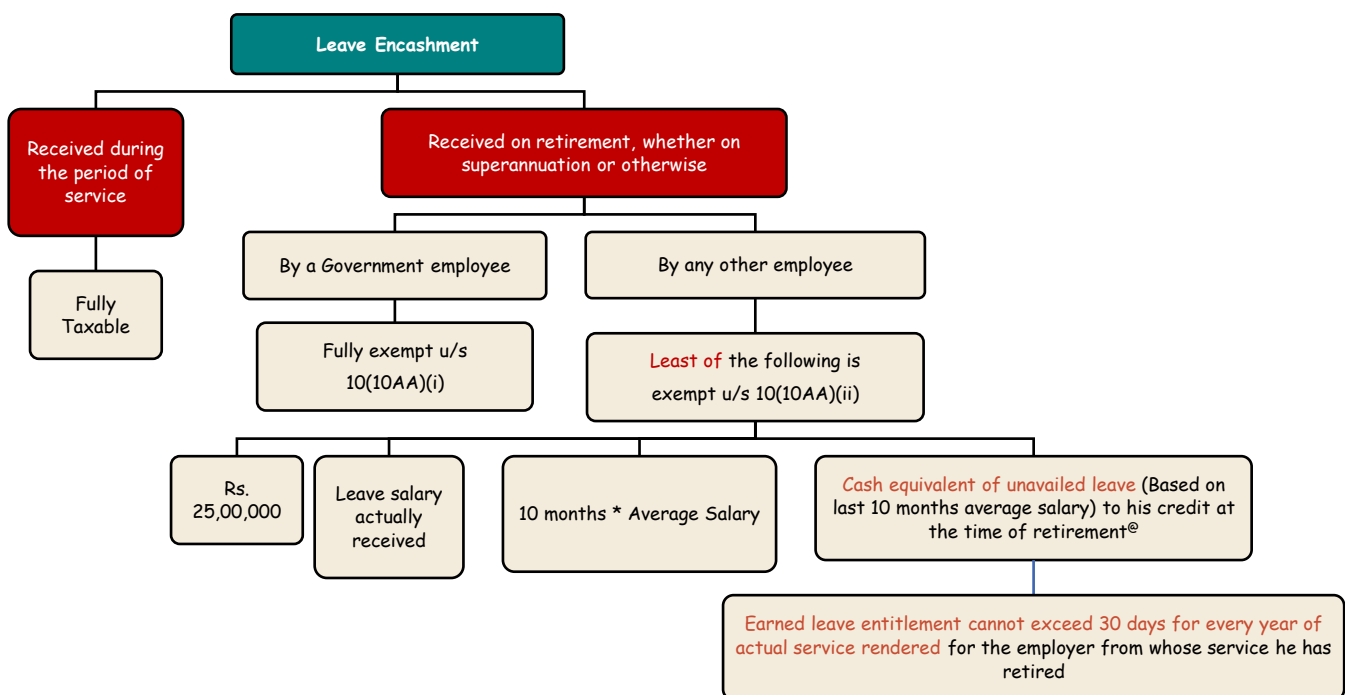
@ Salary = Basic + D.A. (For Retirement benefits) + Commission (% of Turnover)

Note: Average salary refers to average of 10 Months preceding month of retirement

- ✓ Only Death cum retirement gratuity is eligible for exemption as above and the Gratuity received during the service is fully taxable for both Government and nongovernment employee.
- ✓ The Exemption for Lumpsum gratuity is limited to Rs.20 Lakhs throughout the life time of the employee. [Received from 2 or more employers doesn't matter]
- ✓ Exemption under section 10(10) would be available irrespective of the tax regime.



## 8. Leave Salary or Leave Encashment [Section 10(10AA)]



@ Salary = Basic + D.A. (For Retirement benefits) + Commission (% of Turnover)

Note: Average salary refers to average of 10 Months preceding date of retirement

- ✓ The Exemption for Leave encashment is limited to Rs.25 Lakhs throughout the life time of the employee. [Received from 2 or more employers doesn't matter]
- ✓ Exemption under section 10(10AA) would be available irrespective of the tax regime.

Note: Refer Class or Marathon for understanding 4<sup>th</sup> Criteria as a formula.



## 9. Provident fund

Type of Provident Fund	Employer's Contribution	Employee's Contribution	Interest on Accumulated Balance	Lump Sum Withdrawal
<b>Statutory Provident Fund (SPF)</b> [For Govt Employees]	Fully exempt from tax	Eligible for deduction under Section 80C (OT Regime)	Fully exempt from tax [Note 1]	Fully exempt u/s 10(11) from tax
<b>Recognized Provident Fund (RPF)</b> [Recognised by CIT]	Exempt up to 12% of salary <sup>@</sup> , the excess is taxable	Eligible for deduction under Section 80C (OT Regime)	Exempt up to 9.5% p.a. [Note 1]	Exempt u/s 10(12) if certain conditions are met.
<b>Unrecognized Provident Fund (URPF)</b> [Not recognised by CIT]	Not taxable	No tax benefit	Not taxable at time of contribution	<b>Salary:</b> <ul style="list-style-type: none"> <li>✓ Employer contribution</li> <li>✓ Interest on Employer contribution</li> </ul> <b>Other Sources:</b> <ul style="list-style-type: none"> <li>✓ Interest on Employee contribution</li> </ul> <b>Not Taxable:</b> <ul style="list-style-type: none"> <li>✓ Employee Contribution</li> </ul>
<b>Public Provident Fund (PPF)</b> [Open to all - self-employed or salaried]	Not applicable (no employer contribution)	Eligible for deduction under Section 80C (OT Regime)	Fully exempt from tax	Fully exempt u/s 10(11) from tax

<sup>@</sup>Salary = Basic + D.A. (For Retirement benefits) + Commission (% of Turnover)

**Note 1 - Interest Credited on Contribution by Such Person/Employee****1. New Limitations (Effective from April 1, 2021):**

- ✓ If an employee's annual contribution to the Provident Fund is exceeding ₹2,50,000, then the **interest earned on such excess** contribution is taxable.
- ✓ If contribution is made **without any employer contribution**, the annual limit is ₹5,00,000. Interest earned on contribution below this limit is exempt from tax.
- ✓ Further, **Interest** accrued on contributions made before March 31, 2021 is fully exempt, without any monetary limits for contribution **even if it is accrued after this date**.

In simple words, the yearly threshold limits are as below:

- ✓ ₹5,00,000 if there is **NO** employer's contribution.
- ✓ ₹2,50,000 if the fund has **contributions from both** the employee and the employer.

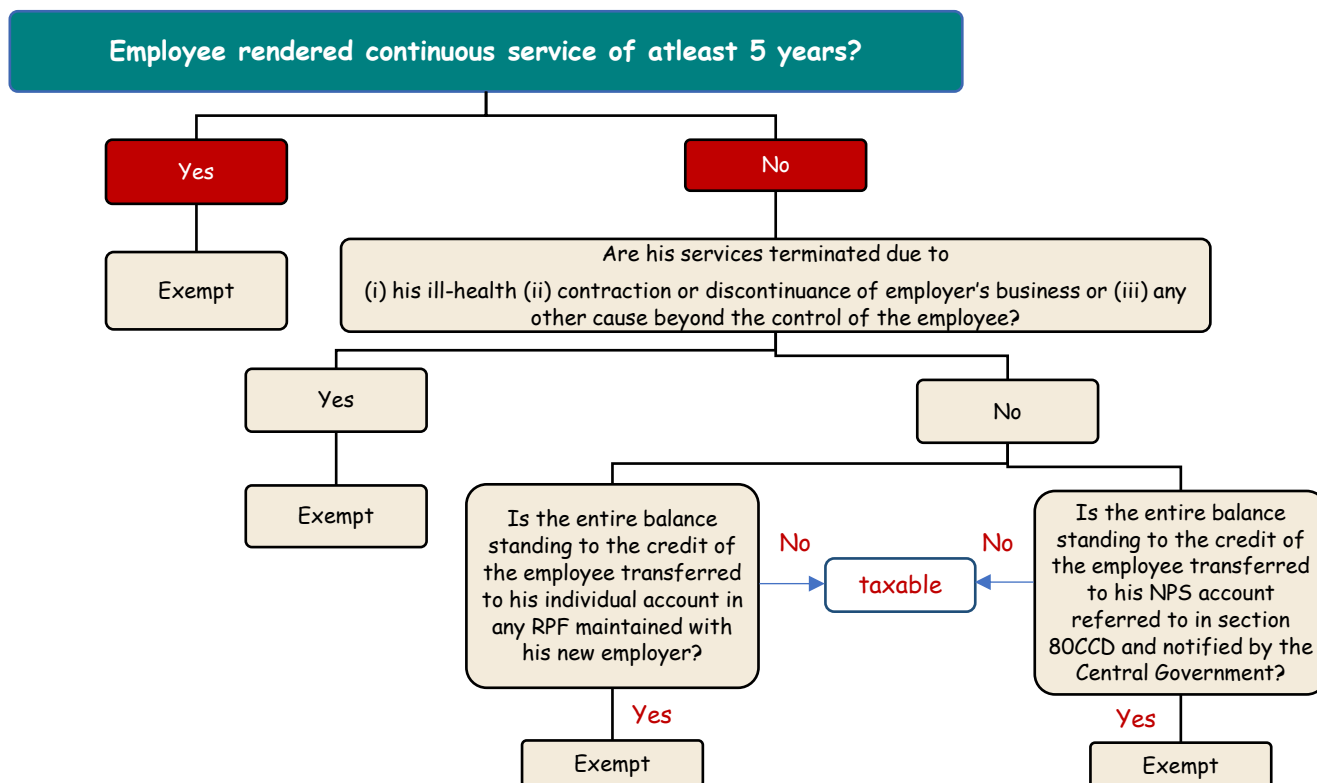
**2. Separate Accounts for Taxable and Non-Taxable Interest (From 2021-22 Onwards):**

- ✓ The Provident Fund account must maintain **2 separate sub-accounts**:
  - **Non-taxable Contribution Account**: Includes contributions and interest that are **within the exempt limit** (Contributions up to march 31, 2021 AND Contributions within the yearly threshold for or/after 1<sup>st</sup> April 2021).
  - **Taxable Contribution Account**: Includes **contributions exceeding the yearly threshold limit** (₹2,50,000 or ₹5,00,000) and the **interest earned** on this excess amount.

[After reducing withdrawal amount from the respective accounts]]



## Exemption of Accumulated Balance of RPF, Payable to an Employee



### Notes:

- ✓ Taxable RPF Withdrawal: Income is calculated as if the fund had been an Unrecognized Provident Fund (URPF) from the start.
- ✓ If the employee joins a new employer and transfers the accumulated RPF balance to the new employer's RPF, the balance remains exempt.
- ✓ The service period with the previous employer counts toward the 5-year requirement for exemption.



## 10. Contribution to NPS and Agnipath Scheme

### Contribution to National Pension Scheme [Sec. 80CCD]

- ✓ Employer's contribution to NPS account is taxed employee's salary under Section 17(1).
- ✓ However, a deduction under Section 80CCD is allowed for both the employer's and employee's contributions when calculating the employee's total income.
- ✓ Detailed discussion on deductions in Chapter VIA Deductions.

### Contribution by Central Government to Agniveer Corpus Fund (Sec 80CCH)

- ✓ Central Government's contribution to Agniveer Corpus Fund would be taxed as salary section 17(1).
- ✓ Section 80CCH allows a deduction for both the Agniveer's and the Government's contributions to the Agniveer Corpus Fund when calculating total income.
- ✓ Detailed discussion on deductions in Chapter VIA Deductions.



## 11. Profits in lieu of salary [Sec.17(3)]

- i. **Compensation for Termination:**  
Any amount **due or received on the termination** of employment.
- ii. **Compensation for Changing Employment Terms:**
  - ✓ Compensation due or received from an employer or former employer **in connection with changes to the terms and conditions** of employment.
  - ✓ **Exception:** Payments **unrelated to the employer-employee relationship** are not taxed as salary.
- iii. **Payments from Unrecognised Funds:**  
Payments from an employer or former employer **from a provident or other fund** are **generally taxable**, to the extent **does not consist of employee's contributions or interest** on such contributions.  
This clause does not cover the following funds:
  - ✓ **Gratuity** [Section 10(10)]
  - ✓ **Pension** [Section 10(10A)]
  - ✓ **Retrenchment Compensation** under Industrial Disputes Act, 1947 [Section 10(10B)]
  - ✓ Payments from **Provident Fund or Public Provident Fund** [Section 10(11)]
  - ✓ Payments from **Recognized Provident Fund** [Section 10(12)]
  - ✓ Payments from **Approved Superannuation Fund** [Section 10(13)]
  - ✓ **House Rent Allowance** [Section 10(13A)]
- iv. **Keyman Insurance Policy:**  
Any sum from a Keyman Insurance Policy received by employee, is considered part of salary income and is fully taxable.
- v. **Any other Lump Sum Payments:**  
Any lump sum received from the employer **either before beginning the employment or after its conclusion** is taxable as salary income.



## 12. Retrenchment compensation [Section 10(10B)]

### Exemption Limits

The **lower** of the following amounts is exempt:

- ✓ **15 Days average pay × completed years of service** (part thereof if over 6 months)
  - ✓ **Statutory limit of ₹5,00,000** (as notified by the Central Government)
  - ✓ **Actual amount received**
1. The above **limits do not apply** if compensation is **paid under** a Central Government **approved scheme** for special protection of workers.
  2. **Average Pay Calculation:** [Average of wages payable to workmen]
    - ✓ **Monthly paid workers:** Average of the **last 3 complete calendar months**
    - ✓ **Weekly paid workers:** Average of the last 4 calendar weeks
    - ✓ **Daily paid workers:** Average of the last 12 full working weeks

**Preceding the date on which average pay becomes payable.**

    - ✓ If not worked the full period, calculate based on actual days worked.
  3. **Wages Include:**





- ✓ All remuneration expressible in money, including:
- ✓ Allowances (including Dearness Allowance)
- ✓ Value of house accommodation, utilities, any amenity or concessional supply of food, etc.
- ✓ Travel concessions
- ✓ Sale related commissions

**Exclude:**

- ✓ Bonuses
- ✓ Contributions to retirement benefit schemes
- ✓ Gratuity payable on termination

- ✓ Exemption under Section 10(10B) is available irrespective of the tax regime.



### 13. Voluntary Retirement Receipts [Section 10(10C)]

<b>Eligible Undertakings</b>	<p>Employees of the following undertakings are eligible for exemption:</p> <ol style="list-style-type: none"> <li>CG, SG or Local authority</li> <li>All Companies, Statutory Corporations &amp; Authorities</li> <li>Co-operative societies</li> <li>Universities established/incorporated under a Central/State or Provincial Act [including IITs &amp; IIMs]</li> </ol>
<b>Conditions for Exemption</b>	<ul style="list-style-type: none"> <li>✓ Compensation must be received at the time of voluntary retirement or termination of service as per VR Scheme.</li> <li>✓ Exemption applies even if compensation is received in instalments.</li> </ul>
<b>Guidelines</b>	<ul style="list-style-type: none"> <li>✓ Exemption available to employees who have completed 10 years of service or are 40 years of age.</li> <li>✓ This requirement does not apply to employees of public sector companies under voluntary separation schemes.</li> </ul>
<b>Exemption limit</b>	<p>Lower of the following:</p> <ul style="list-style-type: none"> <li>✓ Equivalent to 3 months' Salary@ for each completed year of service</li> <li>✓ Salary@ at retirement × remaining months of service before retirement or superannuation.</li> <li>✓ Statutory limit of Rs. 5,00,000/-</li> <li>✓ Actual Amount</li> </ul>
<b>Exemption Restrictions</b>	<ul style="list-style-type: none"> <li>✓ The exemption is only ONE TIME during life time of the assessee.</li> <li>✓ No Exemption If relief is allowed under Section 89 for any assessment year regarding voluntary retirement.</li> </ul>

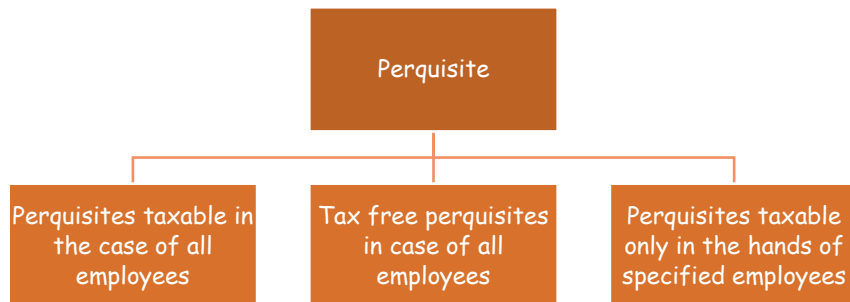
@Salary = Basic + D.A. (For Retirement benefits) + Commission (% of Turnover)

Exemption under Section 10(10C) is available irrespective of the tax regime.



## 14. Perquisites [Section 17(2)]

- ✓ A perquisite is an additional benefit provided to an employee beyond their regular salary or wages. Common examples include housing, a car, and other allowances.
- ✓ They can be provided in cash or in kind.
- ✓ Reimbursements for expenses related to official duties are not treated as perquisites.  
**Example:** If an employee continues to use a company-provided benefit, like a house, after leaving their employment, it's no longer treated as part of their salary. It's considered extra income and taxed under "Income from Other Sources."



1. Rent-Free Accommodation,
2. Accommodation provided at concessional rate,
3. Any personal expenses paid by the employer on behalf of the employee, such as household staff salaries, constitute taxable perquisites.
4. Amount payable by an employer to affect an assurance on the life of the assessee.
5. The value of Specified security or sweat equity shares allotted or transferred, by the employer at a concessional rate or free as part of compensation.
6. **Clause 17(2)(vii):** Amount or the aggregate of amounts of any contribution made to the account of the assessee by employer
  - ✓ in a Recognised Provident Fund [RPF],
  - ✓ in Pension scheme referred under 80CCD [NPS],
  - ✓ in an Approved Superannuation Fund [ASF]
 exceeding Rs. 7,50,000 is taxed and included in gross salary [i.e., Total Income]  
 [Say, Excess employer's contribution]
7. **Clause 17(2)(viii):** Annual Accretion to Recognized Provident Fund/NPS/Approved Superannuation Fund (Employer's Contribution):
  - ✓ Annual accretion to the balance in the recognized provident fund, NPS, or approved superannuation fund, which relates to excess employer's contribution is treated as a perquisite.
  - ✓ In other words, interest, dividend, or any similar amount to the balance of the fund related to excess employer's contribution is treated as a perquisite.
  - ✓ **Computation Method:** The CBDT Rule 3B provides a formula to compute the annual accretion:

$$\text{Taxable Perquisite [TP]} = (\text{PC}/2) * R + (\text{PC1} + \text{TP1}) * R$$



PC	Excess Employers contribution to RPF, NPS and ASF during the <b>Current Previous Year [CPY]</b>
PC1	Excess Employer contribution for the previous years commencing on or after 1st April, 2020 other than the <b>Current P.Y.</b> [Opening Balance as on 1/4/RPY]
TP1	Aggregate of taxable perquisite under section 17(2)(viii) for the previous year commencing on or after 1st April, 2020 other than the <b>Current P.Y.</b> [ <b>Preceding years taxable accretion value</b> ]
R	<b>I / Favg</b> [i.e., Average rate during the year]
I	Amount or <b>aggregate of amounts of income accrued</b> during the <b>Current P.Y.</b> in [RPF, NPS and ASF]
Favg <sup>^</sup>	[ <b>Aggregate Fund Balance<sup>\$</sup></b> on first day of the CPY + <b>Aggregate Fund Balance</b> on last day of the CPY] ÷ 2
<p><b>Note:</b>  <sup>^</sup>Favg means Fund Average Balance during CPY  <sup>\$</sup>Aggregate Fund balance = Aggregate Balance to the credit of RPF, NPS and ASF</p> <p>Further, Where the <b>aggregate of amounts of TP1 and PC1 exceeds</b> the Aggregate Fund Balance on first day of the current previous year, then, <b>the excess shall be ignored</b> for the purpose of computing the aggregate of amounts of TP1 and PC1.</p>	
8. Any <b>other fringe benefit or amenity</b> . [Such as Gift, Credit card, Movable Assets, Loans, Telephone, Club, Food etc.,)	



### 15. Exemption under superannuation funds [Section 10(13)]

Any payment received by any employee from an approved superannuation fund shall be exempt if the payment is made:

- ✓ On the **Death** of a Beneficiary
- ✓ Payments received by the employee in place of, or in commutation of, an annuity when they **retire** at a specified age or **become incapacitated** before retirement.
- ✓ If a **refund of contributions** is made upon the **death** of the beneficiary, it is tax-exempt.
- ✓ **Payments transferred** to notified pension scheme under Section 80CCD.



### 16. Tax free perquisites in All cases

#### 1. Telephone Facility:

- ✓ Telephone or mobile services **provided at the employee's residence** are tax-free.
- ✓ Telephone **allowance** is always taxable

#### 2. Transportation:

- ✓ Transport facility provided by an employer **involved in passenger or goods transport** (free or discounted) is exempt.



3. **Privilege Passes:**
  - ✓ Privilege passes and tickets issued by Indian Railways for employees are exempt.
4. **Overseas Perquisites by Government:**
  - ✓ Perquisites provided by the government for services rendered abroad are tax-exempt for Indian citizens. [remember allowances are also exempt u/s 10(7)]
5. **Insurance Contributions:**
  - ✓ Employer contributions to a staff group insurance plan are tax-free.
6. **Personal Accident Insurance:**
  - ✓ Annual premiums paid by an employer on personal accident policies for employees are exempt.
7. **Office Refreshments:**
  - ✓ Refreshments during working hours on office premises are tax-free.
8. **Subsidized Meals:**
  - ✓ Subsidized meals up to ₹50 per meal are exempt if the employee opts out of the default tax regime. [Includes Paid Vouchers and Non-alcoholic beverages and Food]
9. **Recreational Facilities:**
  - ✓ General recreational or club facilities provided to employees are exempt, provided they're not restricted to few selected employees.
10. **Training Expenses:**
  - ✓ Costs for employee training or refresher courses, including boarding and lodging, are exempt.
11. **Welfare Fund Contributions:**
  - ✓ Contributions to recognized provident funds, superannuation funds, or deposit-linked insurance funds are tax-free up to specified limits.
12. **Leave Travel Concession (LTC):**
  - ✓ LTC is exempt under conditions specified, applicable if the employee opts out of the default tax regime  
Note: Value of Leave travel concession provided to the High Court judge or the Supreme Court Judge and members of his family are completely exempt without any conditions if they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).
13. **Medical Facilities:**
  - ✓ Medical facilities within specified limits are tax-exempt.
14. **Rent-Free Official Residence:**
  - ✓ Judges of High Courts and the Supreme Court enjoy exemption for official residences under certain conditions.
15. **Conveyance for Judges:**
  - ✓ Conveyance provided to High Court and Supreme Court judges is exempt if they choose to optional tax regime.

**17. Exemption in respect of Leave travel concession [Section 10(5)]****1. Eligibility:**

- ✓ The exemption applies **only under optional tax regime**.
- ✓ When an employee **travels within India**:
  - a. On leave,
  - b. After retirement, or
  - c. After termination of employment.

**2. What expenses are exempt:**

- ✓ The **exemption is available for travel expenses** of the employee and family (spouse, children, and dependent parents, dependant brothers or sisters).
- ✓ The exemption applies **only to 2 surviving children** if born after October 1, 1998.
- ✓ **Boarding and Stay expenses** are fully taxable if reimbursed by employer

**3. Limit of Exemption:**

- ✓ Exemption is **restricted to the amount actually spent** on travel, subject to specific conditions.
- ✓ LTC exemption applies to a maximum of **2 journeys in a block of 4 calendar years**, starting from 1986. **[Current Block 2022 to 2025]**
- ✓ If LTC is not used even once in a block, **1 unused journey can be carried forward to the next block**.

**4. Mode of Travel:**

- ✓ **Air Travel:** **Limited to the economy fare** of the National Carrier by the shortest route to the destination.
- ✓ **Other Modes:**
  - a. **Where Rail Service is Available:** Exempt up to the **first-class air-conditioned rail fare** by the shortest route.
  - b. **Where Rail Service is Unavailable:**
    1. If there is a recognized public transport system, **exemption is limited to the first-class or deluxe fare** by the shortest route.
    2. If no public transport exists, exemption is based on the **equivalent first-class air-conditioned rail fare** for the journey.

**18. Medical Facility [Proviso to 17(2)]**

- ✓ **Employee and Family members** are covered.
- ✓ **Family:** Spouse, children, and dependent parents, dependant brothers or sisters

The following medical benefits are exempted:

1. Any **medical treatment** provided to an employee or their family **in a hospital maintained by the employer**.
2. **Reimbursements for treatment costs** incurred in:
  - Government hospitals and Government Approved hospitals,
  - Local authority hospitals, or
  - Hospitals approved by the government specifically for employee treatment.





- For specific diseases or ailments, treatment in any hospital approved by the Chief Commissioner.
- For COVID-19 treatment, the Central Government allows exemptions if employees provide the following details:
  - A COVID-19 positive test report,
  - Medical records if clinically diagnosed within 6 months of diagnosed with COVID 19 positive,
  - Certification of all treatment expenses.
- 3. Premiums paid or reimbursed by employers for health insurance.
- 4. Medical Treatment Abroad and expenses incurred for:
  - Medical and Stay treatment expenses - Exempt to the extent permitted by RBI
  - Travel costs for the patient and one attendant - Exempt only if employee GTI doesn't exceed Specified Amount Earlier 2 Lakh Limit.

**Note:** If an employer takes personal accident insurance for employees and pays the premium, no immediate benefit is provided to the employees. The insurance premium paid by the employer is not considered a taxable benefit for the employees.



### 19. Perquisites taxable only for specified employees [Section 17(2)(iii)]

The following are facilities which are provided to employee are taxable if he is a specified employee:

- ✓ Provision of a sweeper, gardener, watchman, or personal attendant.
- ✓ Facility of gas, electricity, or water provided by the employer for personal use.
- ✓ Free or Concessional Tickets
- ✓ Use of a motor car.
- ✓ Free or concessional education facilities.

**Note:** Reimbursements are taxable for all employees

**Meaning of Specified Employee:**

- ✓ **Director Employees:** Any employee who also serves as a director of the company.
- ✓ **Substantial Interest:** Employees holding at least 20% of voting rights in the company. [Beneficial ownership only considered]
- ✓ **High-Income Employees:** Those with a salary exceeding Specified Amount Earlier 50k, excluding non-monetary benefits and exempt benefits and after reducing deductions u/s 16. [entire salary from all employers is considered for the limit]



## 20. Valuation of RFA [Rule 3(1)]

Particulars	Amount
Gross Value of Perquisite [2 Cases discussed below]	XXXX
Less: Amount Recovered for Accommodation and Movable assets	(XXX)
Taxable Perquisite Value	XXXX

## Case 1 - Accommodation Provided by the Government to their employees

Benefit Provided		Value
Value of Accommodation	Perk Value	XXXX
Owned or rented by Government	License fee determined	
Hotel Accommodation [Note: If Hotel provided for ≤ 15 Days on account of transfer, No Perquisite]	Lower of ✓ 24% of Salary <sup>@</sup> or ✓ Actual Rent Expenses	
Add: Furniture and Appliances ✓ 10% p.a. of Original Cost of Movable Assets, if owned by employer ✓ Rental Expenses in case assets are hired		XXX
Gross Value of Perquisite		XXXX

## Case 2 - Where accommodation is provided by any other employer

Benefit Provided		Value
1. Accommodation Owned by employer:		
City Population [2011 census]	Value	
> 40,00,000	10% of Salary <sup>@</sup>	
> 15,00,000 <= 40,00,000	7.5% of Salary <sup>@</sup>	
other areas	5% of salary <sup>@</sup>	
2. Accommodation Rented by employer -		
Lower of		
✓ 10% of Salary <sup>@</sup> or		
✓ Actual rental expenses		
3. Hotel Accommodation -		
[Here also, 15 days - Exempt]		
Lower of		
✓ 24% of Salary <sup>@</sup> or		
✓ Actual Rent Expenses		XXXX
Add: Furniture and Appliances [Same as Case 1]		XXX
Gross Value of Perquisite		XXXX

<sup>@</sup>Salary = Basic + D.A. [For retirement benefits] + Bonus + Any Commission + Taxable portion of allowances only



### Accommodation Provided on Account of Transfer:

If an employee is provided with accommodation at the new place of posting while retaining accommodation at the previous location due to transfer:

- ✓ First 90 days, the perquisite value will be based on the lower value of the 2 accommodations.
- ✓ After 90 days, the perquisite value will be charged for both accommodations.

### Subsequent year valuation of Perquisite in case of Non-Government Employer [Only for Case 2]:

If the accommodation is continuing to be provided to the same employee for more than one year, The perquisite value for subsequent years [SY] shall not exceed:

$$\text{Max Value of Accommodation in SY} = \text{Value in FPY} * \frac{\text{CII of Current Previous Year}}{\text{CII of First Previous Year}}$$

"First previous year" means the P.Y. 2023-24 or the previous year in which the accommodation was provided to the employee, whichever is later.

### Employee Serving on Deputation:

For employees on deputation with a body or undertaking controlled by the Central or State Government:

- ✓ The deputation employer (body/undertaking) will be considered the actual employer for calculating the perquisite value.
- ✓ The value of the accommodation will be calculated as if the accommodation is owned by the employer [Mentioned in Case 2 above]

Rent-free official residence provided to a Judge of a High Court or to a Judge of the Supreme Court is not taxable if they choose optional tax regime.

### Meaning of Salary for Valuation Rules:

For Theory Question probability the detailed meaning is given [Not Important]

Meaning of "Salary" includes all monetary payments such as pay, allowances, bonuses, and commissions from one or more employers.

However, it excludes:

1. Dearness allowance/pay NOT considered for retirement benefits.
2. Employer's provident fund contributions.
3. Tax-exempt allowances.
4. Value of specific perquisites under Section 17(2).
5. Payments excluded under Section 17(2) proviso.
6. Lump-sum payments at termination (e.g., gratuity, severance, leave encashment, commuted pension).



## 21. Motor Car [Rule 3(2)]

Car Owner	Expenses Met By	Used for	Gross Value of Perquisite	
Employer	Employer	Only Official	No taxable perquisite (Records must be maintained)	
Employer	Employer	Only Personal	Own car	10% p.a. of Original Cost
			Rented Car	Actual Rent
			Running Expenses	Actual Expenses
Employer	Employer	Both Official and Personal	<p>Up to 1.6CC (litre) Engine: ₹1,800 p.m. or part of a month (Additional ₹900 p.m. if chauffeur is provided)</p> <p>More than 1.6CC (litre) Engine: ₹2,400 p.m. or part of a month (Additional ₹900 p.m. if chauffeur is provided)</p>	
Employer	Employee	Both Official and Personal	<p>Up to 1.6CC (litre) Engine: ₹600 p.m. or part of a month (Additional ₹900 p.m. if chauffeur is provided)</p> <p>More than 1.6CC (litre) Engine: ₹900 p.m. or part of a month (Additional ₹900 p.m. if chauffeur is provided)</p>	
Employee	Employer	Only Official use	No taxable perquisite (Records must be maintained)	
Employee	Employer	Only personal use	Running expenses reimbursed by employer	
Employee	Employer	Both Personal and Official	<p>Perk = Actual expenses reimbursed minus Deemed value for Official Purpose (₹1,800 p.m. for up to 1.6 litres, ₹2,400 p.m. for above 1.6 litres engine) + 900 p.m. [Driver, if provided]</p> <p>Note: For more deduction for official expenses, the employer has to maintain additional records and give a certificate in this regard.</p>	



- ✓ Month means "Calendar month".
- ✓ Motor Car Provided by Employer: Taxable for Specified Employees.
- ✓ Reimbursement of Car Expenses: If the employee owns the car but uses it for personal purposes, and the employer reimburses the running and maintenance costs, it will be treated as a perquisite and taxed in the hands of all employees.
- ✓ Journey from Residence to Office: If a vehicle (provided by the employer) is used for travel between the employee's residence and office or workplace, it is not considered a perquisite, and thus not taxable as a benefit.
- ✓ Further, if any amount is recovered from employee, the same will be deducted from Gross value of perquisite.

If an employee is provided with more than one motor car (owned or hired by the employer) for personal and official use, the perquisite value is calculated as follows:

- ✓ For one car: Valued as above [Official and Person].
- ✓ For additional cars: Valued as exclusively for personal use.

Other than car: Where Employee owns other vehicle [Other than car] and expenses are met by employer and the vehicle is used for both official and personal purpose then perquisite will be "Actual Expenses incurred by Employer minus 900 p.m."



## 22. Valuation provision of domestic servants [Rule 3(3)]

- ✓ If the employee engages the domestic servants and the employer pays or reimburses the employee for their wages, this is considered a perquisite for all employees. Gross Perquisite Value shall be Actual Value Reimbursed.
- ✓ If the employer engages domestic servants and provides their services to the employee, this is considered a perquisite only for specified employees. Gross Perquisite value shall be Salary incurred by employer.
- ✓ Further, if any amount is recovered from employee, the same will be deducted.



## 23. Valuation of gas, electricity or water [Rule 3(4)]

**Taxability:**

- ✓ If the employee takes gas, electricity, or water connections and the employer reimburses the expenses, it is considered a perquisite for all employees.
- ✓ If these services are provided in the employer's name, it is a perquisite only for specified employees.

**Value of Benefit:**

- ✓ The Gross perquisite value of the benefit from gas, electricity, or water supplied by the employer will be:

Payment to Agency	If the employer pays an agency for these services, the value is equal to the amount paid by the employer.
Supply from Employer's Resources	If the supply is from resources owned by the employer, the value is based on the manufacturing cost per unit incurred by the employer.





- ✓ Further, if any amount is recovered from employee, the same will be deducted.



## 24. Valuation of educational facilities [Rule 3(5)]

### Taxability:

**School Fees Paid or Reimbursed:** If the employer pays or reimburses the school fees of the employee's children (or any member of the household), it is a perquisite in the hands of all employees.

### Educational Facility Provided by Employer:

If the education facility is provided at a school maintained by the employer or at a concessional rate due to the employee's employment, it is a perquisite only for specified employees.

### Valuation of the Benefit:

Circumstance	Gross Value of Perquisite
Educational institution maintained and owned by the employer	Cost of similar education in a comparable institution in or near the locality.
Educational facility at any other institution due to employment	No perquisite if the cost of education per child is less than ₹1,000 per month
Other Cases	Expenditure incurred by the employer

Further, if any amount is recovered from employee, the same will be deducted.

**Note:** The exemption of Rs. 1,000 p.m. is not allowed in case education facility is provided to other household members.



## 25. Free or concessional tickets [Rule 3(6)]

Engagement of Services	Free or concessional tickets provided by employers engaged in the carriage of passengers/goods for personal journeys: Considered a benefit.
Value of Benefit	<ul style="list-style-type: none"> <li>✓ Value is the fare offered to the public, reduced by any amount paid by the employee.</li> <li>✓ No perquisite for employees of airlines or railways.</li> </ul>



## 26. Other Fringe benefits or amenities [Rule 3(7)]

### 1. Interest-Free or Concessional Loans

**Valuation Basis:** The benefit of interest-free or concessional loans provided to employee or family member is valued using the interest rates set by the State Bank of India (SBI) on similar loans.

**Calculation:** The Gross value of perquisite is calculated equal to the interest applied to the maximum outstanding monthly balance. [MOMB = O/s Balance at end of each month]

### Exemptions from taxability:

- ✓ If the total loan amount does not exceed ₹20,000 or
- ✓ If the loan is for medical treatment for specified diseases unless reimbursed by insurance.



## 2. Travel, Touring, and Accommodation

**Reimbursement:** When an employer incurred the holiday expenses other than LTA of an employee and their family, it is considered a taxable benefit.

**Facilities to particular employees:** If facility is maintained by employer and is not available to all employees, Gross value of perquisite shall be value of such facility offered by other agencies to public.

**Official Tour:**

- ✓ Expenses for any family member traveling with employee on an official tour, will be a taxable perquisite.
- ✓ If an official tour extends into a holiday, only the expenses for the extended stay are taxed.

## 3. Food and Beverages:

Food and Non-alcoholic beverages [FNB] provided to employees by the employer are typically taxable.

**Exemptions:**

- ✓ FNB during working hours or through paid vouchers are exempt up to ₹50 per meal.
- ✓ FNB served at remote worksites or offshore installations is fully exempt.
- ✓ Exemption in respect of FNB provided by such employer through paid voucher would be available only under Optional tax regime.

## 4. Gifts and Vouchers

Gifts [Kind] or vouchers provided by the employer are exempt provided the aggregate value is below ₹5,000. [Note: Gift in cash is treated as allowance and is fully taxable]

## 5. Credit Card Expenses

- ✓ If an employer bears the expenses of credit card provided to employee, the entire expenses are taxable.
- ✓ Expenses incurred solely for official purposes are not taxable, provided there is adequate documentation.

## 6. Club Memberships

Club membership fees or annual charges covered by the employer are taxable.

**Exceptions:**

- ✓ Club memberships provided exclusively for official purposes are non-taxable.
- ✓ Initial Fee paid for acquiring corporate membership in a club is not taxable in hands of employee.
- ✓ No Perquisite for use of health club, sports or similar provided uniformly to all employees.



### 7. Use of Movable Assets

Asset given	Value of benefit
a. Use of laptops and computers	Nil
b. Movable assets, other than laptops and computers	Own Asset: 10% p.a. of the actual cost Rented Asset: The amount of rent

### 8. Transfer of Movable Assets

When an employer transfers movable assets to an employee, the taxable value shall be:

Particulars	Amount
Original Cost	XXXX
Less: Notional Depreciation at rate specified for every completed year of usage	(XXX)
WDV Value [Gross Value of Perquisite]	XXXX
Less: Amount Recovered from Employee	(XXX)
Taxable Perquisite Value	XXXX

#### Specified Rates

Asset Type	Rate of Depreciation	Method
Computers and electronics	50%	WDV
Motor cars	20%	WDV
Any other assets	10%	SLM

### 9. Other Benefits or Amenities

- ✓ The value of any other benefit, amenity, service, right, or privilege provided by the employer is determined based on the cost to the employer under an arms' length transaction.
- ✓ Telephone Facility - Exempt: If the employer pays or reimburses expenses related to telephone (including mobile phone) actually incurred on behalf of the employee, it will not be a taxable perquisite. [Remember, Telephone allowance is fully taxable]

General Rule: Any amount recovered from employee will be reduced from the above perquisite value (All 9 subrules) to arrive taxable perquisite.



### 27. Valuation of specified security or sweat equity share [Being Equity Share] [Section 17(2)(vi)] [Rule 3(8)]

- ✓ Year of Taxability: Discussed below at Rule 3(9)
- ✓ Value of Perquisite: Fair Market Value
- ✓ Date for Fair Market Value Determination: The fair market value of specified securities or sweat equity shares is determined on the date on which employee exercises the option.

#### Fair Market Value determination

Particulars	FMV Determination
Shares Listed on Stock Exchange:	
✓ Single Exchange	Average of Opening and Closing Price



✓ Multiple Exchanges	Average of Opening and Closing Price of the exchange with highest volume
If NO trading on date of exercising option	
✓ Single Exchange	Closing Price on immediately preceding date [Sell price and NOT buy Price]
✓ Multiple exchanges	Closing Price on immediately preceding date of the exchange with highest volume
Shares NOT Listed on Stock Exchange	Value of Share determined by merchant banker on specified date <sup>\$</sup> .

<sup>\$</sup> The specified date, which can be:

- ✓ The date of exercising the option or
  - ✓ Any date up to 180 days prior to exercising the option.
- ✓ Any amount recovered from the employee will be deducted to arrive at the value of perquisites.



## 28. Valuation of specified security, NOT being an equity share in a company [Section 17(2)(vi)] [Rule 3(9)]

- ✓ The fair market value of specified securities (not equity shares) is value determined by a merchant banker on specified date the employee exercises the option.
- ✓ Specified Date:
  - i. The date of exercising the option.
  - ii. Any date up to 180 days prior to the option exercising date.

**Year of Taxability:**

- ✓ Tax on the perquisite of specified securities and sweat equity shares is payable in the year the option is exercised.
- ✓ However, If the shares or securities are allotted by an eligible start-up, the perquisite is taxable in the earliest of the following years:
  - i. After 48 months from the end of the relevant assessment year.
  - ii. In which the sale of such securities or shares is made by the employee.
  - iii. The employee ceases to be employed by the employer, whichever occurs first.



## 29. Deductions from Salary [Section 16]

**Standard Deduction [Section 16(ia)]:**

- a) Optional Tax Regime: ₹50,000 or the amount of salary, whichever is lower.
- b) Default Tax Regime: ₹75,000 or the amount of salary, whichever is lower.

**Entertainment Allowance [Section 16(ii)]:** This allowance is fully taxable but eligible for a deduction in the case of government employees. The deduction amount is the

Lower of:

- ✓ 1/5<sup>th</sup> of the basic salary,
- ✓ ₹5,000, or



- ✓ The actual entertainment allowance received.

Note: This deduction is only available if the employee chooses Optional tax regime.

#### Professional Tax [Section 16(iii)]:

- ✓ Professional tax paid by the employee is deductible if the employee chooses optional tax regime.
- ✓ If the employer reimburses or pays professional tax, the amount is first included in salary income and then allowed as a deduction under Section 16.



### 30. Relief [Section 89]

#### Relief for Arrears or Advance Salary

- ✓ If arrears, advance salary, or salary for more than 12 months, or payment under Section 17(3) causes income to be taxed at a higher rate, relief can be claimed.
- ✓ Relief granted by the Assessing Officer upon application.
- ✓ Procedure for computing relief is specified in Rule 21A.

#### Relief for Family Pension

- ✓ Relief is available for arrears of family pension (as defined in Section 57(iia)).

#### No Relief for if exemption claimed for Voluntary Retirement

- ✓ No relief for amounts received on voluntary retirement or service termination if the exemption under Section 10(10C).



### 31. Key Observations under Salaries Chapter

#### Meaning of Salary for various purposes

##### For Rent Free Accommodation

Salary = Basic + D.A. [For Retirement Benefits] + Any Commission + Bonus + Taxable portion of allowances

For Contribution to RPF u/s 17(1), VRS u/s 10(10C), Gratuity (Act NOT Applicable) u/s 10(10)(iii), Leave encashment u/s 10(10AA) and HRA u/s 10(13A)

Salary = Basic + D.A. (For Retirement benefits) + Commission (% of Turnover)

##### For Gratuity (Act is Applicable)

Salary = Basic + D.A. [Any]

##### For Retrenchment Compensation

Wages = All Monetary Payments [Except Bonus] + Allowances + Value of RFA + LTC + Commission

#### Summary of deductions NOT allowed under Default Tax Regime [115BAC]

- ✓ Helper Allowance, Uniform allowance, Research Allowance.
- ✓ Allowances for Judges, Salaries and pensions paid by UNO.
- ✓ Rent free official residence to Judges.
- ✓ Leave travel concession [10(5)]
- ✓ House rent allowance [10(13A)]
- ✓ Special allowances for personal expenses [10(14)(ii)]  
[Except transport allowance for differently abled]
- ✓ Entertainment allowance and profession tax [Sec 16(ii) & (iii)]
- ✓ Exemption for free food, non-alcoholics beverages and vouchers up to 50/- per meal. [Rule 3]





## 4. Income from House Property



### 1. Charging Section [Section 22]

#### 1. Charging Section [Section 22]

The **annual value** of any property, **such as buildings or land attached to building, owned by the assessee** is chargeable to tax under "Income from House Property".

#### 2. Exceptions:

Certain properties are not taxed under this head but assessable under "Profits and Gains of Business or Profession".

- ✓ **Business Use:** If the assessee **uses the property** or part of it for their **own business or profession**, that **portion is excluded from Sec. 22 Chargeability**.
- ✓ **Business of Renting:** If the assessee's **primary business is letting out Commercial properties**, the income from such properties is **charged under business income**.

### Conditions for chargeability

#### 1. Property should consist of any building or land appurtenant thereto:

- ✓ **Buildings:** Residential buildings, factories, offices, shops, godowns, and other commercial properties.
- ✓ **Land Appurtenant:** Gardens, Parking garages, etc., **connected with the building**.

Note:

- ✓ **Income from letting out vacant land** is taxed under "Income from Other Sources" or "Profits and Gains from Business or Profession".
- ✓ **Rent from under construction properties** are taxable under IFOS.

#### 2. The **assessee must be the owner** of the property.

- ✓ Registration of the sale deed is not mandatory for ownership.
- ✓ Ownership includes freehold, leasehold, and **deemed ownership u/s 27**.
- ✓ The owner of the building **NEED not be the owner of the land** it stands on.
- ✓ Ownership **must exist during the previous year** (not necessarily in the assessment year).
- ✓ If **ownership is disputed in court**, the **Income Tax Department decides the chargeability until the court decision**.
- ✓ **Unrealized rent or arrears u/s 25A** are taxable irrespective of ownership status.

#### 3. Property Usage:

- ✓ The property can be used **for residential or commercial purposes**.
- ✓ **Exclusion:** If the owner **uses the property for their own business/profession** (which is chargeable to tax), it is **not considered** under "Income from House Property".

#### 4. Property Held as Stock-in-Trade:

- ✓ If the property is **held as stock-in-trade** (inventory for sale), its annual value is still **charged under "Income from House Property"**.



- ✓ **Special Rule:** The annual value is **NIL for 2 years** from the end of the FY in which completion certificate is obtained PROVIDED if the property is **not rented out** during that period [Section 23(5)].
- ✓ For builders or construction companies, the property is stock-in-trade, and **rental income is assessed as "Income from House Property"**.
- ✓ If the primary business is **letting out properties**, the income is assessed under **"Profits and Gains from Business or Profession"**.  
[Rayala Corp (P) Ltd - Supreme Court Ruling]



## 2. Composite Rent

### 1. What is Composite Rent?

The property owner sometimes receives **rent of the building along with:**

- ✓ Other assets like furniture, plant, or machinery.
- ✓ Services provided: Lifts, Security, Power backup.

The total amount **so received in this manner is known as "Composite Rent"**.

### 2. Tax Treatment of Composite Rent:

When the composite rent includes both building rent and service charges, it must be split into:

- a) The **portion related to the use of the property** is taxed as "Income from House Property" under Section 22.
- b) The portion **related to services** provided is taxed as "Profits and Gains of Business or Profession" or **"Income from Other Sources"**, depending on the case.

### 3. Splitting of Composite Rent:

#### 1. If letting of both are Inseparable:

- a) When the **rent covers both building and other assets** (e.g., furniture), and these **cannot be separated** (the tenant must rent both together), the **entire rent is taxed as either, Business income or Income from Other Sources**.
- b) This rule applies **even if separate amounts are fixed** for the building and the assets.

#### 2. If Letting is Separable:

- a) When the rent covers building and other assets, **but the tenant can rent them independently** (they can choose to rent just one), then:
  - Rent from the **building is taxed under "Income from House Property"**.
  - Rent from **other assets** (like furniture) is taxed under "Profits and Gains of Business or Profession" or "Income from Other Sources".



## 3. Income from House Property Situated outside India

### 1. For Residents (Including Resident and Ordinarily Resident Individuals/HUF):

Income from house property located outside India **is taxable**, regardless of whether the income is brought into India or not.

### 2. For Non-Residents (NR) or Residents but Not Ordinarily Resident (RNOR):

Income from property situated outside India is taxable **only if it is received in India**.



#### 4. Computation of Income from house property

Particulars	Amount	Amount
Gross Annual Value [Discussed below]		XXXX
Less: Municipal Taxes Paid [Discussed below]		(XXX)
Net Annual Value [Discussed below]		XXX
Less: Deductions u/s 24		
a. Standard Deduction [Flat 30% of NAV]	(XXX)	
b. Interest on Borrowed Loan [Discussed below]	(XXX)	(XXX)
Income from House property		XXXX



#### 5. Determination of Gross Annual Value and Net Annual Value

##### Step 1: Determine the Expected Rent (ER)

- ✓ The Expected Rent (ER) is the higher of:
  - Fair Rent (FR)<sup>@</sup>
  - Municipal Value (MV)<sup>#</sup>
- ✓ However, ER cannot exceed the Standard Rent (SR) set by the Rent Control Act.

**ER = Higher of FR or MV, restricted to SR**

##### Note:

- ✓ Expected Rent shall be computed always for 12 Months during the year.
- ✓ However, if property is purchased or constructed or sold during the RPY then it shall be computed only for period of existence and ownership in RPY.  
[Completion certificate is criteria to consider no. of months property in existence]

<sup>@</sup>The rent that similar properties in the same locality would fetch.

<sup>#</sup>The value assessed by the municipal authorities for tax purposes.

##### Step 2: Determine Actual Rent Received

Particulars	Amount
1. Actual Rent Receivable [AR p.m. X No. of Months rented]	XXXX
2. Less: Unrealised Rent [as per Rule 4]	(XXX)
3. Actual Rent Received	XXXX

##### Step 3: Gross Annual Value

Case 1: If Step 2 is Lower than Step 1 AND Property remained Vacant during the RPY then

Computation of Actual Rent Received without Vacancy	Amount
1. Actual Rent Received as per Step 2 [Which is lower than Step 1]	XXXX
2. Add: Vacancy Period Rent [VPR]	XXX
3. Actual Rent Received [If No Vacancy Period]	XXXX

**Sec 23(1)(c) Applicability**

Is Actual Rent Received without Vacancy being higher than ER as per Step 1?

If so, Then Gross Annual Value will be Actual Rent Received [Step 2]

XXXX

[Logic: Here Actual Rent Received as per Step 2 is lower than Step 1 only Due to vacancy period]

**Case 2: Sec 23(1)(b) Applicability**

Suppose Actual Rent Received as per Case 1 is STILL lower than Step 1 expected rent then then Actual rent is lower than expected rent by not reason of Vacancy.

Then Gross Annual Value will be higher of Step 1 or Step 2

XXXX

**Determination of Net Annual Value**

Particulars	Amount
Gross Annual Value [As Computed above]	XXXX
Less: Municipal taxes Paid <sup>^</sup>	(XXX)
Net Annual Value	XXXX

**<sup>^</sup>Municipal taxed Paid:**

- ✓ Allowed as deduction only if is incurred and actually paid by owner during the relevant previous year. [Deduction on cash basis].
- ✓ If tenant bears municipal taxes, then NO deduction for the owner for such taxes.
- ✓ The taxed paid for property situated outside India are also allowed as deduction if such property is subject to tax u/s 23

**Unrealised rent [as per Rule 4] [Explanation below section 23(1)]:**

URR can be deducted from Actual Rent receivable [Step 2] only if the following conditions are satisfied:

- ✓ Tenancy is bona fide (genuine tenant relationship).
- ✓ Defaulting tenant has vacated or steps taken to evict the tenant.
- ✓ Tenant does not occupy any other property of the assessee.
- ✓ Reasonable steps taken to recover rent (legal proceedings if practical).



## 6. Types of House properties and their annual value

### Let-out property [LOP]

- ✓ Gross Annual Value is Computed only if the property or part of it is let out for any part of the RPY.
- ✓ Actual rent details will be available only for LOP.

### Self-occupied property [SOP] or Unoccupied property [UOP]: [Sec. 23(2)]

- ✓ Self-Occupied or Unoccupied Property\*, Annual value is taken as Zero [NAV = 0]. The following 2 Conditions shall be satisfied:
  - The Property shall NOT be rented throughout the year.
  - NO other benefit is derived from such property
- ✓ Such a benefit is available if the assessee is an individual or HUF and for ANY 2 properties owned by the assessee.
- ✓ Municipal taxes paid shall be ignored for SOP / UOP where the NAV = 0 is considered.
- ✓ Unoccupied property is one that cannot be used by the owner because of any reason. [Amended in Finance Act 2025] ~~they are living elsewhere due to work, business, or profession and are residing at such other place in a building which they do not own.~~

### Deemed Let-out property [DLOP]: [Sec 23(4)]

- ✓ If Assessee has more than 2 properties as SOP / UOP, then at the option of the assessee, the NAV = 0 shall be taken for ANY 2 properties and the other properties are deemed as let out/ [DLOP]
- ✓ For DLOP, expected rent is directly taken as Gross Annual Value and Municipal taxes can be claimed as deduction.
- ✓ Information on Actual rent is NOT Applicable as it is DLOP and Not LOP.
- ✓ 2 properties for which NAV = 0 can be the choice of the assessee and can be changed every previous year.

### Part of the year LOP and part of the year SOP / UOP: [Sec 23(3)]

- ✓ Treated as if the property is let-out for full year.
- ✓ Computation of Gross Annual Value is same as above table.
- ✓ Expected Rent is calculated for Full Year and Actual Rent is Calculated for Period of Let out and
- ✓ Vacancy period, if any, shall also be considered as previously discussed.

### A Portion of property is Let-out and A portion of property is SOP / UOP:

- ✓ Each Portion is Treated as if they are separate properties.
- ✓ Annual Value computation shall be done for each portion as per respective rules.
- ✓ Fair Rent, Municipal Value and Standard rent shall be split between portions.
- ✓ Municipal taxes paid and Interest on borrowed loans, will be split between each portion based on suitable criteria.





## 7. Circumstances When Notional Income is Charged to Tax

Circumstance	Taxability as Notional Income
1. More than 2 SOPs / UOPs	<ul style="list-style-type: none"> <li>✓ If an assessee <b>owns more than 2 SOP/UOPs</b>: <ul style="list-style-type: none"> <li>▪ Annual Value of ANY 2 properties = Nil (at the owner's choice).</li> <li>▪ Other properties are treated as "deemed let-out" with Expected Rent (ER) as the GAV.</li> </ul> </li> </ul>
2. Let-Out Property for Full Year, ER > Actual Rent	<ul style="list-style-type: none"> <li>✓ If a property is let-out for the whole year and <b>ER exceeds actual rent received</b> then <b>ER is taken as the GAV</b> (not the actual rent).</li> </ul>
3. Let-Out Property, Part-Year Vacancy (ER > Actual Rent)	<ul style="list-style-type: none"> <li>✓ If a <b>property is vacant for part of the year</b> but actual rent during let-out period is <b>less than ER</b> (not due to vacancy) then also <b>ER for the whole year</b> is taken as GAV.</li> </ul>
4. Property Held as Stock-in-Trade (Not Let-Out)	<ul style="list-style-type: none"> <li>✓ If a stock-in-trade property is <b>not let-out for more than 2 years</b> after construction completion, <b>ER is taken as the GAV</b> (starting from the 3rd year).</li> </ul>



## 8. Deductions from Net Annual Value [Section 24]

### 30% of Net Annual Value (NAV) [Section 24(a)]

- ✓ **Flat 30%** of NAV is allowed as Deduction.
- ✓ 30% Deduction is **NIL** if NAV is taken as ZERO
- ✓ This **deduction is allowed for repairs and maintenance charges** irrespective of actual expenses incurred for the property or portion thereof if it is assessed under house property.
- ✓ If a part of the property is used for Business/Profession then the attributable actual expenses can be claimed as deduction under PGBP.

### Interest on borrowed capital is allowed as deduction u/s 24(b)

- ✓ Loan can be borrowed from any person.
- ✓ Interest is allowed as deduction **on accrual basis** for acquisition, construction, repairs, renewal, or reconstruction of a property.
- ✓ If a **fresh loan is taken to repay an original loan** (used for the above purposes), **interest on this fresh loan is also deductible**.
- ✓ **Interest on late payment of Interest is NOT deductible**.
- ✓ If a buyer agrees to pay the sale price in installment with interest to the seller, this **unpaid price is considered capital borrowed**.
- ✓ **Interest on this unpaid amount qualifies for a deduction under Section 24**.
- ✓ The Interest on borrowed loan is computed in 2 parts:
  - Preconstruction Period Interest [Before Year of Completion of Construction]
  - Current year interest [From Year of Completion of Construction]

**Pre-Construction Period Interest [PCPI]:**

- ✓ Pre-Construction Period [PCP]: Period from date of borrow of loan till END of the Previous year [FY] preceding the Previous Year [FY] of completion of construction.
- ✓ Interest incurred during the pre-construction period can be deductible for a period of 5 years in equal instalments.
- ✓ The deduction commences from the Previous year in which the property is acquired or construction is completed.
- ✓ Suppose if Date of Borrow and Date of Completion of Construction / acquisition are in same financial year, then PCPI is Nil.

**Current year Interest:**

- ✓ The interest expenditure incurred from the year in which construction is completed or the property is acquired is called as Current year interest.
- ✓ The same can be claimed as deduction fully in respective previous year itself.

$$\text{Total Interest} = \text{PCPI} + \text{CYI}$$

**Deduction limits towards SOP / UOP Interest on Loan u/s 24****Under Default Tax Regime**

NO deduction towards Interest on loan for SOP / UOP, when NAV = 0 benefit is claimed.  
BUT no restriction on interest deduction for LOP / DLOP.

**Under Optional Tax Regime**

- ✓ For SOP / UOP, when NAV = 0 benefit is availed:

Purpose of Loan	Maximum deduction
Construction or Acquisition subject to 2 conditions: <ol style="list-style-type: none"> <li>1. Loan is borrowed on or after 1/4/1999</li> <li>2. Construction or acquisition shall be completed within 5 years from end of the PY in which the loan is borrowed</li> </ol> Note: This limit is per assessee NOT per property.	Lower of <ul style="list-style-type: none"> <li>✓ Total interest [Computed as above] or</li> <li>✓ Rs. 2,00,000/-</li> </ul>
Purpose Other than Construction or Acquisition [E.g., Repairs, Renovation, Reconstruction etc.,] Note: This limit is per assessee NOT per property.	Lower of <ul style="list-style-type: none"> <li>✓ Total interest [Computed as above] or</li> <li>✓ Rs. 30,000/-</li> </ul>

- ✓ No Limits for LOP / DLOP: The interest deduction ceiling does not apply to let-out or deemed let-out properties.

**Interest Certificate:**

- ✓ To get deduction for interest expenditure, the assessee shall get a certificate from the lender (the person to whom interest is payable).
- ✓ The certificate should specify the total interest payable for the purpose of property acquisition or construction.
- ✓ It should also state any remaining loan amount, especially if the capital has been refinanced as a new loan.
- ✓ Further interest on loan borrowed from outside India is NOT deductible if TDS is not deducted in respect of which there is no agent in India. [Sec. 25]

**Setoff and carry forward:**

- ✓ **Default Tax Regime (115BAC):**
  - Loss from Let-out house property cannot be set off against income from other sources. Can be carry-forwarded for next years.
  - No chapter VIA Deductions
- ✓ **Optional Tax Regime:**  
Loss from house property can be set off against income from other heads, up to ₹2,00,000.

**Deductions under Chapter VIA:**

- ✓ **Principal repayment** is allowed u/s 80C [If borrowed from banks / FIs]
- ✓ **Additional Interest** is deductible:
  - Rs. 50,000/- under 80EE [Loan borrowed PY 2016 - 2017] and
  - Rs. 1,50,000/- under 80EEA [Loan borrowed between 1.4.2019 to 31.03.2022]

**9. Provision for Arrears of Rent and Unrealized Rent Subsequently [Section 25A]****Arrears of Rent (Section 25A(1)):**

Any arrears of rent or unrealized rent received subsequently is treated as income from house property in the year it is received, irrespective of whether the assessee's ownership of the property.

**Deduction (Section 25A(2)):**

A deduction of Flat 30% is allowed on the arrears of rent or unrealized rent that is subsequently realized by the assessee.

**10. Income from Co-Owned Property [Section 26]**

- ✓ When a property is owned by 2 or more people, the income from this property Cannot taxed as a group (AOP).
- ✓ For computation purpose, the property is treated as if it is owned by a single owner and thereafter co-owner's share of the income is added to their personal income for tax purposes.
- ✓ In case of SOP / UOP, where NAV = 0, the limits for Deduction for Interest on loan is considered per each co-owner. i.e., 2,00,000/- or 30,000/- limit is per co-owner.



- ✓ Remember to note that the interest deduction for SOP/UOP can be claimed **only under optional tax regime**.
- ✓ What if Co-Owner has another fully owned SOP / UOP? [Discussed in classroom]



## 11. Deemed Ownership [Section 27]

### 1. Transfer to a Spouse (Section 27(i)):

- ✓ If an individual **transfers property to their spouse** without adequate consideration, the **transferor is deemed to be the owner**.
- ✓ **Exception:** If the transfer is connection to an agreement to live apart, the transferee (spouse) is treated as owner and income is taxed in their hands.

### 2. Transfer to a Minor Child (Section 27(i)):

- ✓ If an individual **transfers property to their minor child** without adequate consideration, the **transferor is deemed to be the owner**.
- ✓ **Exception:** If the transfer is to a **minor married daughter**, the transferor is not deemed the owner. [Even here clubbing provisions u/s 64(1A) apply]
- ✓ **Note:** If **cash is given** to the spouse or minor child to **acquire property**, the transferor is **not the deemed owner**, but **clubbing provisions apply**.

### 3. Holder of an Impartible Estate (Section 27(ii)):

- ✓ The **holder of an impartible estate** (a property that cannot be divided) is deemed to be the owner of all properties in the estate.
- ✓ **Even After the Hindu Succession Act, 1956**, the properties of an impartible estate are assessed as part of a Hindu Undivided Family (HUF), **but the rules of Section 27(ii) continue for impartible estates**.

### 4. Member of a Co-operative Society, Company, etc. (Section 27(iii)):

- ✓ **A member** of a co-operative society, company, or other association of persons **who is allotted or leased a building/part thereof** is **deemed to be the owner** of the property, even though the society or company is the legal owner.

### 5. Person in Possession of Property (Section 27(iiiia)):

- ✓ A person who **takes possession of property in part performance** of a contract (under Section 53A of the Transfer of Property Act) is deemed the owner.
- ✓ This applies to cases where:
  1. Possession has **been handed over** to the buyer.
  2. **Sale consideration** has been paid or promised.
  3. The **sale deed is not executed**, but documents like power of attorney or agreement to sell are in place.

### 6. Person with Rights in Property for Not Less than 12 Years (Section 27(iiib)):

- ✓ A person who **acquires rights in a property through a lease of 12 years or more** is deemed the owner.
- ✓ **Exception:** Leases of **less than a year** or month-to-month leases **do not result in deemed ownership**.





## 5. PGBP



### 1. Meaning of 'Business' And 'Profession'

**Business:** Defined in Section 2(13) as **any trade, commerce, manufacture, or related activities** with a profit motive.

**Profession:** Not specifically defined, but generally means **an occupation requiring specialized learning or skills**. This term also includes "vocation" (Section 2(36)).



### 2. Method of Accounting

#### 1. Section 145(1):

Income under the heads "Profits and gains of business or profession" or "Income from other sources" must be computed **using either the cash or mercantile system of accounting regularly employed by the assessee**.

**Note:** In the entire PGBP - Paid includes payable and vice versa [Except u/s 43B]

#### 2. Section 145B:

Certain types of income are taxed differently:

- ✓ **Interest on Compensation:** Interest received on compensation or enhanced compensation **is taxable in the year of receipt**, and taxed "IFOS."
- ✓ **Government Assistance:** Income in the form of subsidies, grants any similar assistance from the Central or State Government **is taxable in the year of receipt**.

#### 3. Profits from **each business must be computed separately** but taxed together under this head.

#### 4. ICDS [Section 145(2)]:

- ✓ **10 ICDSs were notified**. [Discussed in CA Final]
- ✓ **All Assesseees using mercantile basis of accounting must follow ICDS.**
- ✓ However, **Individuals or HUFs not required liable to audit** under section 44AB are **exempt from ICDS**
- ✓ Income u/s 28 and u/ 56 shall be computed using ICDS.



### 3. Income Chargeable under this Head [Section 28]

#### 1. Income from Business or Profession: Income earned from any business or profession **Carried on by the Assessee at any time** during the previous year.

#### 2. Compensations:

- ✓ Any payment or compensation due to or received by **any person managing the affairs of a company** receiving **upon the termination or modifications** to their employment terms.
- ✓ Any payment or compensation due to or received by **any person holding agency in India** related to the **termination of the agency or modification of terms**.





- ✓ Any payment or compensation due to or received by any person vested with for managing property or business that is owned or controlled by the government.
  - ✓ Any payment or compensation due to or received by any person related to the termination or modification of the terms of any contracts related to their business activities.
3. Income from specific services performed for its members by a trade, professional or business associations.
4. Incentives received or receivable by assessee carrying on export business:
- ✓ Profit on Sale of Import Entitlements
  - ✓ Cash Assistance Against Exports
  - ✓ Customs/Excise Duty Drawback
  - ✓ Profit on Transfer of DEPB Scheme or Duty-Free replenishment certificates.
5. Perquisites: Any benefit or perquisite from business/profession is taxable, whether received fully or partly in cash or kind, convertible into money or not (e.g., rent-free accommodations).
6. Sums received by partners from their firms:
- ✓ Interest, salary, bonus, or commission or whatever name it is called as, received by a partner from their firms, to the extent deduction allowed to the firm, is considered as business income.  
Note: If not allowed as a deduction for the firm, it is not taxed for partners.
  - ✓ Further share of profit received from firm is exempt from tax [Sec. 10(2A)]
7. Any sum whether received or receivable, in cash or kind, under an agreement:
- ✓ Compensation for Not carrying out any Activity.
  - ✓ Compensation for Not Sharing intellectual property or commercial rights (e.g., know-how, patents, trademarks, information or techniques assisting in manufacturing or service provision. etc.).
- Exceptions:
- ✓ Any sum received for transferring the right to manufacture, produce, process, or carry on a business/profession is chargeable under Capital Gains.
  - ✓ Compensation received from the multilateral fund of the Montreal Protocol [On substances that deplete the Ozone layer] for agreements with the Government of are not assessable under PGBP.
8. Keyman Insurance Policy:  
Any proceeds received under a Keyman insurance policy received by an employer are taxable as business income.
9. Conversion of Inventory to Capital Assets:  
The FMV of inventory on the date it is conversion into capital asset is taxable as business income. [In-depth Discussion in Capital Gains]
10. Capital Assets Linked to Section 35AD:  
Proceeds from capital assets, for which full expenditure was claimed as a deduction under Section 35AD, become taxable when the asset is discarded, destroyed, or transferred. [Irrespective of 8 years link u/s 35AD(7A)]



#### 4. Speculation Business

##### 1. Speculation - Separate and Distinct Business:

Explanation 2 to Section 28, a speculation business **must be treated as separate from other types of business**. [Due to set off and C/f restrictions u/s 70, 71, 73]

##### 2. Meaning of Speculative Transaction (Section 43(5))

- ✓ A speculative transaction involves **a contract for the purchase or sale of commodities including stocks and shares that is settled without actual delivery or transfer**.
- ✓ Further if any of the company's activities **involve buying and selling shares of other companies**, it is **DEEMED** as a speculative business.

##### 3. Exemptions from Speculative Business Classification: The following companies are **not** deemed to be speculation business:

- ✓ Companies **whose gross income mainly comprises**:
  - Interest on securities
  - Income from house property
  - Capital gains
  - Income from other sources
- ✓ Companies **primarily engaged in**:
  - Trading in shares
  - Business of Banking
  - Granting loans and advances

##### 4. Transactions NOT Deemed to be speculative:

Certain types of transactions are **explicitly excluded from speculative transactions** including:

- i. Hedging Contracts for Raw Materials or Merchandise: **Contracts to guard against price fluctuations in materials or goods in a manufacturing or merchandising business, where goods are to be actually delivered.**
- ii. Hedging Contracts for Stocks and Shares: **Contracts to prevent loss from price fluctuations in a dealer's or investor's stock holdings.**
- iii. Forward Contract: **Contracts entered by market or stock exchange members to prevent loss in transactions of jobbing or arbitrage.**
- iv. Trading in Derivatives: **Transactions in derivatives conducted on recognized stock exchanges through SEBI-registered brokers.**
- v. Trading in Commodity Derivatives: **Eligible electronic transactions in commodity derivatives on recognized exchanges, which is subject to commodity transaction tax.**

**Note:** Commodity transaction tax requirements **do not apply to agricultural commodity derivatives.**



#### 5. Computation of Profits and Gains from Business or Profession [Section 29]

Profits and gains from any business or profession are computed as per the provisions given under Sections 30 to 43D.



## 6. Deduction towards Building Expenses [Section 30]

Deductible Expenses
<b>Building Occupied as Tenant</b> <ul style="list-style-type: none"> <li>✓ Rent paid is allowed.</li> <li>✓ Cost of Actual Repairs borne by tenant or lessee.</li> <li>✓ Property taxes [Subject to 43B], Insurance and any other expenses related to premises can be claimed as deduction.</li> </ul>
<b>Building Owned by Assessee</b> <ul style="list-style-type: none"> <li>✓ No deduction for notional rent [No Opportunity cost]</li> <li>✓ Premises Rented from partner by a firm running business is allowed to the firm, if rent is reasonable and not excessive.</li> <li>✓ Expenses of Repairs incurred by owner are allowed.</li> <li>✓ Property taxes [Subject to 43B], Insurance and any other expenses related to premises can be claimed as deduction.</li> </ul>
<b>Capital Nature Expenses</b> <ul style="list-style-type: none"> <li>✓ Repairs of capital nature incurred by owner / Tenant are Not deductible and are added to block of assets as additions and depreciation can be claimed by the assessee.</li> </ul>
<b>Premises used partly for business and partly for other purposes [Sec. 38(1)]</b> <ul style="list-style-type: none"> <li>✓ The share of expenses related to business purpose is allowed as deduction.</li> <li>✓ Further if House property is partly used for business purpose, the actual repairs proportionate for business can be claimed as deduction.</li> <li>✓ Remember under HP, the deduction is flat 30% but under PGBP it is actual expenses</li> </ul>



## 7. Repairs and insurance of machinery, plant and furniture [Section 31]

Deductible Expenses
<b>Repairs and Maintenance:</b> <ul style="list-style-type: none"> <li>✓ Assets must be used for the business of assessee.</li> <li>✓ Usage includes passive usage as well.</li> <li>✓ Repairs include renewals and renovations but not complete replacements or reconstructions.</li> <li>✓ Only current repairs are deductible.</li> <li>✓ Repairs are of capital nature are NOT deductible, but are added to block of assets.</li> <li>✓ Arrears of repairs from prior years may qualify under Section 37(1).</li> </ul>
<b>Insurance Premium:</b> <ul style="list-style-type: none"> <li>✓ Deduction allowed for insurance premiums paid against damage or destruction of the assets used in business.</li> <li>✓ Contributions to a trade association for insurance, where loss is indemnified by such trade association is deductible even if a part of it is returnable to the insured in certain circumstances.</li> </ul>



## 8. Depreciation [Section 32]

### Compulsory Deduction

Deduction for depreciation is **mandatory**, even if the assessee does not claim it [Explanation 5 to Section 32].

### Conditions for Allowance of Depreciation [Rule 5]

- a) The **assets must belong to** either of the following categories:
- ✓ **Tangible assets:** Buildings, furniture or **plant & Machinery** [residuary].
  - ✓ **Intangible assets:** Know-how, patents, copyrights, trademarks, licenses, franchises, and similar commercial rights acquired on or after April 1, 1998.
  - ✓ **No Depreciation** on cost of **Land and Goodwill**.
  - ✓ Depreciation is **allowed on parts and components** (e.g., the engine of a vehicle, parts of machinery, or parts of a building).
  - ✓ The term 'Plant',
    - **Includes:** Ships, books, vehicles, scientific apparatus, and surgical equipment used for business purposes.
    - **Excludes:** Tea bushes, livestock, buildings, furniture, fittings, animals, human bodies, and stock-in-trade. [**Tea bushes and livestock are not eligible for Dep.**]
  - ✓ Scope of 'Buildings' includes roads, bridges, culverts, wells, and tubewells.
- b) The assets should be used by the assessee for business during the PY:
- ✓ **Must use:** Assets must be put to use any time during the year for business purposes. Usage **includes passive usage** i.e., assets kept ready for use, even if not actively used. For example, stand by equipment and fire extinguishers can be capitalized if they are 'ready for use'.
  - ✓ **50% Depreciation:** If an asset is **acquired and used for less than 180 days in the first year**, depreciation is **allowed only at 50%** of the prescribed rate on the block. This applies only in the first year of acquisition and not subsequent years.
  - ✓ Even if **assets are used by other persons** such as lessee, Still the **owner can claim depreciation**. [For an assessee who is engaged in leasing activities]
  - ✓ **Used for other purpose:** If the depreciable assets are **not exclusively used for business purpose**, then **proportionate depreciation** for business only claimed as deduction [Section 38(2)]
- c) The assessee must own the assets, wholly or partly:
- ✓ The **assessee must own the asset**, either wholly or partly, to claim depreciation.
  - ✓ Assessee **need not be the owner of land** on which **building is constructed** by him.
  - ✓ If the **assessee incurs capital expenditure** for construction, renovation, or improvement, in respect of leased building, **depreciation is allowed** is on the said capital expenditure.





## Computation of Depreciation

### For Power Generation Undertakings [Rule 5(1A)]

1. **SLM Basis:** Depreciation is calculated as a percentage of the actual cost of assets, as per rates in Appendix IA of Rule 5(1A).
2. **Aggregate depreciation** allowed across all assessment years cannot exceed the actual cost of the asset.
3. **WDV Basis:**
  - ✓ Power undertakings can opt for depreciation on the basis of Block of assets with WDV method at rates in Appendix I.
  - ✓ The option must be exercised before the due date for filing returns under Section 139(1) for the year when power generation begins. [First year]
  - ✓ Once chosen, the option is final and applies to all subsequent assessment years.

Terminal depreciation u/s 32	Balancing Charge u/s 41(3)
<ul style="list-style-type: none"> <li>✓ If the amount received is less than the written down value in respect of assets sold, discarded, or destroyed, the same is treated as terminal depreciation will be allowed as deduction.</li> </ul>	<ul style="list-style-type: none"> <li>✓ If the amount received exceeds the written down value, the same is taxable as deemed profits under PGBP.</li> <li>✓ If amount is more than Actual Cost then the same is STCG u/s 50A</li> </ul>
<ul style="list-style-type: none"> <li>✓ Terminal depreciation is allowed only if the shortfall is written off in the assessee's books.</li> </ul>	<ul style="list-style-type: none"> <li>✓ This is taxable even if business is not in existence in year of receipt.</li> </ul>

### Block of Assets Method [other than power generating assessee's]:

Depreciation is calculated at a prescribed percentage of the written down value (WDV) of a block of assets under Rule 5(1).

U/s. 2(11), Block of assets means group of assets falling within a class comprising:

- a. Buildings,
- b. Furniture
- c. Plant & Machinery or
- d. Intangibles - Knowhow, patents, copyrights, trademarks, licenses, franchises, or other business/commercial rights (excluding goodwill)

AND

Carrying same rate of depreciation

For example, Cars, Air Conditioners, Industrial machines are classified as plant & machinery, further these assets carry 15% rate of depreciation and hence, all these assets can be grouped into a single block. [P & M - 15% Block]





### Additional Depreciation (Section 32(1)(iia))

[Not eligible for Assessee choosing DTR u/s 115BAC]

- ✓ Available only if the assessee chooses optional tax regime.
- ✓ Eligible assessee: Assessee engaged in manufacturing, production, or power generation.
- ✓ Business of printing or printing and publishing amounts to manufacture or production.
- ✓ Further in case of power sector, additional depreciation is allowed only if they choose block of assets method.
- ✓ Eligible Assets: New machinery or plant acquired and installed and does not include:
  - 2<sup>nd</sup> hand machinery [Whether Purchased within India / Outside India]
  - Machinery installed in office or residential premises [since not used in manufacturing process] & Office appliances
  - Ships, aircrafts and road transport vehicles.
  - Any machinery in respect of which 100% deduction or 100% depreciation is allowed.
- ✓ Rate of additional depreciation:
  - 20% of the actual cost of New P & M acquired and installed during the year.
  - If assets are put to use for less than 180 Days, only 10% (half of 20%) is allowed and the remaining 10% allowed in the next year.

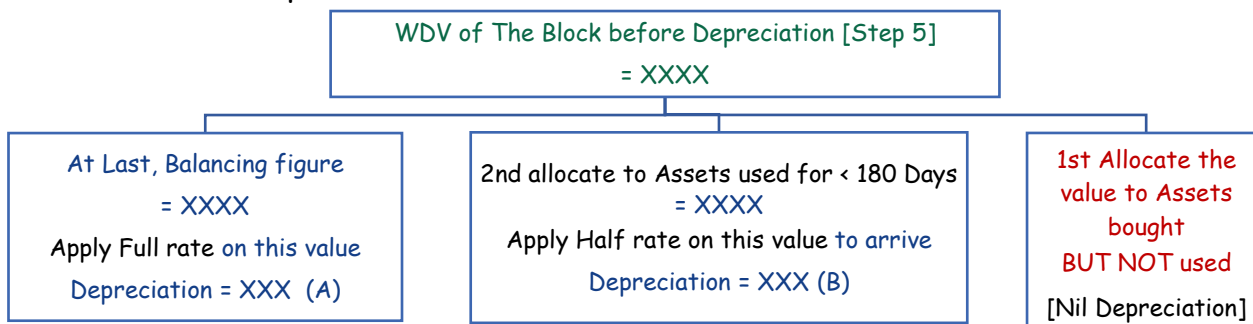


### Depreciation Computation Format

Particulars	Amount	Amount
1. Opening Balance of the Block as on 1st April of the current P.Y.		XXXX
2. Add: Actual cost <sup>#</sup> of assets acquired during the previous year		
✓ Assets put to use for $\geq$ 180 days	XXX	
✓ Assets put to use for $<$ 180 days	XXX	
✓ Assets acquired but not installed	XXX	
✓ Capital repairs incurred [discussed u/s 30 / 31]	XXX	XXX
3. Gross Value of the Block [Step 1 + 2]		XXXX
4. Less:		
✓ Money received / receivable in respect of any part of the block which is sold, discarded, demolished or destroyed during that previous year [the respective assets sold related under slump sale, Actual cost of the asset (-) amount of depreciation that would have been allowable to the assessee for any assessment year as if the asset was the only asset in the block] [Note: Value of step 4 Cannot Exceed step 3]		(XXX)
5. Closing W.D.V of the Block before depreciation [Step 3 - 4]		XXXX
6. Less: Depreciation [WN 1] [Cannot exceed Step 5]		(XXX)
7. Closing WDV of the block after Depreciation [Step 5 - 6]		XXXX

#### Working Note 1:

##### Part 1 - Normal Depreciation:



$$\text{Total Normal Depreciation} = A + B$$

##### Part 2 - Additional Depreciation in respect of New P & M:

Particulars	No. of days used in PY	Depreciation
Machine B	Acquired and NOT installed	Zero
Machine C	$\geq$ 180 Days	<sup>#</sup> Actual cost*20%
Machine D	$<$ 180 Days	Actual cost*10%
Machine A [Bought Last year]	Balance AD to be claimed	Actual cost*10%
Total Additional Depreciation		XXXX

<sup>#</sup> Means Actual Cost as per Sec. 43(1) and includes Borrowing cost as per Explanation 8.

$$\text{Total Depreciation} = \text{Part 1 [ND]} + \text{Part 2 [AD]}$$



## Rates of depreciation

### Intangibles

✓ Block 1 - Patents, copyrights, trademarks, licenses (non-goodwill)	25%
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### Buildings

✓ Block 1 - Residential buildings (excluding hotels)	5%
✓ Block 2 - Non-residential buildings	10%
✓ Block 3 - <ul style="list-style-type: none"> <li>Buildings for water supply/treatment (On or after 1<sup>st</sup> Sep 2002)</li> <li>Temporary structures (e.g., wooden)</li> </ul>	40%

### Furniture & Fittings

Block 1 - Furniture & Electrical fittings [E.g., Fans, wiring, Sockets etc.,]	10%
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### Plant & Machinery

#### Block 1 - P & M - 30%

✓ Motor cars purchased between 23.08.2019 - 31.03.2020	30%
✓ Buses, lorries, taxis (used for hire)	
✓ Moulds [used in Rubber & Plastic Factories], Semiconductor industry equipment	

#### Block 2 - P & M - 45%

Buses, lorries, taxis (purchased between 23.08.2019 - 31.03.2020)	45%
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#### Block 3 - P & M - 40%

✓ Aero planes and engines	40%
✓ Pollution control [Water/Air], Solid waste equipment, Containers	
✓ Life-saving medical equipment	
✓ Renewal energy devices [Specified]: <ul style="list-style-type: none"> <li>a. Electric Vehicles [Battery or Fuel Cell Powered]</li> <li>b. Windmills and specially designed devices that runs on windmills.</li> <li>c. Any Special Devices including electric generators and pumps run on wind energy</li> </ul> [For b, c - Installation must be on or After 1 <sup>st</sup> April 2014]	
✓ Energy Saving Devices	
✓ Computers including computer software and Computer printers.	
✓ Books Owned by professionals (annual/non-annual)	
✓ Books Used in lending libraries	
Block 4 - P & M - 20%	
✓ Ocean-going ships, inland vessels and speed boats	
Block 5 - P & M - 15%	

✓ Renewal energy devices, windmills installed before 1 <sup>st</sup> April 2014	15%
✓ Motor cars (General) [Non-Electric]	
✓ Any other Plant & Machinery	



### Actual Cost [Sec. 43(1)]

- ✓ Refers to the **actual cost** of the asset to the assessee.
- ✓ However, If, a **payment exceeding ₹10,000** in a single day by other than approved modes, for the asset acquisition, then the actual cost is considered as NIL.
- ✓ Approved modes include, **Account Payee cheque or A/c Payee Bank draft or electronic clearing system**. [UPI/IMPS/NEFT/RTGS/IMPS/BHIM/Aadhar Pay]

### Actual Cost in Special Situations [Explanations to Sec.43(1)]

Expl.	Situation	Amount to be added to the Block
1	If an asset is used for B/P use <b>after it ceases to be used for scientific research</b>	Actual Cost <b>minus</b> Deduction allowed u/s 35
1A	<b>Conversion of inventory</b> into capital asset	<b>FMV</b> on date of conversion
2	Asset acquired <b>under Gift or inheritance</b>	Actual cost to Previous owner <b>minus</b> notional depreciation <b>plus</b> installation and freight incurred.
3	<b>2nd Hand asset</b> and A.O. felt the purpose is to avoid tax	Cost determined by A.O. with prior approval of JCIT.
4	Transfer of an Asset used for B/P and <b>Reacquired by the assessee</b>	Lower of <ul style="list-style-type: none"> <li>✓ Actual Cost on original purchase <b>minus</b> notional depreciation till date of sale</li> <li>or</li> <li>✓ <b>Actual price</b> on reacquisition</li> </ul>
4A	<b>2nd Hand Asset</b> given on lease, hire or otherwise to previous owner [Overrides Explanation 3]	<b>WDV to previous owner</b> at the time of acquisition from him
5	✓ Personal Buildings <b>brought into use for B/P</b>	Actual cost of building <b>minus</b> notional depreciation
	✓ Other personal assets brought into B/P	Actual Cost <b>minus notional Dep</b>
8	Interest on borrowed loan in connection with the acquisition of an asset	<b>Interest amounts</b> up to the date of asset <b>first put to use</b>
9	Refundable taxes under customs and GST law	Shall not be included in Actual cost
10	<b>Subsidies / Grants:</b> A <b>portion of cost</b> of the asset <b>met by other persons</b> [CG, SG, any other]	Such cost <b>shall be excluded from price</b> of the asset
11	Asset purchased outside India and brought asset into India for B/P by a non-resident	Actual Cost minus Notional depreciation
13	✓ <b>Asset used for specified business</b> by assessee or Previous owner [35AD] and brought into Normal B/P directly or through modes specified u/s 49(1) read with S. 47	Actual cost minus deduction u/s 35AD = NIL
	✓ Proviso to 13, where 35AD(7B) is applicable [deemed as income] <b>[before 8 years logic]</b>	Actual cost minus Notional Deprecation.

### Written down value [Sec. 43(6)]

- For assets acquired during the current (previous) year, **WDV = Actual Cost**.
- For **assets bought in earlier years**, WDV is calculated as:  

$$\text{WDV} = \text{Actual Cost} - \text{Aggregate of Depreciation actually Allowed}$$
- The written down value of any block of assets shall be worked out as under section 43(6)(c): Refer Depreciation computation format.



d. Depreciation Adjustment for Exempt Entities becoming taxable (Explanation 6)

When previously exempt entities become taxable, then the depreciation shall be calculated on WDV which shall be computed as Actual cost minus notional depreciation for exempted period.

[If any revaluation is there the same shall be adjusted [reversed]]

e. Composite Income (Explanation 7):

- ✓ Suppose, a part of the income is taxable under business / profession, such as income from tea manufacturing (40% taxable) and part of income is exempted as agriculture income, the deduction towards depreciation on the asset is allowed only to the extent of taxable portion.
- ✓ However, Full value of depreciation will be reduced from block to arrive Closing WDV at the end of the year after depreciation.

Example:

- Turnover: ₹20 lakh; Expenses: ₹4 lakh; Depreciation: ₹1 lakh.
- Hence, Net income = ₹15 lakh and the taxable Income = 40% of ₹15 lakh = ₹6 lakh
- Full depreciation of ₹1 lakh is deducted from WDV.

### Carry forward and set off of depreciation [Section 32(2)]

#### Unabsorbed Depreciation and Carry Forward:

- ✓ When current year profits are insufficient to fully set off the depreciation allowance, any unabsorbed depreciation is carried forward to the next year.
- ✓ Unabsorbed depreciation is added to the following year's depreciation allowance, effectively becoming part of that allowance.
- ✓ Unabsorbed depreciation can be carried forward indefinitely until it is fully set off.

#### Unabsorbed Additional Depreciation Not set-off and Assessee chosen DTR u/s 115BAC

- ✓ If there is unabsorbed additional depreciation under Section 32(1)(iia) from prior years that has not been utilized and outstanding in current year, it cannot be set off against current year income.
- ✓ The written down value (WDV) of the block of assets as on beginning of the current year will be increased by the amount of unabsorbed additional depreciation not allowed for set-off.

#### Order of Set-Off

The Supreme Court ruling in *CIT v. Mother India Refrigeration (P.) Ltd.* mandates that current year depreciation is deducted first against business income before any unabsorbed business losses from previous years.

[Detailed discussion under set off and carry-forward of losses]





## 9. Scientific Research Expenditure (Section 35)

### 100% Deduction - Allowed under Both regimes

#### Related to business of the assessee and directly incurred by assessee

35(1)(i)	<ul style="list-style-type: none"> <li>✓ Current year Revenue expenditure on scientific research is allowed. [Any expenditure]</li> <li>✓ Further the expenditure incurred 3 years prior to the commencement of the business is also allowed. [Only Salary + Materials cost]</li> </ul>
35(1)(iv) and 35(2)(ia)	<ul style="list-style-type: none"> <li>✓ Current year capital expenditure on scientific research is allowed.</li> <li>✓ The Capital Expenditure is incurred 3 years prior to the commencement of the business is also allowed.</li> <li>✓ Depreciation on the same expenditure cannot be claimed.</li> <li>✓ No deduction for cost of land. Building cost is deductible.</li> <li>✓ The unabsorbed capital expenditure can be carry forwarded and the treatment is similar to unabsorbed depreciation.</li> </ul>

#### Asset removed from scientific research purpose

**Sold directly:** If any proceeds arise on sale of asset used for scientific research without using it for any other purpose, it is fully taxable as deemed profits u/s 41(3). The amount of profits liable to tax is:

Lower of:

- Sale proceeds or
- Deduction claimed u/s 35

**Used for Business:** If the same is brought into normal business use, the same will be added to block of assets at NIL. [Expl. 1 to Sec. 43(1)] [i.e., No Re-taxation]

### 100% Deduction - Allowed only under Optional Tax regime

#### Contributions / Donations to various entities [Need not be related to business]

35(1)(ii)	✓ Contribution to a research association which has as its object the undertaking of scientific research or a university, college or other institution to be used for scientific research [Notified]
35(1)(iia)	✓ Contribution to an Indian company which has main objective as scientific research [Notified by Prescribed authority]
35(1)(iii)	✓ Contribution to a research association which has as its object the undertaking research in social science or statistical research or a university, college or other institution to be used for social science or statistical research [Notified]
35(2AA)	✓ Contribution to a National Laboratory or University or Indian Institute of Technology or a specified person for carrying out approved programmes of scientific research.

**Note:** Deduction is allowed even if the above bodies permission is withdrawn later.



## 10. Deduction of capital expenditure for specified businesses [Section 35AD]

### List of 14 Specified businesses

1. Setting up and operating cold chain facilities for specified products.
2. Setting up and operating warehousing facilities for storing agricultural products.
3. Laying and operating a cross-country natural gas, crude oil, or petroleum pipeline network, including integral storage facilities. [Only for companies]
4. Building and operating hotels with a two-star or higher category rating, anywhere in India.
5. Building and operating hospitals with at least 100 beds, anywhere in India.
6. Developing and building housing under government-notified schemes for slum redevelopment or rehabilitation.
7. Developing and building housing under government-notified affordable housing schemes.
8. Producing fertilizers within India.
9. Setting up and operating an inland container depot or a container freight station approved under the Customs Act, 1962.
10. Engaging in bee-keeping and the production of honey and beeswax.
11. Setting up and operating warehousing facilities specifically for storing sugar.
12. Laying and operating a slurry pipeline for transporting iron ore.
13. Setting up and operating a semiconductor wafer fabrication manufacturing unit, subject to notification by the Board.
14. Developing, maintaining, and operating a new infrastructure facility.

### Amount of Deduction

- ✓ 100% deduction on capital expenditure incurred wholly and exclusively for specified businesses.
- ✓ Expenditure incurred before commencement of specified business is deductible in the year of business commencement provided it should be capitalized in the books of account on the commencement date.
- ✓ No deduction towards cost of land, goodwill, or financial instruments.
- ✓ Payments exceeding ₹10,000 made to a single person in a day are only eligible if made through Banking channel [Except Bearer Cheque / Bearer Draft].
- ✓ Deduction only under optional tax regime for individuals, HUFs, AOP, BOI and AJP
- ✓ Companies are not eligible for Section 35AD deduction if they opt for special provisions under Sections 115BAA or 115BAB.
- ✓ Further, once deduction is claimed under section 35AD for the specified business, no deductions under Chapter VI-A [Heading - C] and Section 10AA.

### Conditions for Claiming Deduction under Section 35AD

- ✓ Should not be set up by splitting or reconstructing an existing business.
- ✓ Should not be setup by transfer of 2<sup>nd</sup> hand machinery/plant used for other purposes. However, 2<sup>nd</sup> hand machinery up to 20% of total machinery in the business is allowed.
- ✓ 2<sup>nd</sup> hand machinery doesn't include:



- Not used in India, prior to installation by the assessee.
- Imported into India from abroad.
- No depreciation claimed by any other assessee on this in any A.Y.

### Meaning of certain terms

**Cold Chain Facility:** A chain of facilities for the storage or transportation of agricultural and forest produce, meat and meat products, poultry, marine and dairy products, horticulture, floriculture, apiculture products, and processed food items, maintained under scientifically controlled conditions (including refrigeration) necessary for preservation.

**Infrastructure Facility:**

- ✓ Roads (including toll roads), bridges, or rail systems;
- ✓ Highway projects, including associated housing or other integral activities;
- ✓ Water supply projects, water treatment systems, irrigation, sanitation and sewerage systems, or solid waste management systems;
- ✓ Ports, airports, inland waterways, inland ports, or navigational sea channels.

### Set-off or Carry Forward and Set-off of Loss from Specified Business

Losses for an assessee claiming deduction under section 35AD for a specified business can be set off only against the profits of another specified business under section 73A, whether or not the latter qualifies for the section 35AD deduction.

### Other conditions contained under section 35AD

1. **Audit:** The assessee's accounts for the relevant financial year must be audited by a chartered accountant and the audit report, in the prescribed form, must be submitted, signed, and verified by the accountant.
2. **8 years usage:**
  - ✓ Section 35AD(7A) mandates that any asset for which a deduction is claimed under Section 35AD must be exclusively used for the specified business for at least 8 years.
  - ✓ As per Section 35AD(7B), if the asset is used for a purpose other than the specified business within 8 years, the total deduction previously claimed minus any depreciation that would have been allowed under Section 32, will be treated as the assessee's business income in that year. The same value is added to block.

Income = Deduction claimed earlier - Notional Depreciation

3. **Taxability u/s 28(vii):** If the asset, for which deduction under Section 35AD was claimed, is demolished, destroyed, discarded, or transferred, any amount received or receivable for it will be taxed as business income under Section 28(vii).



## 11. Amortisation of Preliminary Expenses [Section 35D]

### 1. Applicability:

- ✓ Indian companies and Resident non-corporate assessees. [All residents]
- ✓ Before commencement: Expenses incurred before business commencement are eligible.
- ✓ Expansion Related: Expenses incurred for extension of business or the commencement of production in a new unit.

### 2. Amount Eligible for Deduction:

- ✓ Total expenditure claimed shall not exceed:
  - Higher of 5% of Cost of the project or 5% of Capital employed, in case of companies.
  - 5% of Cost of Project (For other assessees)
- ✓ Preliminary expenses can be amortised over 5 years and is deductible each year, starting from the year of commencement or expansion.
- ✓ This expenditure cannot be deducted again under any other section of the Income Tax Act for the same or any other assessment year.
- ✓ Deduction only if accounts are Audited before due date u/s 139(1)

### 3. Eligible Expenses:

- ✓ The following are eligible for amortisation:
  - Feasibility or Project report preparation.
  - Market or other surveys essential for business.
  - Engineering services related to business setup.
  - Legal charges for agreements relating to setting up the business.
- ✓ For Companies:
  - Legal charges for drafting the MOA and AOA.
  - Printing the MOA and AOA.
  - Incorporation fees under the Companies Act.
  - Costs related to issuing shares or debentures, including underwriting commission and prospectus expenses. [Flotation costs]
- ✓ The assessee must furnish a statement of expenditure within 1 month before the due date for filing the return of income u/s 139(1).

### Meaning of certain terms:

**Cost of the Project:** This includes the actual cost of fixed assets and are reflected in the books of the assessee as of the last day of the previous year in which the business commences or extension happened.

### Capital Employed:

This refers to the total of the issued share capital, debentures, and long-term borrowings as of the last day of the previous year when the company's business commences or extension happened.





## 12. Deduction for Voluntary Retirement Scheme [Section 35DDA]:

1. **Applicability:** Any Assessee making payment to employees under a VRS.
2. **Deduction Amount:** Actual expenditure is allowed as deduction in 5 instalments commencing from year of payment.
3. **Exclusivity:** No deduction is allowed for this expenditure under any other provisions.



## 13. Other Deductions (Section 36)

Section	Amount allowed as deduction
36(1)(i)	Stock insurance premium is allowed as deduction.
36(1)(ib)	Employee health insurance premium borne by assessee are allowed as deduction provided it is paid in other than cash. Note: Insurance against P&M is allowed U/s 31.
36(1)(ii)	Sum paid to the employees as bonus or commission. [Not in substitute of Dividend]
36(1)(iii)	Interest on Loan: <ul style="list-style-type: none"> <li>✓ Interest on borrowed loan used for purpose of B/P.</li> <li>✓ However, if such loan is used for acquiring a fixed asset, the interest up to date of 1<sup>st</sup> put to usage is added to Actual cost of the asset. [Expl 8 to 43(1)]</li> </ul>
36(1)(iiia)	Discount on ZCB: <ul style="list-style-type: none"> <li>✓ Discount on Zero Coupon Bonds is allowed as deduction on prorate basis in every previous year. [i.e., Deduction = Discount/Life of Bond in months]</li> </ul> $\text{Discount} = \text{Maturity Amount Payable} - \text{Issue price Received}$
Contributions to welfare funds	
36(1)(iv)	Employers Contributions to RPF / SAF within prescribed limits. [Subject to 43B]
36(1)(iva)	Contribution towards NPS u/s 80CCD is allowed as deduction to the extent of 14% of salary of employee. $\text{Salary} = \text{Basic} + \text{D.A. [For retirement benefits]} + \text{Commission (\% of t/o)}$
36(1)(v)	Employers Contributions to Approved Gratuity Fund [AGF] [Subject to 43B]
36(1)(va)	<ul style="list-style-type: none"> <li>✓ Deduction is allowed under this section if, the employee contribution is remitted to respective funds within due dates prescribed under respective acts governing those funds.</li> <li>✓ Remember, Employees contribution to various funds, collected by employer shall be first treated as income u/s 2(24)(x).</li> <li>✓ Sec. 43B shall never apply to this amount.</li> </ul>





### Bad debts and Recovery of Bad debts

- 36(1)(vii) ✓ Bad debts<sup>@</sup> must relate to B/P of the assessee. The bad debts are claimed as deduction under 2 circumstances:
1. Written off in Books: Deduction allowed only if the debt is actually written off and Such debt must have been considered as income in the CPY or Earlier PYs.
  2. Irrecoverable: Further if the debt becomes irrecoverable<sup>ICDS</sup>, in case if the debt is not recognised in books but recognised under tax purpose in CPY or earlier years. [Due to ICDS conflicts with accounting standards].
- ✓ U/s 36(2), If A.O. does not allow deduction in full or part claimed as bad debt by assessee, then the balance amount will be deductible in the year of final settlement with the customer. [Example (e) in the below table]

<sup>@</sup>Bad debts include 2 types:

- a. Debt not recoverable in respect of a trade receivable.
- b. Loans given by any person involved in money lending business.

- 41(4) ✓ Recovery of bad debts is taxable under B/P in the year of recovery. The Taxable Amount is only to the extent of excess of Net Deduction allowed earlier. [Whether B/P is in existence or not].

**Taxable Amount = Amount Recovered minus Net Deduction**

[Net Deduction = Debt Claimed - Deduction Allowed by A.O.]

[Note: Not taxable if successor recovers the same]

For Example, Bad Debts Written off = 10 Lakhs, But A.O. Allowed only 5 Lakhs [36(2)(iii)]

Amount Recovered under Final settlement	Taxable Amount
a) 5 Lakhs	Nothing is taxable
b) 7 Lakhs	2 Lakhs
c) 10 Lakhs	5 Lakhs
d) 11 Lakhs [Including 1 Lakh interest]	6 Lakhs
e) 4 lakhs	(1 Lakh) Additional deduction u/s 36

### Family Planning expenditure

- 36(1)(ix) ✓ Any expenditure incurred by a company for the purpose of promoting family planning amongst its employees will be allowed as a deduction.
- ✓ If the expenditure is of a capital nature, the same is allowed as deduction in 5 instalments commencing from year of expenditure.
- ✓ The unabsorbed expenditure on family planning is given same treatment as unabsorbed depreciation.
- ✓ The capital expenditure on promoting family planning will be treated in the same way as capital expenditure for scientific research for purposes of dealing with the profit or loss on the sale or transfer of the asset including a transfer on amalgamation.



36(1)(xv)	✓ The amount of STT paid by the assessee in respect of taxable securities transactions be allowed as deduction.
36(1)(xvi)	✓ <b>Commodities Transaction Tax</b> paid in respect of <b>taxable commodities</b> transactions is <b>allowed as deduction</b> . [E.g., Commodity derivatives <b>other than agricultural commodities</b> ]



#### 14. Residuary Expenses [Section 37]

- ✓ Deduction allowed for any other expenses **not covered under Sections 30 to 36**.
- ✓ **No deductions for provisions or reserves** for contingent liabilities.
- ✓ The expenditure must be for **wholly and exclusively** for business purposes.
- ✓ **Not related to personal or capital** in nature.
- ✓ Expenses related to **offences or prohibited acts** not allowed. [E.g., bribes]
- ✓ No Deduction for Expenditure **incurred to settle proceedings\*** in relation to contraventions under **SEBI, SCRA, Depositories Act, Competition Act**. [23.04.25 [N]]
- ✓ Must incur **after business is setup**.
- ✓ No deductions for business losses (e.g., embezzlement, theft, destruction of assets)
- ✓ **Reasonableness** of the expenses **is irrelevant** [Except u/s 40A(2)]

##### Few Clarifications:

- ✓ **Premium on Keyman insurance** policy taken in the name of the partner by the firm is **allowed as deduction**. [Circular 38/2016]
- ✓ **Freebies to doctors** by pharma companies is **not allowed as deduction** as the same is prohibited under IMC Regulations.
- ✓ **CSR\*** Expenditure **not allowed as deduction** [S. 135 of companies act]. However, contributions referred u/s 35 are allowed.
- ✓ **Advertisement in a souvenir, brochure, tract of like published by political parties** is **not allowed as deduction** u/s 37(2B). The same is treated as contribution to political parties for companies and allowed under 80GGB.

\*Note: It is Advisable to read Sec 37 from ICAI SM Page - 3.264 to 268. For Theory Question Probability. [Not Imp for Exams] [Jus a Recommendation]



## 15. Inadmissible Deductions [Section 40]

### Disallowance on account of "Non-compliance with TDS Provisions" [40(a)(i)/(ia)]

#### Disallowance in RPY<sup>\$</sup> due to Non-compliance

If TDS is Deductible but **not deducted** in RPY or **deducted but not remitted** within due date u/s 139(1), then the following payments are **not allowed as deduction**:

Non-resident non-corporate or foreign company [i.e., Any non-resident]	Any Resident Payee
✓ Sec. 40(a)(i)	✓ Sec. 40(a)(ia)
✓ 100% of the payment* is Disallowed	✓ 30% of the payment is Disallowed
✓ Payment in nature of interest, royalty, FTS, or other sums chargeable	✓ Any sum for any expenditure

\*Payments made Outside India are always subject to 100% disallowance.

<sup>\$</sup> RPY means the PY in which the expenditure is incurred.

#### Subsequently allowed in later P.Y's of compliance

TDS Deducted in RPY but not remitted within due date u/s 139(1) of RPY	TDS <u>not deducted</u> in RPY
✓ Disallowed for RPY [100% or 30%]	✓ Disallowed for RPY [100% or 30%]
✓ Ultimately <b>Allowed as expenditure</b> in the <b>actual year of remittance</b> [i.e., for subsequent PYs]	✓ Ultimately <b>Allowed as expenditure</b> in the <b>actual year of deduction and remittance</b> [i.e., for subsequent PYs]
✓ 139(1) due date is <b>irrelevant</b> .	✓ 139(1) due date is <b>irrelevant</b> .

#### Assumed Compliance with TDS Provisions

The payer is **not deemed to be an assessee-in-default** u/s 201(1), if:

- ✓ The **payee furnishes a return** of income under Section 139 and
- ✓ **Includes the amount received** from the payer in computing his income and
- ✓ **Pays the tax** on such income.

Further The payer **must obtain a certificate from an accountant** to substantiate this.

Then it is assumed that TDS is deducted and remitted in the Year in which Payee furnishes the return of income u/s 139. [Deduction in subsequent PYs only]

Note: Interest u/s 201(1A) will be levied up to deemed date of deduction. [TDS Chapter]



### Taxes on income is disallowed [40(a)(ii)]

Any tax on profits/gains of business or profession, including surcharge and cess, is disallowed.

E.g., Income tax, surcharge, and education cess are disallowed.

### Salaries Paid Outside India / to Non-Residents [40(a)(iii)]

Salary paid outside India or to non-residents is disallowed if:

- ✓ TDS is not deducted.
- ✓ TDS is deducted but not deposited as per Chapter XVII-B.

### Disallowance for contributions to employee welfare funds [40(a)(iv)]

Any contribution to a provident fund or other funds is disallowed, if assessee doesn't make effective arrangements to deduct tax at source from any payments made from the fund which are chargeable to tax under the head 'Salaries'.

### Disallowance of Tax on Non-Monetary Perquisites [40(a)(v)]

- ✓ Tax paid on non-monetary perquisites on behalf of employees is disallowed.
- ✓ Further, the benefit received by employee is exempt u/s 10(10CC).



## 16. Disallowances for Firms and LLPs [Section 40(b)]

Computation of Book Profits and Income of the firm	Amount	Amount
1. Profit Before allowing Interest and remuneration paid to partners [But after considering all Deductions u/s 30 to 37, U/A Depreciation and Disallowances u/s 40, 40A and 43B]	XXXX	
2. Less: Interest on Capital paid to partners [Note 1]	(XXX)	
3. Book Profits [1 - 2]		XXXX
4. Less: Remuneration to working partners [Note 2]		(XXX)
5. Income of the firm [Liable to tax] [3 - 4]		XXXX

Note: Remember Unabsorbed Depreciation Loss has to be first reduced while calculating Book profits itself. B/F business loss will be allowed to set off against Income of the Firm. [Discussed in S/O and C/F]

Note 1: Interest on Capital / Loan Borrowed from partner by the firm:

- ✓ Max Deduction: Up to 12% p.a. on capital / Loan amount is allowed as deduction
- ✓ Suppose, an Individual is representing as a partner on behalf of another person:

Loan given by	12% Limit?
The Individual in Personal capacity [Not on behalf of Partner]	Not Applicable
The Individual in Representative capacity [on Behalf of Partner]	Applicable
Loan given directly by the Represented person [By Partner directly]	Applicable



## Note 2: Computation of Maximum remuneration allowed to working partner

Particulars	Amount	Amount
A. Actual Remuneration paid to working partners		XXXX
B. Max Remuneration Allowed:		
✓ Up to 6 Lakhs of Book profits: Higher of:		
• 3,00,000 or	XXX	
• 90% of Book profits		
✓ 60% of Balance Book profits	XXX	XXXX
C. Max Remuneration allowed for deduction [Lower of A or B]		XXXX

**Thumb-rule:** The firm can pay up to Rs.3,00,000/- and claim deduction irrespective of book profit / loss. Limits have to be checked only if it exceeds Rs. 3,00,000/-

How much is the amount taxable in the hands of the partners?

- ✓ The interest and Remuneration received by the partners is taxable in the hands of the respective partners under PGBP to the extent allowed as deduction to the firm. [28(v)]  
E.g., a Firm has paid 2 lakhs interest to their partners, but u/s 40(b) - only 1 Lakh is allowed as deduction. Therefore, only 1 lakh is taxable in hands of the partner.

### Conditions / Clarifications:

- ✓ The above deductions [Interest and Remuneration to WP] are allowed as deduction only if they are explicitly authorised by partnership deed.
- ✓ Further the deduction is allowed prospectively only, as per the deed. [i.e., No deduction for payments made before the Date of the Deed]
- ✓ No deduction at all in respect of remuneration to non-working partner.
- ✓ Further w.e.f. 1.4.2025, TDS @ 10% u/s 194T attracts on remuneration and interest paid by firm to their partners if the sum exceeds Rs.20,000/-
- ✓ Further remember, the income of the firm is distributed to partners as share of profits and is exempt u/s 10(2A).
- ✓ Any salary, bonus, commission or by whatever name it is called as is treated as remuneration. [Do Not include interest]
- ✓ Working Partner is an individual who is Actively engaged in the affairs of B/P of firm.



### 17. Payments to relatives and associates [Section 40A(2)]

- ✓ If an assessee incurs expenses involving payments to specified persons that are deemed excessive or unreasonable, the A.O. can disallow such excess amounts.
- ✓ The following are specified persons:

#### 1. For Individuals:

- ✓ Any relative (spouse, brother or sister, any lineal ascendants/descendants).





- ✓ Entities in which Individual / Relatives has substantial\* interest.

## 2. For Companies, Firms, HUF, or AOP:

- ✓ Directors, partners, or members, and their relatives.
- ✓ Individual and their relatives having substantial interest in the company.
- ✓ Entities in which the company/firm/director/partner/member or their relatives have substantial interest.

\*Substantial interest means, Minimum 20% Voting power or 20% profit sharing rights.



## 18. Payments made in Cash [Section 40A(3) and (3A)]

1. **40A(3)** - An expenditure is not allowed as deduction if payment is made **exceeding ₹10,000 in a day to a person, otherwise than through:**
  - Account payee cheque
  - Account payee bank draft
  - Prescribed\* electronic modes (e.g., UPI, RTGS, NEFT, BHIM)

\*Credit/Debit card, Net Banking, IMPS, UPI, RTGS, NEFT, BHIM / Aadhar.
2. **40A(3A)** - An expenditure which is **allowed as deduction under accrual basis in past years** and the same is **paid in a subsequent year in other than prescribed modes exceeding ₹10,000** then such payment **will be deemed to be income** of such subsequent previous year.
3. The above limits increased to **₹35,000** in case of payment is made to a **transport operator** for plying, hiring, or leasing goods carriages.
4. The above **disallowance attracts only** if the payment is in nature of **expenditure covered u/s 30 to 37**. Accordingly, the following payments are not covered:
  - ✓ Repayment of Loans
  - ✓ Advance Payments made by commission agents to principal for goods received to sell on commission basis.

### Exemptions u/s 40A(3) [Rule 6DD]:

- ✓ Payments made **to RBI, Any Banks, PACCS or PCS and LIC**.
- ✓ Payments made **to Government**.
- ✓ Payment made through **Letter of Credit, T.T., Book adjustment and Bill of exchange** made payable only at banks.
- ✓ Payment **made by book adjustments** against liability
- ✓ Payment **made to cultivator or producer** for purchase of agriculture produce, produce of animal husbandry dairy, poultry farming, fish or fish products, horticulture and apiculture. [Traders in fish products are not covered under exemption]
- ✓ payment is **made for the purchase of the products** manufactured or processed **without the aid of power** in a cottage industry.
- ✓ **payment is made** in a village or town, **on a bank holiday**, to any person who ordinarily resides, or is carrying on any B/P.
- ✓ **Retirement benefits or retrenchment compensation** paid to employees up to aggregate **does not exceed ₹50,000**



- ✓ Payment of salary to an employee temporarily posted for 15 days or more in another place and such employee do not maintain bank account at such place or ship.
- ✓ Payments made to agents who has to pay in cash for goods or services on behalf.
- ✓ Payment is made by an authorised dealer or a money changer against purchase of foreign currency or travellers' cheques.



## 19. Disallowance of contributions to welfare funds

### Provision for Gratuity [Sec. 40A(7)]

- ✓ Any provision for gratuity is disallowed.
- ✓ However, for the following provisions, disallowances will not apply:
  - Contributions to an approved gratuity fund during the year [Subject to 43B].
  - Provision for gratuity that becomes payable during the year (e.g., due to an employee on retirement, death, or termination).
- ✓ No double deduction. [i.e., in 23-24: Provision is claimed and in 24-25 amount paid to employee from such provision and hence the same is not allowed again in 24-25]

### Contribution to unrecognised funds [Sec. 40A(9)]

Any contribution by the assessee as an employer to unrecognised welfare funds is not allowed as deduction. [These are the funds where, No real benefit flow to employees]



## 20. Deemed Profits [Section 41]

### 1. Remission or Cessation of Trading Liability [Section 41(1)]

- ✓ If a deduction or allowance was claimed in earlier years for a loss, expenditure, or trading liability, and later such liability is remitted, ceased, or recovered in cash or otherwise, then the amount of benefit arisen later is taxable as income in the year of benefit, irrespective of whether the business is operational or not.
- ✓ Further, If the business is succeeded (e.g., due to amalgamation, demerger, etc.), the successor is taxed on the benefit received by him.
- ✓ Remission or cessation Includes liabilities written off in books, unilaterally by the assessee.

### 2. Balancing Charge [Section 41(2)]: Discussed under Sec. 32

### 3. Sale of assets Used for Scientific Research [Section 41(3)]: Discussed under Sec. 35

### 4. Recovery of Bad Debts [Section 41(4)]: Discussed under Sec. 36

### 5. Expired B/F business losses against deemed profits u/s 41 [Section 41(5)]:

- ✓ If The business has unabsorbed losses (non-speculative) from the year it ceased, such losses can be set off against the deemed income, even beyond the usual 8-year limit.



## 21. Changes in the Rate of Exchange of Currency [Section 43A]

1. Where an asset is acquired from a foreign country for business or profession, and there is an increase or decrease in liability due to a change in the foreign exchange rate at the time of settlement of liability or repayment of loan specifically borrowed for acquiring such asset, then such rate variation shall be adjusted to the asset cost.
2. This section applies to all sort of capital expenditures referred under 43(1), 35(1), 36(1)(ix) and COA of Non-depreciable assets.
3. The revised amount shall be taken as actual cost or capital expenditure or cost of acquisition
4. In case of Forward exchange contract entered for hedging, then the rate shall be as per forward contracts.



## 22. Specific Deductions - only on Payment basis [Section 43B]

Applicable to an Assessee following - Accrual Basis for accounting

### Deductions linked with Due date u/s 139(1)

The following expenses incurred in the CPY are allowed as deduction only if they are actually paid on or before due date for filing returns u/s 139(1) and they are:

1. Any taxes, cess, duty, interest on taxes etc., [Except income tax and penalties]
2. Employers Contribution to Welfare Funds such as provident fund, superannuation fund, gratuity fund, or any other welfare fund.
3. Payments of bonus or commission to employees for services rendered.
4. Payment of Interest on Loans/Borrowings from Banks, NBFCs, PFIs, SFC, SIIC's. [Excluding primary agricultural/rural development banks]
5. Payments made by the employer as leave encashment.
6. Payments to Indian Railways for the use of railway assets.

Further if the same is paid after the due date u/s 139(1) of RPY, then the deduction will be allowed for the P.Y. of actual payment.

### Deductions linked with credit period under MSMED Act [Sec. 43B(h)]

Any expenditure payable to Micro, Small and Medium enterprises, beyond the time limit u/s 15 of MSMED Act 2006 is disallowed if not paid within credit period.

Circumstance	Credit Period
No Written Agreement	15 Days
Written Agreement	45 Days

Further if such amount is paid subsequently after the credit period, then the deduction will be allowed for the actual year of payment.

**Note:** Example on 43B(h), 40A(3) and 40A(3A). [Discussed in class / Marathon]



### Clarifications:

1. Conversion of Outstanding Interest into loan or debenture, **is not treated as payment**. Accordingly, No deduction for such conversion into loan. [Always Actual payment is only relevant]

2. Contributions to Welfare funds:

Employer Contribution	Employee Contribution
Sec. 43B Applicable	Sec. 43B <b>NOT</b> Applicable
Disallowed if not paid within due date u/s 139(1).	Treated as Income u/s 2(24)(x) if not paid within Due date under respective law dealing with welfare funds.
Subsequent PY deduction will be allowed if actually paid.	No such benefit [kind of Permanent Disallowance]

3. Meaning of Micro and Small Enterprise: [Finance Act 2025]

Type of Enterprise	Investment in P&M	Turnover
Micro	$\leq$ ₹ 2.5 crore	$\leq$ ₹ 10 crore
Small	$\leq$ ₹ 25 crore	$\leq$ ₹ 100 crore



### 23. SDV Value Provisions in case of Immovable Property [Section 43CA]

#### Transfer of Land, Building, or Both Held as Stock-In-Trade

Circumstance	Revenue under PGBP
If SDV <sup>\$</sup> <b>does not exceed 110%</b> of Actual Consideration	Actual Consideration
If SDV <sup>\$</sup> <b>Exceeds 110%</b> of Actual Consideration	Stamp Duty Value

#### <sup>\$</sup>Determination of SDV [Stamp Duty Value]:

Circumstance	Date of SDV to be taken
<b>Advance received</b> from buyer on or before date of agreement <b>by other than cash</b>	SDV on <b>Date of Agreement</b>
<b>Advance received in cash mode</b>	SDV on <b>Date of Transfer</b> [Registration]
<b>No Advance for sale</b>	SDV on <b>Date of Transfer</b> [Registration]

**Note:** Assessee can request the A.O. regarding the reasonableness of SDV, to refer to a Valuation officer. [Discussion in Capital Gains Chapter in the class]





## 24. Compulsory Maintenance Accounts [Section 44AA]

### 4 Categories of Persons liable to maintain compulsory books of accounts

1. Persons carrying on "Notified Professions" [Refer Note 1]
2. Persons carrying on B/P other than notified professions [Refer Note 2]
3. Persons declaring Income lower than Presumptive income u/s 44AE, 44BB and 44BBB
4. Persons to whom provisions of 44AD(4) are applicable.

### Note 1 - Notified\* Professions [44AA(1)]

Gross Receipts Exceed	Manner of Books and other records
a. ₹ 1,50,000 in <u>All</u> 3 years preceding the RPY for existing professionals or Likely to exceed ₹ 1,50,000 in current year for newly setup professions.	Maintain as per Rule 6F [Cash Book, Journals [for Accrual basis], Ledgers, Copies of Bills > ₹ 25, Original Bills for values > ₹ 50, Payment Voucher if value is <= 50] <b>Doctors</b> - Daily case and Inventory registers.
b. Other cases	Maintain reasonable records for A.O. to compute the total income.

### Note 2 - Other than Notified Professionals [44AA(2)]

Assessee Type	Existing B/P	New B/P
Individual or HUF	Income > ₹2,50,000 or Turnover > ₹25,00,000 (in <u>Any</u> of the 3 preceding years).	Income likely to exceed ₹2,50,000 or Turnover likely to exceed ₹25,00,000 during the CPY.
Others	Income > ₹1,20,000 or Turnover > ₹10,00,000 (in <u>Any</u> of the 3 preceding years).	Income likely to exceed ₹1,20,000 or Turnover likely to exceed ₹10,00,000 during the CPY.

Section 271A - ₹25,000 Penalty is levied for Failure to maintain or retain required books.

#### Clarifications:

\*Every person carrying on the legal, medical, engineering or architectural profession or accountancy or technical consultancy or interior decoration or any other profession notified - The profession of authorised representative; the profession of film artist (actor, camera man, director, music director, art director, editor, singer, lyricist, story writer, screen play writer, dialogue writer and dress designer); the profession of company secretary; and information technology professionals.

Place of Maintenance of BOA	<ul style="list-style-type: none"> <li>✓ Principal place [If single place] or</li> <li>✓ Respective place for each place or profession [Multiple]</li> </ul>
Retention Period	<ul style="list-style-type: none"> <li>✓ Minimum 6 years from the end of the relevant assessment year.</li> </ul>





## 25. Tax Audit [Section 44AB]

Following 5 Persons are required to get their BOA audited by a C.A. by specified date.

- Persons carrying on Business if T/o exceeds ₹ 1 Crore / ₹ 10<sup>^</sup> Crore.
- Persons carrying on Profession and Gross receipts exceeding ₹ 50 Lakhs.
- Persons declaring Income lower than Presumptive income u/s 44AE, 44BB and 44BBB.
- Persons declaring Income lower than Presumptive income u/s 44ADA.
- Persons to whom provisions of 44AD(4) are applicable and Income exceeds BEL.

^ Aggregate cash receipts ≤ 5% of Total Receipts and Aggregate Cash Payments ≤ 5% of Total Payments. [Bearer Cheque or Bank Draft shall be treated a cash transaction]

- ✓ Specified Date for Audit: One month before due date for filing return u/s 139(1) in respect of audit cases.  
i.e., 30th September of the assessment year and 31st October in case of transfer pricing cases.
- ✓ Audit report must be furnished in Form 3CA or 3CB, with particulars in Form 3CD.

Failure to get accounts audited [Section 271B]:

Penalty of the lower of:

- 0.5% of turnover/gross receipts.
- ₹1,50,000.

Note:

Assesses Declaring Income under 44AD(1) / 44ADA(1) then Audit u/s 44AB Do Not apply.



## 26. Presumptive Taxation [Sections 44AD/44ADA/44AE]

### Business assessees [Section 44AD]

Eligible Assessee	Only Resident [Individual, HUF or Firm (Other than LLP)]
Not Applicable to	<ul style="list-style-type: none"> <li>✓ Persons covered u/s 44AE and 44ADA</li> <li>✓ Earning income, in the nature of commission or brokerage</li> <li>✓ Carrying on Agency businesses</li> <li>✓ Persons claiming benefit of u/s 10AA or Chapter VIA [Heading C]</li> </ul>
Turnover Limit	<ul style="list-style-type: none"> <li>✓ Turnover from business shall not exceed ₹2 Crores.</li> <li>✓ The limit is ₹3 Crore, if cash receipts are ≤ 5%.</li> </ul>
Presumptive Income	<ul style="list-style-type: none"> <li>✓ 8% of turnover [Received in cash].</li> <li>✓ 6% of turnover [Received in prescribed modes u/s 40A(3) - within the P.Y. or Before the due date u/s 139(1)]</li> </ul>
Imp Condition (Section 44AD(4))	<ul style="list-style-type: none"> <li>✓ Once an assessee opts for Section 44AD, they must continue declaring profits under it for the next 5 consecutive A.Ys.</li> <li>✓ If the assessee stops declaring profits under Section 44AD in any of these 5 years, they lose the benefit of Section 44AD for the next 5 years following the year of non-declaration.</li> </ul>



For example:

A.Y.	Action/Declaration	Consequence
2026-27	Declares profits under Section 44AD	Eligible for presumptive taxation for the next 5 years (till AY 2031-32).
2027-28	Declares profits under Section 44AD	Continues under presumptive taxation.
2028-29	Does NOT declare profits under Section 44AD	Loses eligibility for presumptive taxation for the next 5 years (AY 2029-30 to AY 2033-34).
2029-30 to 2033-34	Ineligible for presumptive taxation. Must maintain books and get accounts audited if income exceeds the exemption limit.	
2034-35 onwards	Eligible to opt for presumptive taxation again.	

### Notified Professions [Section 44ADA]

Eligible Assessee	Only Resident [Individual or partnership (other than LLP)] engaged in Notified professions under Section 44AA (1).
Gross Receipts Limit	<ul style="list-style-type: none"> <li>✓ Gross receipts <math>\leq</math> ₹50 lakh.</li> <li>✓ <math>\leq</math> ₹75 lakh if cash receipts are <math>\leq</math> 5%.</li> </ul>
Presumptive Income	50% of gross receipts or a higher sum as claimed by the assessee.

### Business of Plying, Hiring, Leasing GCVs [Section 44AE]

Eligible Assessee	Any Assessee engaged in business of plying, hiring, or leasing goods carriage vehicles and owning NOT more than 10 goods carriages at any time during the P.Y.
Presumptive Income	<ul style="list-style-type: none"> <li>✓ ₹1,000 per ton / per month or part thereof, for each heavy goods vehicle. [Gross vehicle weight or unladen weight as the case may be]</li> <li>✓ ₹7,500 per month or part thereof, for other goods vehicles.</li> </ul>

### Common Conditions or clarifications

Deemed Deduction	<ul style="list-style-type: none"> <li>✓ All Deductions u/s 30 to 38 are deemed to have been allowed.</li> <li>✓ No setoff of Depreciation or U/A Depreciation.</li> <li>✓ Business losses u/s 72, 73, 73A can be set off on Presumptive Income.</li> </ul>
Interest and Remuneration to Partners	Only u/s 44AE, Interest and Remuneration paid to partners is allowed as deduction, subject to limits in Section 40(b). [NO deduction for this u/s 44AD and ADA]



Depreciation & WDV Values	Closing Balance of Block of assets shall be deemed have adjusted with depreciation based on Notional depreciation.
Books & Audit u/s 44ADA and AE	<ul style="list-style-type: none"> <li>✓ No need to maintain books and</li> <li>✓ Audit Do not apply if declared under presumptive basis. However, u/s 44ADA and AE, if lower income declared, then books and audit are mandatory, if income exceeds basic exemption limit.</li> </ul>
Payment of Advance Tax	<ul style="list-style-type: none"> <li>✓ 44AD and 44ADA: Only 1 installment of 100% of advance tax to be paid by 15th March of the financial year.</li> <li>✓ 44AE: All the 4 instalments of advance tax apply. [Discussed in later chapter]</li> </ul>

### Meanings of certain terms for Section 44AE

Term	Meaning
Heavy goods vehicle	Any goods carriage with a gross vehicle weight exceeding 12,000 kilograms.
Gross vehicle weight	The total weight of the vehicle and load, as certified and registered by the authority, which is permissible for that vehicle.
Unladen weight	The weight of a vehicle or trailer, including all equipment used with it, excluding the driver or attendant. It includes the heaviest alternative body or part if multiple bodies or parts are used.



### 27. Composite Income [Business and Agricultural Income]

Rule	Income Source	Agricultural Income (%)	Business Income (%)
7A	Sale of rubber products derived from rubber plants grown by the seller in India	65%	35%
7B	<ul style="list-style-type: none"> <li>✓ Sale of coffee grown and cured by the seller in India</li> <li>✓ Sale of coffee grown, cured, roasted, and grounded by the seller in India</li> </ul>	75%	25%
8	Sale of tea grown and manufactured by the seller in India	60%	40%

The above table is already covered in Basic concepts chapter.

#### 1. Allowance for Replantation Costs:

- ✓ Deduction is provided for the cost of replanting bushes or plants (tea bushes, rubber plants, coffee plants) that have died or become permanently useless, within an already planted area.
- ✓ No deduction is allowed for any subsidy received for replantation or replacement under Section 10(30) or Section 10(31).



## 2. Subsidy Exemptions:

- ✓ Section 10(30): Exempts subsidies from the Tea Board for replantation, replacement, rejuvenation, or consolidation of tea areas.
- ✓ Section 10(31): Exempts subsidies from respective boards for replantation, replacement, rejuvenation, or consolidation of areas for rubber, coffee, cardamom, or other notified commodities.

### Disallowance of expenses related to exempted income [Section 14A]

- ✓ Expenses directly or indirectly attributable to exempt income are non-deductible.
- ✓ The Assessing Officer can estimate these expenses based on a CBDT-prescribed method.



## 6. Capital Gains



### 1. Charging Section [Section 45(1)]

Any profits or gains arising from the transfer of a capital asset effected in the previous year shall be taxable in the year of transfer.



### 2. Meaning of Transfer [Section 2(47)]

Transfer Includes:

1. The sale, exchange or relinquishment of the asset or
2. The extinguishment of any rights therein or
3. The compulsory acquisition thereof under any law or
4. Conversion of Capital asset into Stock in Trade by the owner.
5. The maturity or redemption of a ZCB or
6. Part-performance of the contract: Sometimes, possession of an immovable property is given in consideration of part-performance of a contract.
7. Any transaction which has the effect of transferring, or enabling the enjoyment of, any immovable property.

Example:

If a person becomes a member of a co-operative society, company, or other association for building houses/flats and pays an agreed amount, they receive possession of the house or flat without registering a conveyance.



### 3. Meaning of Capital Asset [Section 2(14)]

A capital asset means:

- ✓ Property of Any Kind, held by an assessee, whether or not it is related to B/P.
- ✓ Securities Held by FIIs and Investment Fund u/s 115UB <sup>Fin Act 2025</sup>
- ✓ Any ULIPs to which exemption u/s 10(10D) doesn't apply. [Because Premium exceeding ₹2,50,000 in any P.Y]
- ✓ However, it does not include:
  - Any stock-in-trade [other than securities held by FIIs], consumable stores or raw materials held for B/P of the assessee.
  - Personal effects [Movable assets + Personal use].

However, the following personal effects are treated as capital assets:

1. Jewellery<sup>\$</sup>,
2. archaeological collections,
3. drawings,
4. paintings,





5. sculptures; or
6. any work of art

- Rural Agricultural Land<sup>#</sup>
- Specified Gold Bonds issued in 1977, 1980.
- Special Bearer Bonds, 1991
- Gold Deposit Bonds, 1999,
- Certificates under the Gold Monetisation Scheme, 2015 / 2019.

<sup>\$</sup>Jewellery includes, Ornaments made of gold, silver, platinum, or other precious metals with or without precious or semi-precious stones, worked or sewn into apparel and includes Precious or semi-precious stones, whether or not set in furniture.

<sup>#</sup>Agriculture discussion is in Basic Concepts chapter [Refer Topic 10]

#### 4. Types of Capital Assets

Capital Gains are broadly classified into LTCG and STCG based on POH of capital assets.  
[POH = Period of Holding]

##### Types of Capital assets based on Period of Holding

##### 2(42A) - Short term capital asset

Held by the assessee for not more than 24 months / 12 months as the case may be preceding the date of transfer [Detailed discussion at below table]

##### 2(29A) - Long term capital asset

A capital asset which is not a short-term capital asset.

##### POH by transferor preceding the date of transfer

##### After Amendment - Asset transferred on or after 23.7.2024

Nature of Capital Asset	STCA	LTCA
Highly Volatile Assets:	≤ 12 months	> 12 months
✓ Listed Securities <del>[Other than units]</del>		
✓ Units of Equity Oriented Fund		
✓ Units of UTI		
✓ Zero Coupon bonds		
Other capital assets	≤ 24 months	> 24 months

Note:

Section 50AA	Capital gains arising from the transfer of following assets is always treated as STCG, irrespective of POH: <ul style="list-style-type: none"> <li>✓ Units of a specified mutual fund acquired on or after 1.4.2023</li> <li>✓ Market-linked debentures.</li> <li>✓ Unlisted bonds and unlisted debentures.</li> </ul>
Depreciable assets Section 50	Capital Gains arising on transfer of depreciable assets forming part of a block is always treated as STCG, Irrespective of POH.



### Meaning

#### Equity Oriented Fund [EOF]

A mutual fund scheme or Insurance company scheme [ULIP] that:

- i. Invested in another Fund: If the fund invests **90% or more of the total proceeds in listed units of another fund**, and such other fund invests **90% or more of the total proceeds in Listed equity shares** of domestic companies.
- ii. Other cases: **65% or more** of the total proceeds are **invested in Listed equity shares** of domestic companies.

Note: The percentage of equity shareholding or units held is calculated based on the **annual average of the monthly averages of opening and closing figures**.

#### Zero Coupon Bond [Section 2(48)]

A bond:

- ✓ Issued by **infrastructure capital companies / fund, infrastructure debt fund, public sector companies, or scheduled banks**.
- ✓ For which **No payment or benefit** is received or receivable **before maturity or redemption** from the issuing entity.
- ✓ Notified by the Central Government.

Note:

Income from the transfer of a zero-coupon bond (not held as stock-in-trade) is treated as capital gains. Transfer includes maturity or redemption as well.



### 5. Determination of period of holding [Expl.1(i) to Sec 2(42A)]

Circumstances	Period of Holding
1. Shares held in a company under liquidation	<b>Exclude</b> the period subsequent to the date of liquidation.
2. Asset becomes the property of an assessee by virtue of section 49(1)	<b>Include Previous Owner's Holding Period</b> .
3. Conversion of Inventory into capital asset	<b>Consider from the date of conversion in to capital asset</b>
4. Right Shares & Bonus shares	Consider from <b>Date of Allotment</b>
5. Specified security or sweat equity shares allotted or transferred	Consider from <b>Date of Allotment or Transfer</b> as the case may be
6. Rights Renouncement's [By Original shareholder]	Consider from <b>Date of Offer</b> by company
7. Shares held in Indian amalgamated company acquired under amalgamation [Section 47(vii)]	<b>Include</b> the period of shares held in the amalgamating company.
8. Shares held in the Indian Resulting company acquired under demerger	<b>Include</b> the period of shares held in the demerged company



9. Conversion of bonds debentures, debenture-stock or deposit certificates into shares or debentures of that company	Include the period for which such assets held prior to date of conversion
10. Conversion of preference shares into equity shares referred under [Section 47(xb)]	Include POH of Preference shares to determine Equity shares holding period.
11. Electronic Gold Receipt [EGR]: Conversion of gold into Electronic Gold Receipt [Section 47(viid)]	Include the period for which such gold was held prior to conversion into the EGR
Gold Released in respect of EGR: Conversion of Electronic Gold Receipt into gold [Section 47(viid)]	Include the period for which EGR was held prior to its conversion into gold



### 6. Transactions not regarded as Transfer [Section 47]

Section	Circumstance
47(i)	Any distribution of capital assets on the total or partial partition of a HUF.
47(iii)	Any transfer of a capital asset by an Individual or HUF under a gift or will or an irrevocable trust. However, transfer of ESOPs [Shares or Debentures] under gift, will or trust is treated as transfer up to A.Y. 2024 - 25
47(iv)	Transfer of capital asset by a holding company to its 100% Subsidiary company being an Indian company [Exemption Not applicable if transferred as SIT]
47(v)	Transfer of capital asset by a subsidiary company to its 100% holding company being an Indian company [Exemption Not applicable if transferred as SIT]
47(vi)	Transfer of capital asset by amalgamating company to amalgamated Indian company, in a scheme of amalgamation.
47(vib)	Transfer of capital asset by the demerged company to the resulting Indian company, in a scheme of demerger
47(vid)	Any transfer or issue of shares by the resulting company, in a scheme of demerger to the shareholders of the demerged company, if the transfer is made in consideration of the demerger of the undertaking
47(vii)	Any transfer by a shareholder, in a scheme of amalgamation, of shares held by him in the amalgamating company in lieu of shares in Indian amalgamated company, except where shareholder itself is amalgamated company - Example SC amalgamated with HC.
47(viib)	Transfer of Government Security, carrying a periodic payment of interest, outside India by a non-resident to another non-resident.
47(viic)	Redemption of sovereign gold bonds issued by RBI under the Sovereign Gold Bond Scheme, 2015
47(viid)	Conversion of gold into EGR or vice a versa.
47(ix)	Transfer of any of the following capital asset to the Government or to the University or the National Museum, National Art Gallery, National Archives or



	any other public museum or institution notified by the Central Government to be of national importance or to be of renown throughout any State. [work of art, archaeological, scientific or art collection, book, manuscript, drawing, painting photograph or print]
47(x)	Any transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form, of a company into shares or debentures of that company
47(xb)	Any transfer by way of conversion of preference shares of a company into equity shares
47(xvi)	Transfer of capital asset under Reverse Mortgage [Note 1]

## Note 1:

What is Reverse Mortgage?	Senior citizens can mortgage their house to a scheduled bank or housing finance company in exchange for a lump sum or regular income. They can continue living in the house without repaying the loan during their lifetime.
Loan Limit	Up to 60% of the value of the mortgaged house property.
Revaluation	Property value will be revalued every 5 years by the bank/housing finance company.
Usage of Loan Amount	Renovation/extension of residential property or Medical or emergency family expenses but Not for Speculative or trading purposes
Disbursement Methods	<ul style="list-style-type: none"> <li>✓ Lump sum or periodic payments (monthly/quarterly/annually) by the lending institution or</li> <li>✓ Through Annuity Sourcing Institution: Loan disbursed to institutions like LIC or IRDA-registered insurers for periodic annuity payments to the mortgagor.</li> </ul>
Maximum Loan Tenure	20 years from the date of agreement or as per annuity terms.
Recovery of Loan	After the borrower's death, the loan and interest will be recovered by selling the house. Any excess amount will be paid to legal heirs.
Legal Heirs' Preference	Legal heirs can repay the loan and interest to reclaim the property before it is sold.
Exemption U/s 47(xvi)	Transfer of a house under reverse mortgage is not treated as a transfer, so no capital gains tax applies.
Income Exempt U/s 10(43)	Loan amount received (lump sum or installments) is exempt from income tax.

## Important Definitions

## Amalgamation [Section 2(1B)]

Aspect	Detailed Explanation
Amalgamation Means	<ul style="list-style-type: none"> <li>✓ When one or more companies merge into another company, or</li> <li>✓ When two or more companies combine to create a single new company.</li> </ul>





Amalgamating Co.	The company/companies that are merging.
Amalgamated Co.	The company that absorbs the others or the new company formed after the merger.
Conditions:	<ul style="list-style-type: none"> <li>✓ All the property of the amalgamating company/companies shall become the property of the amalgamated company.</li> <li>✓ All the liabilities of the amalgamating company/companies shall become the liabilities of the amalgamated company.</li> <li>✓ At least 75% of the shareholders (in value) of the amalgamating company (excluding shares already held by the amalgamated company or its subsidiary) must become shareholders in the amalgamated company.</li> </ul>
Amalgamation Does Not include	<p>A transaction is not treated as amalgamation if:</p> <ul style="list-style-type: none"> <li>✓ One company purchases the property of another company.</li> <li>✓ The property is transferred after the company is wound up and distributed to another company.</li> </ul>

## Demerger [Section 2(19AA)]

Aspect	Detailed Explanation
Demerger	The transfer of one or more undertakings by a demerged company to a resulting company under a scheme of arrangement
Demerged Company	The company transferring the undertaking(s).
Resulting Company	The company receiving the undertaking(s) and issuing shares to the shareholders of the demerged company in exchange.
Conditions for Demerger	<ul style="list-style-type: none"> <li>✓ The transaction qualifies as a demerger only if all the following conditions are satisfied:</li> </ul>
	<ul style="list-style-type: none"> <li>✓ All property of the undertaking(s) being transferred becomes the property of the resulting company.</li> </ul>
	<ul style="list-style-type: none"> <li>✓ All liabilities related to the undertaking(s) being transferred become the liabilities of the resulting company.</li> </ul>
	<ul style="list-style-type: none"> <li>✓ Property and liabilities are transferred at Book values as they appear in the books of the demerged company. Exceptions: If Indian AS require different values, this condition does not apply. Revaluation changes are ignored for determining values.</li> </ul>
	<ul style="list-style-type: none"> <li>✓ The resulting company issues shares to the shareholders of the demerged company on a proportionate basis (except when the resulting company already holds shares in the demerged company).</li> </ul>
	<ul style="list-style-type: none"> <li>✓ Shareholders holding at least 75% in value of shares in the demerged company (excluding shares already held by the resulting company or its subsidiaries) must become shareholders of the resulting company.</li> </ul>
	<ul style="list-style-type: none"> <li>✓ The transfer must be carried out as a going concern.</li> </ul>
	<ul style="list-style-type: none"> <li>✓ The demerger must follow any conditions notified by the Central Government.</li> </ul>
For Public Sector Companies	If a public sector company is split into separate companies for transferring assets to a resulting company, it is treated as a demerger if:
	<ul style="list-style-type: none"> <li>✓ The resulting company is a public sector company on the appointed day.</li> </ul>
	<ul style="list-style-type: none"> <li>✓ Other conditions notified by the Central Government are fulfilled.</li> </ul>





## 7. Scope and Year of Chargeability [Section 45]

### General Provision [Section 45(1)]

1. Applicability	✓ Profits or gains arising on transfer of a capital asset during the previous year are taxable under this section.
2. Taxability	✓ Year of Transfer. [Based on Date of Sale NOT date of agreement]
3. Indexation	✓ Cost of Acquisition can be indexed up to year of Transfer only.

### Destruction of C/A and Compensation from Insurance Co. [Section 45(1A)]

1. Applicability	✓ Money or other assets are received under insurance due to damage or destruction of a capital asset due to various reasons. It is treated as Transfer of capital asset.
2. Taxability	✓ Year of Receiving the consideration from insurance company
3. FVC	✓ Amount received or the fair market value (FMV) of assets on the date of receipt.
4. Indexation	✓ Available up to year of Destruction only

### Conversion of Capital asset into stock-in-trade [Section 45(2)]

1. Applicability	If a capital asset is converted into stock-in-trade by the owner for business purposes, the same is treated as transfer in the year of conversion.
2. Taxability	✓ Year of sale of such SIT. [Both Capital Gains and PGBP Income are taxable]
3. FVC	✓ FMV of Capital Asset on date of Conversion
4. Indexation	✓ Available up to Year of Conversion
5. Business Income	Profit / Loss = Sale of SIT - FMV on Date of Conversion

### Compulsory Acquisition of Capital Asset [Section 45(5)]

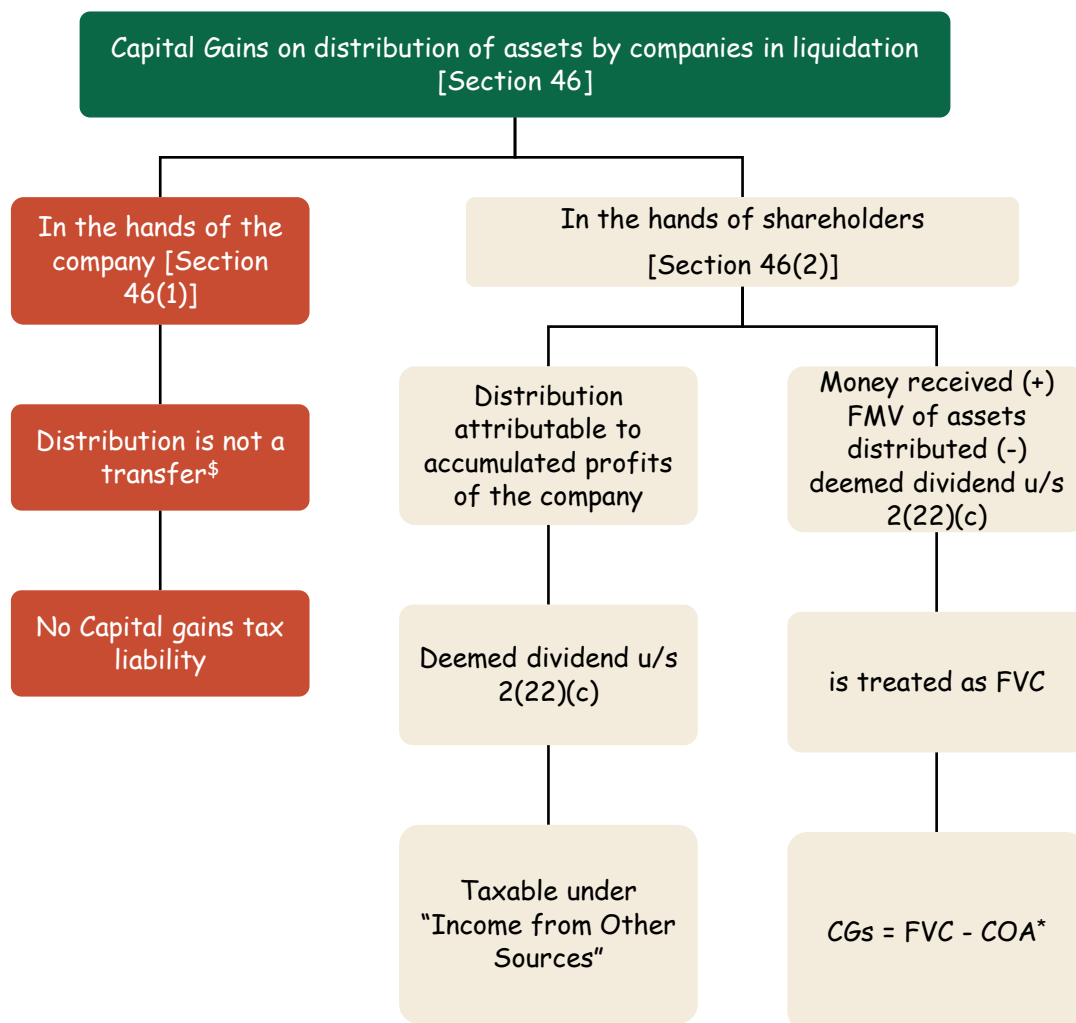
1. Applicability	✓ If a capital asset is acquired by the Central Government under compulsory acquisition, the same is treated as transfer.
2. Taxability	✓ Original Compensation is taxable in the year of receipt of the compensation.
3. Enhanced Compensation	✓ If the court awards enhanced compensation (higher than the original), such enhanced compensation is taxable in the year of receipt of the same.
4. COA and COI for Enhanced Compensation	NIL



5. Interim Compensation taxability?	✓ Not taxable in year of receiving it BUT taxable in the year of determining final compensation.
6. Reduction in Enhanced Compensation	✓ If the compensation is later reduced by a court, tribunal, or authority, the capital gains of that year are recomputed via rectification. [Final syllabus]
7. Death of Transferor	✓ If the transferor dies before receiving enhanced compensation, the amount is taxable in the hands of the recipient.



## 8. Distribution of C/A Liquidation of a Company [Section 46]



\$If the company sells the assets and distributes the proceeds then exemption u/s 46(1) does not apply.

\*For shareholders - The COA will be Cost of purchasing shares in lieu of which they receive the money on liquidation. [Long-term or Short-term depends on POH of shares held by him]

**Note:** On subsequent of transfer of such asset received under distribution, the COA shall be the FMV of the asset on the date of distribution.



## 9. Capital Gains on Buyback of Shares or Specified Securities [Section 46A]

Buy back of specified securities (other than shares of domestic company)

1. Applicability	Applies to <b>specified securities</b> (other than shares of a domestic company) <b>Bought back</b> by the issuing company.
2. FVC	<b>Consideration Received</b> on Buy Back
3. COA	<b>Amount Paid</b> at the time of <b>purchase</b> of securities
4. Taxability	<b>Year of Buy Back</b>
5. Mode of Computation	<b>As per Sec. 48</b> [Non-depreciable assets format]
6. Specified Securities	Meaning as per Section 68 of the Companies Act, 2013.

Buy back of shares by domestic companies

Taxable only for shareholder	<b>Domestic company buys back its shares</b> (listed or unlisted) <b>on or after 1st October 2024</b>
Taxability under IFOS	✓ The amount received by the shareholder <b>is treated as dividend income</b> and is taxable under "IFOS"
Taxability under Capital Gains	✓ For the purpose of Sec. 46A, <b>FVC will be treated as NIL</b> Hence, <b>Capital Loss = FVC - COA</b> [may be LTCL / STCL]
Setoff and C/F of Losses	<ul style="list-style-type: none"> <li>✓ Such capital losses <b>will be set off and carry forwarded</b> as per Sec. 70, 71 and 74 [Discussed Later]</li> <li>✓ i.e., <b>LTCL can be setoff with LTCG only</b> where as <b>STCL can be setoff with any CGs</b> and</li> <li>✓ Balance loss will be carried forwarded.</li> </ul>



## 10. Computation of Capital Gains [Section 48]

[Other than Depreciable assets u/s 50 (Related to Block of assets)]

Particulars	Amount
A. Full Value of Consideration [FVC] [Note 1]	XXXX
B. Less: Transfer expenses [Calculated on actual consideration] [Note 2]	(XXX)
C. Net Consideration [A - B]	XXXX
D. Less:	
✓ Cost of Acquisition / Indexed COA [Note 3]	(XXX)
✓ Cost of Improvement / Indexed COI [Note 4]	(XXX)
E. Gross LTCG / STCG [C - D]	XXXX
F. Less: Exemptions under 54 Series [Note 5]	(XXX)
G. Balance Taxable Capital Gains [E - F]	XXXX

Notes: [All the below points are discussed in detailed under separate topics as under]

- FVC will be Actual consideration or Deemed consideration u/s 50C, 50CA & 50D, as the case may be.
- Expenses Related to Transfer:
  - ✓ Expenses incurred wholly and exclusively for the transfer, such as, Brokerage, stamp duty, registration fees, legal expenses, etc.
  - ✓ NO deduction for STT paid on transfer of Listed securities.
- Cost of Acquisition (COA):
  - ✓ Actual COA or Deemed COA as determined under Sec. 49 and 55, as applicable.
  - ✓ Indexation is Available for Individual / HUF who transferred Land / Building on or after 23<sup>rd</sup> July 2024 and which is acquired by them before 23<sup>rd</sup> July 2024.
  - ✓ No deduction towards interest on housing loan u/s 24(b), 80EE and 80EEA.
- Cost of Improvement (COI):
  - ✓ Actual COI or Deemed COI as per Sec. 55, as applicable.
  - ✓ Indexation is Available for Individual / HUF who transferred Land / Building on or after 23<sup>rd</sup> July 2024 and which is acquired by them before 23<sup>rd</sup> July 2024.
- From the Gross Capital Gains, Deduction can be claimed subject to investment in new capital assets under 54 series.

Computation of Capital Gains for Non-residents for Unlisted shares and Debentures:

- ✓ Step 1: Convert the Sale consideration, Cost of Acquisition and Transfer expenses into the foreign currency. [At Average of TT Buying Rate and Selling Rate on relevant dates]
- ✓ Step 2: Compute the capital gains in foreign currency.
- ✓ Step 3: Convert the resulting capital gains back into Indian currency [at TT Buying rate on date of transfer]

Note: The above provision shall not apply for Sec. 112A Capital assets.



## 11. Deemed FVC for computing Capital Gains

### Section 50C - FVC in case of transfer of Immovable Property

Circumstance	FVC
If SDV <sup>\$</sup> does not exceed 110% of Actual Consideration	Actual Consideration
If SDV <sup>\$</sup> Exceeds 110% of Actual Consideration	Stamp Duty Value

<sup>\$</sup>Determination of SDV [Stamp Duty Value]:

Circumstance	Date of SDV to be taken
Advance received from buyer on or before date of agreement by other than cash	SDV on Date of Agreement
Advance received in cash mode	SDV on Date of Transfer [Registration]
No Advance for sale	SDV on Date of Transfer [Registration]

Reference to V.O.: If assessee request A.O. on ground that SDV is higher than FMV then A.O. may refer the SDV to a Valuation Officer and in such a case FVC shall be the value determined by V.O. only if it is beneficial to assessee. i.e.,

V.O. Value	FVC
✓ FMV > SDV	SDV
✓ FMV < SDV	FMV
✓ SDV is revised in appeal	Revised SDV [Sec. 155(15)]

Example:

- ✓ Actual consideration: ₹100 lakh
- ✓ Stamp Duty Value on agreement date: ₹109 lakh
- ✓ Stamp Duty Value on transfer date: ₹112 lakh

Scenario	Deemed FVC
✓ If advance is paid in other than cash on or before the date of agreement [SDV on date of Agreement]	₹100 lakh (since SDV of ₹109 lakh is ≤ 110% of ₹100 lakh).
✓ If NO advance is paid in other than cash on or before the date of agreement. [SDV on date of Transfer]	₹112 lakh (SDV on Date of transfer exceeds 110% of ₹100 lakh).

### FVC in Other Situations

Section	Situation	FVC
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50CA [Unquoted Shares]	If the consideration received or accruing < FMV of such shares	FMV of the shares [As determined]
50D [For Other assets]	If the consideration received or accruing cannot be ascertained or determined.	FMV of the asset transferred on the date of transfer.

ESOP allotted are transferred under a gift etc. up to A.Y. 2024-25

If securities issued employees under an ESOP are transferred as a gift or through an irrecoverable trust, the Market Value on the date of transfer will be considered as the full value of consideration for the transfer. [Applicable only up to A.Y. 2024-25]



## 12. Cost of Acquisition [COA]

- ✓ COA refers to the cost at which the asset is acquired by the assessee or Previous owner\*  
\*[Asset is received by the assessee under the modes specified u/s 49(1)]  
[Discussed in detailed under later topics]

Transfer of LTCA on or after 23<sup>rd</sup> July 2024 [Sec. 48]

- ✓ Transfer of any LTCA on or after 23<sup>rd</sup> July 2024 are not eligible for Indexation benefit.  
Exception:  
Resident individuals or HUFs on transfer of LTCA, being Land or Building, which is acquired by them before 23<sup>rd</sup> July 2024, can pay tax at his option as below:
  - Pay tax 12.5% (On CGs without indexation benefit)
  - Pay tax 20% (On CGs with indexation benefit).

The assessee chooses the option where tax amount is lower.

Total Income Computation Purpose	For Tax Computation Purpose
The capital gains on the above transfer shall be computed without the benefit of indexation.	Indexation option will be checked to pay the tax in a beneficial manner.

- ✓ Indexed Cost of Acquisition:

$$\text{ICOA} = \text{Cost of Acquisition} \times \frac{\text{CII for the year of transfer}}{\text{CII for the year first held by assessee or 2001-02, whichever is later}}$$

- ✓ Indexed Cost of Improvement:

$$\text{ICOI} = \text{Cost of Improvement} \times \frac{\text{CII for the year of transfer}}{\text{CII of the Improvement}}$$

Cost Inflation Index Numbers			
Financial Year	CII	Financial Year	CII
2001-02	100	2013-14	220



2002-03	105	2014-15	240
2003-04	109	2015-16	254
2004-05	113	2016-17	264
2005-06	117	2017-18	272
2006-07	122	2018-19	280
2007-08	129	2019-20	289
2008-09	137	2020-21	301
2009-10	148	2021-22	317
2010-11	167	2022-23	331
2011-12	184	2023-24	348
2012-13	200	2024-25	363
		2025-26	376

### Forfeiture of Advance Money

Forfeit date	Tax Treatment
Advance Forfeited Before 1 <sup>st</sup> April 2014 (Section 51)	<ul style="list-style-type: none"> <li>✓ Advance Forfeited shall be reduced from COA. [Before applying Indexation, if applicable]</li> <li>✓ No tax treatment - If the advance was forfeited by the previous owner.</li> </ul>
Advance Forfeited on or after 1 <sup>st</sup> April 2014	The Advance forfeited is taxable under IFOS in the year of forfeiture. (Section 56(2)(ix))



### 13. Ascertainment of Cost in Specified Circumstances [Section 49]

Section	Circumstance	COA and clarifications
49(1)	<p>COA if the capital asset became the property of the assessee under:</p> <ol style="list-style-type: none"> <li>1. Distribution of assets on the partition of an HUF</li> <li>2. Gift or will by an individual or HUF</li> <li>3. Succession, inheritance, or devolution</li> <li>4. Distribution of assets on liquidation of a company</li> <li>5. Transfer to a revocable or irrevocable trust</li> <li>6. Transfer of assets by a holding company to its wholly owned subsidiary, or vice versa</li> <li>7. Transfer of assets during amalgamation of companies</li> <li>8. Transfer of assets during demerger of companies</li> <li>9. Conversion of an individual's separate property into HUF property</li> </ol>	<ol style="list-style-type: none"> <li>1. COA: COA to the P.O.</li> <li>2. COI: COI to P.O. on or after 1<sup>st</sup> April 2001.</li> <li>3. POH: The POH of P.O. will also be considered.</li> <li>4. Indexation: The indexed cost of acquisition is available from the year asset was first held by P.O. [Manjula J Shah - Bombay HC]</li> </ol> <p>Note: Indexation applies only to assets transferred before 23.7.2024.</p>
49(2)	COA of Shares in an amalgamated company	Shall be the COA of shares in Amalgamating Company.
49(2A)	COA of shares or debentures received under conversion of bonds or debentures.	COA of Bonds or debentures before conversion
49(2AA)	COA of Specified securities or sweat equity shares received as referred under Section 17(2)(vi).	The FMV used for perquisite valuation.
49(2AE)	COA of Equity shares received under conversion of preference shares.	COA of Preference shares
49(2C)	COA of shares in Resulting company	$COA = A \times (B / C)$ <p>Where:  A = COA of shares in the demerged company  B = Net book value of the assets transferred in the demerger</p>



		C = Net worth of the demerged company (sum of paid-up share capital and reserves) before the demerger
49(2D)	COA of original shares in the demerged company.	COA = [Original cost - COA u/s 49(2C)]
49(4)	COA of any property which was taxed under Section 56(2)(x).	The value - considered under Section 56(2)(x) for taxation. Note: If Gift is received from a relative, COA will be Cost to P.O. [49(1)]
49(9)	COA in case Inventory is converted into Capital asset. [Not vice versa]	The FMV of the inventory on the date of conversion to a capital asset
49(10)	COA of EGR sold which was obtained on Conversion of Gold.	COA = Cost of Gold
	COA of Gold transferred by a person who purchased EGR	COA of EGR



#### 14. Cost of Acquisition of various assets [Section 55(2)]

Asset Type	Cost of Acquisition
For Intangibles	
[Goodwill, trademarks, intangible assets, business rights, tenancy rights, stage carriage permits, loom hours, etc]	
1. COA shall be Purchase price. 2. Purchased Goodwill: COA is the purchase price minus depreciation u/s 32 [Dep up to PY 2019 - 20 only] 3. Self-generated assets: COA shall be NIL. 4. If Assets acquired under 49(1) Modes - COA to P.O. Note: If cost to P.O. cannot be ascertained then COA will be FMV of such asset on date of acquisition by P.O. [Sec. 55(3)]	
For Financial Assets	
Section 55 specifies how to determine the cost of acquisition of financial assets.	
Original shares allotted	COA shall be Amount paid to the company
Right shares allotted	COA shall be Amount paid to the company
Rights Renounced	COA shall be Nil
For Rights Buyer	COA of Right shares for rights buyer will be [Amount paid to Renouncer + Amount paid to company]
Bonus shares allotted	COA shall be Nil
Bonus shares allotted before 01.04.2001	COA shall be FMV on 01.04.2001
Bonus Shares (Allotted Before 01.02.2018, STT Paid)	The cost is the Higher of 1 or 2: 1. COA [NIL] or FMV as on 01.04.2001 [If allotted before 01.04.2001]



and transferred on or after 01.02.2018	2. Lower of: <ul style="list-style-type: none"> <li>• FMV as on 31.01.2018 or</li> <li>• Actual Consideration on sale</li> </ul>
Long-term capital assets referred to in section 112A	
Listed Equity shares, EOF and Units of Business trusts which are acquired before 01.02.2018	The cost is the <b>Higher of 1 or 2:</b> <ol style="list-style-type: none"> <li>1. COA or FMV as on 01.04.2001 [If allotted before 01.04.2001]</li> <li>2. Lower of:               <ul style="list-style-type: none"> <li>• FMV as on 31.01.2018 or</li> <li>• Actual Consideration on sale</li> </ul> </li> </ol>
Special Rule for Immovable Property	
Land / Building or Both <b>Acquired before 01.04.2001</b>	COA shall be <b>FMV on 01.04.2001</b> subject to maximum of Stamp Duty Value of the asset as on 01.04.2001.
Other L & B	COA shall be Actual Cost of purchase
Capital Asset received on distribution under Liquidation of a company	
Assessee was <b>taxed under 46</b> at time of distribution	COA shall be the <b>FMV of the asset on the date of distribution</b>
Any other capital Assets	
Capital Assets <b>purchased before 01.04.2001</b>	COA shall be <b>Higher of Actual cost or FMV</b> as on 01.04.2001.
Other cases	COA shall be actual <b>purchase price only</b>
When the cost of the property in the hands of the previous owner cannot be determined	The <b>Fair Market Value (FMV) on the date</b> when the capital asset <b>became the property of the previous owner</b> is taken as the cost.

Note: A share or stock of a company may become property of the assessee as below:

Circumstance	Description
Consolidation and Division	Smaller shares are combined into larger ones, or larger shares are divided into smaller ones.
Conversion to Stock	Shares are converted into stock.
Re-conversion to Shares	Stock is converted back into shares.
Sub-division of Shares	Shares are split into smaller, more affordable units.
Conversion Between Share Types	One type of share is converted into another type.





### Meaning of Fair Market value:

Circumstance	Fair Market Value
Capital asset listed on a recognized stock exchange on 31.01.2018	<ul style="list-style-type: none"> <li>• <u>If trading on 31.01.2018:</u> Highest price quoted on that date.</li> <li>• <u>If No trading on 31.01.2018:</u> Highest price on the immediately preceding date when traded.</li> </ul>
Capital asset (unit) Not listed on any recognized stock exchange on 31.01.2018	Net asset value [NAV] of the unit on that date.
Equity Share in a company which is <ul style="list-style-type: none"> <li>• Not listed on 31.01.2018, but listed on the date of transfer.</li> <li>• Not listed on 31.01.2018, obtained through a Section 47 transaction and later listed.</li> <li>✓ Listed on the date of transfer, acquired u/s 47 modes</li> </ul>	$FMV = COA * CII \text{ for } 2017-18 / CII \text{ for the first year of holding or } 01.04.2001, \text{ as the case}$



### 15. Cost of Improvement [COI] [Section 55(1)]

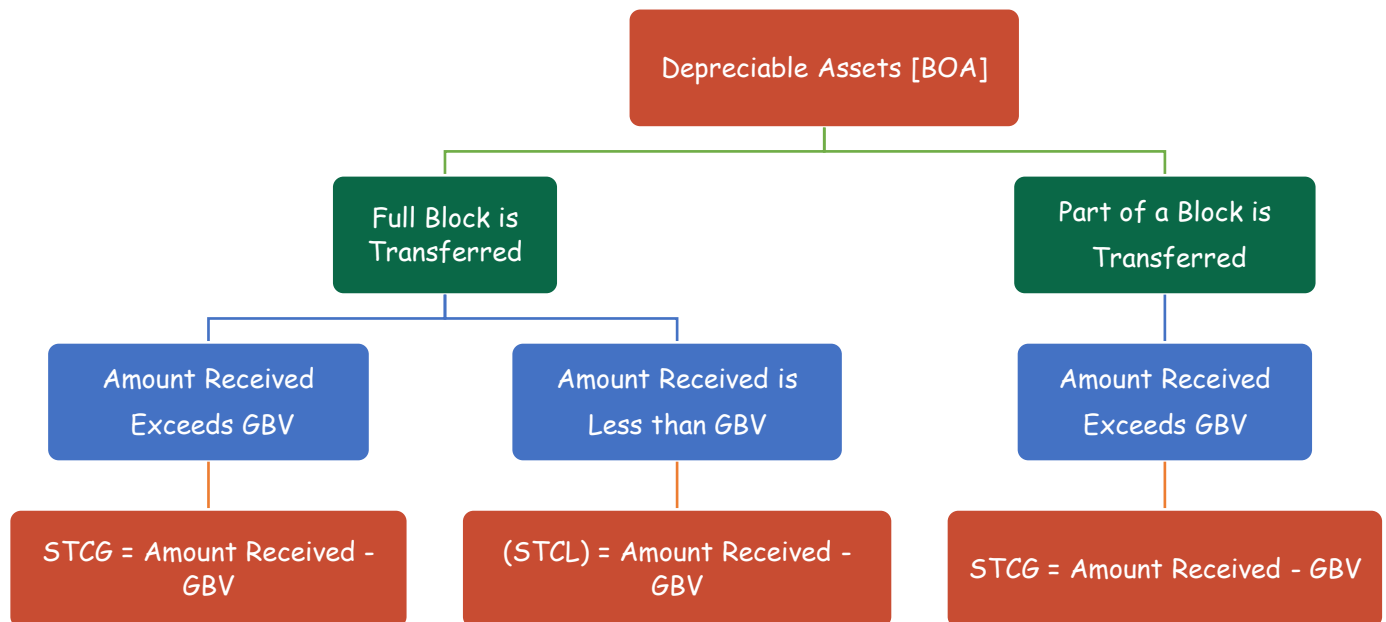
Type of Capital Asset	COI*
For Goodwill or any other intangible asset of a business, or rights (e.g., right to manufacture, produce, process, or carry on business/profession)	Nil
Any Other capital assets:	
✓ Improvement cost incurred before 01.04.2001 [Whether by assessee or P.O. is irrelevant]	Nil
✓ Improvement cost incurred by P.O. on or after 01.04.2001 [Asset is acquired u/s 49(1) modes]	COI = COI to P.O.
✓ Improvement cost incurred Assessee on or after 01.04.2001	COI = Actual Cost

\*COI does not include Routine repairs and maintenance or any expenditure deductible under other heads of incomes.



## 16. Computation of Capital Gains for Depreciable Assets

Transfer of depreciable assets forming part of Block of assets [Section 50]



Term	Description
Amount Received	Full value of consideration on transfer [on Sale, discard or demolition or compulsory acquisition]
Gross Block Value [GBV]	Opening WDV of Block Add: Actual Cost of Asset acquired in the Block during the P.Y. Add: Expenses in connection with transfer of asset

Thumb rules:

1. In case of part of a block transferred and the Amount received is less than GBV then Depreciation shall be calculated u/s 32 and Capital Gains do not attract.
2. If Part of a Block is sold either STCG or Depreciation arises. [No question of STCL]
3. If Full Block is sold either STCG or STCL. [No Question of Depreciation]

Transfer of depreciable assets of Power Sector following SLM [Section 50A]

If depreciable assets of power sector following SLM are transferred at a consideration more than Actual cost of such asset then:

1. Profits above WDV value up to original cost is taxed as Balancing charge u/s 41(2)
2. Profits above original cost is taxed as STCG u/s 50A
3. In case of Loss, i.e., Sale price is less than WDV value then it is terminal depreciation.



## 17. Capital Gains in case of Market Linked Debentures [Sections 50AA]

Assets covered	<ul style="list-style-type: none"> <li>✓ Units of a Specified Mutual Fund acquired on or after 1.4.2023.</li> <li>✓ Market Linked Debenture,</li> <li>✓ Unlisted bond, or unlisted debentures.</li> </ul>
Always STCG	Capital gains from these assets are always treated as short-term capital gains, regardless of holding period.
Normal Tax rates	Chargeable at normal tax rates applicable to the assessee.
Capital Gains	Full value of consideration Less: Transfer Expenses Less: Cost of Acquisition
Deduction for STT	No deduction for STT paid in computing the capital gains.

Term	Meaning
Market Linked Debenture	<ul style="list-style-type: none"> <li>✓ A security with an underlying principal component in the form of debt security.</li> <li>✓ Returns are linked to market returns on other securities or indices.</li> <li>✓ Includes any security classified or regulated as a Market Linked Debenture by SEBI.</li> </ul>
Specified Mutual Fund	<ul style="list-style-type: none"> <li>✓ A mutual fund which invests more than 65% of its total proceeds in debt and money instruments or a fund which invests 65% or more in units of above fund.</li> <li>✓ The investment in debt and money market instruments is calculated based on the annual average of daily closing figures.</li> </ul>



## 18. Slump Sale [Section 50B]

**Definition of Slump Sale [Section 2(42C)]:** Transfer of one or more undertakings for a lump sum consideration without assigning values to individual assets and liabilities in the transfer.

**Undertaking [Explanation 1]:** Includes any part of an undertaking, unit, division, or business activity as a whole, but excludes individual assets or liabilities not constituting a business activity.

**Note:** Assigning value to an asset/liability for stamp duty or similar purposes does not count as assigning values to individual assets/liabilities for the slump sale.

**Nature of Undertaking Sec.50B (1):**

- ✓ If the undertaking is held for more than 36 months, the gain is treated as LTCG.
- ✓ If held for 36 months or less, it is treated as STCG.

Computation of Capital Gains under Slump Sale	Amount
1. Deemed Full Value of Consideration: FMV (Fair Market Value) of the assets is the higher of: <ul style="list-style-type: none"> <li>i. FMV 1: FMV [Rule 11 UAE] of assets on the Transfer date or</li> <li>ii. FMV 2: FMV of Consideration (monetary + non-monetary) received for the transfer.</li> </ul>	XXXX
2. Less: Transfer Expenses	(XXX)
3. Net Consideration [1 - 2]	XXXX
4. Less: COA and COI [Section 50B(2)(i)] - Net worth of the undertaking/division is deemed to be the COA / COI. [No indexation benefit at all]	(XXX)
5. LTCG / STCG / LTCL / STCL [3 - 4]	XXXX

### Net Worth Means

Aggregate value of total assets of the undertaking/division minus liabilities as per the books of account. Any Revaluation changes in assets shall be ignored.

Asset Type	Value for Net worth calculation
Depreciable Assets	WDV Value as per Sec. 43(6)
Self-Generated Intangibles	NIL
Capital Asset [Deduction u/s 35 claimed]	NIL
Any other Capital Assets	Book Values

**Condition:** Assessee must furnish a Chartered Accountant's report certifying net worth computation of the undertaking in the prescribed form by 30th September of the assessment year. (1 month before the due date U/s 139(1))



## 19. Exemption u/s 10(37) for Agricultural land

Urban Agricultural Land	Exempt if the following conditions are satisfied
Exemption of capital gains on compulsory acquisition of urban agricultural land [Land situated within specified limits]	<ul style="list-style-type: none"> <li>✓ Applicable to <b>Individuals or HUFs</b>.</li> <li>✓ Exemption is available if the <b>compensation or enhanced compensation is received on or after 1.4.2004</b>.</li> <li>✓ The land must have been used for agricultural purposes in the 2 years preceding the date of transfer by the individual or their parents, or the HUF.</li> </ul>

Note: Immediately refer Sec. 54B also



## 20. Exemption in respect of HP [Section 54]

Asset Transferred	Residential HP that which is a LTCA and is taxable under IFHP.		
Eligible Assessee	Only Individual and HUF		
If Amount of CGs Exceeds ₹2 Crore	Exemption available on Investment in only for 1 HP in India: <ul style="list-style-type: none"> <li>✓ Purchased within 1 year before or 2 years after the transfer date or</li> <li>✓ Constructed within 3 years after the transfer date.</li> </ul>		
If Amount of CGs Doesn't Exceeds ₹2 Crore	Exemption available on Investment in 2 HP's in India: <ul style="list-style-type: none"> <li>✓ Purchased within 1 year before or 2 years after the transfer date or</li> <li>✓ Constructed within 3 years after the transfer date.</li> </ul> Note: If the option to purchase/construct 2 houses is exercised, the assessee cannot claim the benefit for 2 houses in any subsequent assessment year.		
Exemption Amount	<ul style="list-style-type: none"> <li>✓ Lower of Amount Invested in New HPs or LTCG</li> <li>✓ Maximum exemption shall not exceed ₹10 crore</li> </ul>		
Lock In Period [LIP] of New Capital Asset	If the new asset is transferred before 3 years from the date of its acquisition or construction, then		
	CGs on New asset transferred within LIP	Amount	Amount
	FVC on transfer of New HP		XXXX
	Less: Transfer Expenses		(XXX)
	Net Consideration		XXXX
	Less: Cost of Acquisition		
	COA [Amount Invested]	XXXX	
	Less: CGs Exempted earlier	(XXX)	(XXX)*
	Less: Cost of Improvement		(XXX)
	Balance Taxable CGs [STCG / LTCG] or Loss		XXXX
*Indexation will be done on this value, if applicable. Example: The long-term capital gains is Rs. 2.05 crore and the cost of the new house is Rs. 3 Crore, the entire LTCG of of Rs. 2.05 crore will be exempt. If the new house was sold after 18 months for Rs. 5 Crore, then, STCG chargeable to tax would be 4.05 Crore. [i.e., 5 Crore - 95L (3 Cr - 2.05 Cr)]			





CGAS	Discussed later [Capital Gain Account Scheme]
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## Exemption Calculation:

Case	LTCG	Cost of New HP	Exempt LTCG
1	₹7 crore	₹12 crore	₹7 crore
2	₹12 crore	₹14 crore	₹10 crore
3	₹11 crore	₹9 crore	₹9 crore
4	₹15 crore	₹13 crore	₹10 crore

## CGAS related Example:

Scenario	Details	Exemption (u/s 54)
LTCG: ₹8 crore	Construction expenditure: ₹5 crore (within due date u/s 139(1)) Deposited in CGAS within Due Date: ₹2 crore in CGAS	₹7 crore (₹5 crore + ₹2 crore)
LTCG: ₹14 crore	Construction expenditure: ₹7 crore (within due date u/s 139(1)) Deposited: ₹2 crore in CGAS before due date	₹9 crore (₹7 crore + ₹2 crore)



## 21. Capital gains on transfer of agricultural land [Section 54B]

Asset Transferred	Urban agricultural Land
Eligible Assessee and Capital asset	<ul style="list-style-type: none"> <li>✓ The HUF or Individual or their parents must use the land for 2 years preceding date of transfer. [Ownership during usage is irrelevant].</li> <li>✓ The land may be STCA or LTCA</li> <li>✓ New Asset: The assessee must purchase another agricultural land (urban or rural) within 2 years of the transfer.</li> </ul>
Exemption Amount	✓ Lower of Amount Invested in the Land or the Capital Gains.
Lock In Period [LIP] of New Capital Asset	<ul style="list-style-type: none"> <li>✓ Same as discussed u/s 54.</li> <li>✓ Further if the new land is a Rural Agriculture land and it is transferred within LIP then No tax treatment as capital gains won't arise on the same.</li> </ul>
CGAS	Discussed later



## 22. Compulsory acquisition of L&B of an industrial undertaking [Section 54D]

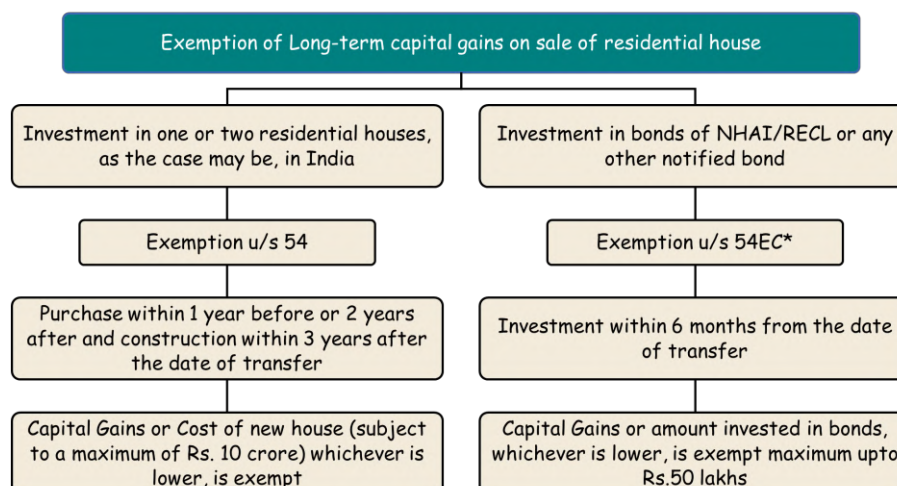
Eligible Assessee	Any assessee transferring Industrial Land, Building or both under Compulsory acquisition
Conditions for Exemption	<ul style="list-style-type: none"> <li>✓ Asset must have been used for industrial purposes for 2 years preceding the date of transfer.</li> <li>✓ The transferred L&amp;B can be STCA or LTCA</li> <li>✓ The assessee must purchase or construct another Industrial land / building within 3 years from the date of transfer.</li> </ul>
Exemption Amount	Lower of Amount Invested in the L & B or the Capital Gains.
Lock In Period [LIP] of New Capital Asset	✓ Same as discussed u/s 54.



## 23. Exemption for investment in Bonds [Section 54EC]

Eligible Assessee	Any Assessee transferring LTCA [Immovable Property] [Residential / Commercial] [Even Depreciable also]
Conditions for Exemption [Gain can be - STCG*/LTCG] *Depreciable IMP	<ul style="list-style-type: none"> <li>✓ Capital gains from the transfer must be invested in specified bonds within 6 months of the transfer date.</li> <li>✓ Specified bonds include: <ul style="list-style-type: none"> <li>• Bonds issued by NHAI or RECL [From 1.4.2018]</li> <li>• Bonds notified by the CG, such as PFC and IRFC bonds.</li> <li>• 5 years Bonds issues by HUDCO [From 1.4.2025]</li> <li>• 5 years Bonds issued by IREDA [From 9.7.2025]</li> </ul> </li> </ul>
Quantum of Exemption	<ul style="list-style-type: none"> <li>✓ Lower of Amount Invested in the above Bonds or the Capital Gains.</li> </ul> <p>[Note: Maximum exemption cannot exceed ₹50 lakhs]</p>
Lock In Period [LIP] of New Capital Asset	If the bonds are transferred, converted, or used for loans/advances before 5 years, earlier exempted capital gains will be taxed as long-term capital gains in the year of violation.

### Special Example





## 24. Exemption on Transfer of Any CA other than HP [Section 54F]

Asset Transferred	Transfer of any LTCA other than a Residential HP (e.g., a plot of land or Jewellery).
Eligible Assessee	Individual or HUF
Conditions for Exemption	<ul style="list-style-type: none"> <li>✓ New Asset: Investment in 1 HP in India: <ul style="list-style-type: none"> <li>• Purchased within 1 year before or 2 years after the transfer date or</li> <li>• Constructed within 3 years after the transfer date.</li> </ul> </li> <li>✓ The assessee must not own more than 1 Residential HP on the date of transfer.</li> <li>✓ The assessee must not: <ul style="list-style-type: none"> <li>• Purchase another HP within 2 years, or</li> <li>• Construct another HP within 3 years of the transfer date.</li> </ul> </li> </ul>
Exemption Amount	$\text{Exemption} = \text{LTCG} \times \frac{\text{Amount Invested}}{\text{Net Consideration}}$ <ul style="list-style-type: none"> <li>✓ Any amount invested is considered only up to ₹10 crore</li> </ul>
Lock In Period [LIP] of New Capital Asset	<p>If the New residential house is transferred within 3 years of purchase:</p> <p>The capital gains exempt earlier under Section 54F will be taxable as long-term capital gains.</p>
Re-taxation for failure to comply with condition	<p>Another Residential HP Purchased within 2 years or constructed within 3 years of transferring the original asset:</p> <p>The capital gains exempt earlier under Section 54F will become taxable as LTCG in such year of purchase or construction.</p>
CGAS	Discussed later

### Exemption Calculation:

	Net Consideration	LTCG computed	Cost of new residential house	Exempt LTCG
1	₹15 crore	₹7.5 crore	₹12 crore	₹7.5 crore $\times$ 10/15 = ₹5 crore
2	₹20 crore	₹12 crore	₹15 crore	₹12 crore $\times$ 10/20 = ₹6 crore
3	₹16 crore	₹12 crore	₹8 crore	₹12 crore $\times$ 8/16 = ₹6 crore
4	₹10 crore	₹6 crore	₹10 crore	₹6 crore $\times$ 10/10 = ₹6 crore
5	₹12 crore	₹6 crore	₹12 crore	₹6 crore $\times$ 10/12 = ₹5 crore



## 25. Capital Gains Account Scheme (CGAS)

Aspect	Details
Applicability	<ul style="list-style-type: none"> <li>✓ Applies to exemptions under Sections 54, 54B, 54D, and 54F. [Not Sec. 54EC]</li> <li>✓ Capital gains/net consideration must be invested in specified assets within due date for filing u/s 139(1).</li> </ul>
When to Deposit in CGAS	<p>If investment in new asset is not made before due date u/s 139(1), the capital gain/net consideration must be deposited under CGAS.</p> <p>Exemption limits:</p> <ul style="list-style-type: none"> <li>✓ Section 54: Gains exceeding ₹10 crore are excluded from CGAS.</li> <li>✓ Section 54F: Net consideration exceeding ₹10 crore is excluded.</li> </ul>
Deemed Cost of New Asset	<ul style="list-style-type: none"> <li>✓ The sum of the amount already utilized for purchase / construction and the amount deposited in CGAS within due date u/s 139(1) will be deemed as the cost of the new asset.</li> </ul>
Proof Requirement	Proof of deposit under CGAS must be attached with the return of income.
Utilization of Deposit	The deposit can be withdrawn only for the specified purposes as per the scheme.
Consequences of Non-Utilization within specified time limit	<p>If the deposit is not utilized within 2 years (purchase) or 3 years (construction):</p> <ul style="list-style-type: none"> <li>✓ The unutilized amount is treated as capital gain in the year the specified period expires.</li> <li>✓ For Section 54F, the taxable amount is calculated proportionately.</li> </ul> <p>Note: Unutilised amount gets taxed only to the extent of exemption claimed at the time of deposit thereof.</p>
Treatment in Case of Death of Depositor	<ul style="list-style-type: none"> <li>✓ Unutilized amount is not taxable in the hands of legal heirs.</li> <li>✓ It forms part of the estate of the deceased individual.</li> </ul>



## 26. Extension of time for acquiring new asset [Section 54H]

Aspect	Details
Applicability	<ul style="list-style-type: none"> <li>✓ Relevant in cases of compulsory acquisition of the original asset.</li> </ul>
Key Provision	<ul style="list-style-type: none"> <li>✓ If the compensation for compulsory acquisition is not received on the date of transfer, the timeline for acquiring a new asset or depositing the capital gain in CGAS is extended.</li> </ul>
Revised Timeline	<ul style="list-style-type: none"> <li>✓ The period for making an investment or deposit under Sections 54, 54B, 54D, 54EC, and 54F starts from the date of receipt of compensation, not the date of transfer.</li> </ul>



## 27. Reference to Valuation Officer [Section 55A]

The A.O. may refer the valuation of a capital asset to a V.O.

- ✓ If the **value claimed by the assessee** (based on a registered valuer's estimate) **varies significantly from the FMV** of the asset, as per the AO's opinion.  
[Either sale consideration or COA as on 01.04.2001]
- ✓ Threshold for Variation:
  - If the AO believes that the **FMV exceeds the claimed value by more than 15% or ₹25,000**, whichever is higher. Or
  - **Other Relevant Factors**: If the AO considers the nature of the asset or other circumstances to justify a reference to the Valuation Officer.



## 28. Tax on long term Capital Gains [Section 112]

Applicability:

- ✓ Applies to **LTCG on different types of capital assets** such as unlisted securities, listed securities, land/building, and **not covered under Section 112A**.

Tax rates on or After 23.07.2024:

- ✓ Land/building (acquired before 23.07.2024):
  - **Resident Individual/HUF**: **12.5% without indexation** or 20% with indexation, **whichever is beneficial**.
  - **Other assesseees**: **12.5% without indexation**.
- ✓ Land/building or any other assets (acquired on/after 23.07.2024):
  - **12.5% without indexation**.
- ✓ For Non-Residents on LTCG on unlisted securities or shares of closely held companies: **Taxable at 12.5% without indexation or foreign currency fluctuation benefit**.

Important Points:

1. Unutilised BEL setoff: Available for Resident Individual/HUF
2. No Deductions Under Chapter VI-A against Sec. 112 LTCGs
3. **87A Rebate is NOT Available under DTR for LTCG u/s 112**.  
[However, under OTR it is Available]



## 29. Sec. 112A and 111A

Section 112A	Section 111A
Transfer of Listed Equity Shares, Units of EOMFs or Units of business trusts	
LTCA	STCA
<ul style="list-style-type: none"> <li>✓ Shares: STT Paid, Both, at the time of acquisition and transfer</li> <li>✓ Units of EOMF / Business trusts: STT paid at the time of transfer</li> </ul>	STT Paid at the time of transfer
Tax Rate:	Tax Rate:





✓ 12.5% exceeding ₹1,25,000.	✓ 15%, if Transfer is Before 23rd July 2024 ✓ 20%, if Transfer on or after 23rd July 2024.
Unutilised BEL set off: Available for Resident Individual/HUF	Unutilised BEL setoff: Available for Resident Individual/HUF
Tax rate is same even STT not paid provided transaction occurred in a stock exchange in IFSC	Tax rate is same even STT not paid provided transaction occurred in a stock exchange in IFSC
No Rebate u/s 87A [Both under DTR and OTR]	Rebate u/s 87A Available - Under OTR Rebate u/s 87A Not Available - Under DTR
No Deduction under Chapter VIA	No Deduction under Chapter VIA



## 7. Income from Other Sources



### 1. Method of Accounting [Section 145]

Similar to what we discussed under PGBP



### 2. Dividend Taxation [Section 56(2)(i)]

- Dividend includes Deemed dividend.
- The following distributions to the extent of accumulated profits [TEOAP] of the company are deemed as dividend and is taxable in hands of the receiver: [Sec 2(22)]

a. Any Sum or assets distributed to shareholders TEOAP. E.g., Final or Interim Dividend [MV of such assets is considered]

b. Securities Distributed:

Distribution of	TEOAP is Taxable
Debentures, debenture stock, and deposit certificates to ANY share holders	MV of such securities
Bonus shares to Preference shareholders	MV of such Bonus shares
Bous shares to Equity shareholders	Not Taxable

c. On Liquidation:

Any Distribution of	TEOAP is Taxable
Assets directly on liquidation	MV of such assets
Cash on sale of assets by the company directly	The Amount Received

d. Reduction of Capital: If a company reduces its capital and distributes, such distribution is deemed as dividend TEOAP before date of reduction. [Either cash or Kind]

e. Loans and Advances to shareholders / Concerns:

- ✓ Any loan or advance given by a closely held company to a shareholder holding 10% or more of voting power is deemed to be a dividend, TEOAP. [Preference capital is not considered as voting power]
- ✓ Loans to concerns (e.g., HUF/Firm/Company) in which such shareholder has substantial interest ( $\geq 20\%$ ) is also treated as dividend.
- ✓ Exceptions:
  - Loans in the ordinary course [By lending companies] of business are not considered as dividend.
  - If a company declares dividend to set off such loan.

Note: Subsequent repayment of loan or interest at market rates, doesn't make any difference in applicability of 2(22)(e).

f. Buy Back by domestic companies: Any sum paid by the domestic company for the purchase of its own shares [on or after 1<sup>st</sup> October 2024]



Dividend Type	Year of Taxability
✓ Final Dividend	Year of Declaration / Distribution
✓ Interim Dividend	Year of Making it available unconditionally
✓ Distributions under 2(22)(a) to (d)	Year of Distribution
✓ Loan / Advance under 2(22)(e)	Year of Loan / Advance
✓ Buyback under 2(22)(f)	Year of Payment for Buy Back

**Clarifications related to Dividend:** The following are Not treated as dividends.

1. Buy back before 30th September 2024 is NOT considered as dividend.
2. Shares distributed to shareholders by the resulting company after a demerger are not considered dividend, even if there's a reduction in capital.
3. Any advance or loan between 2 group entities [where one is Finance Company or unit] AND Parent or principal entity is listed in a stock exchange outside India. [Specified by CBDT] [Finance Act 2025]
4. Trade advances (commercial transactions) are not treated as deemed dividend.
5. Any distribution under c or d to any shareholder not entitled to participate in surplus.

**Meaning of Accumulated Profits:** All the profits of a company up to the date of distribution, payment, or liquidation. In the case of amalgamation, accumulated profits of the amalgamating company are included in the profits of the amalgamated company.

#### Deduction u/s 57

1. **Maximum Deduction:** In the case of dividend (other than on account of buy-back of shares by a domestic company) or income in respect of units of a mutual fund or income in respect of units of a specified company, Interest on loan to earn such income is allowed as deduction subject to a maximum of 20% of such income.
2. **No deduction:** No deduction in respect of any expenditure is allowed in case of dividend in form of buy-back of shares by a domestic company.

**Example on provisions of section 46A and section 2(22)(f)**

Particulars	Amount
No. of shares of A Ltd. bought in 2020 by Mr. B @₹40 per share	100 shares
Total cost of acquisition	₹4,000 (100 × 40)
Shares bought back in November 2025 by A Ltd. @₹60 per share	20 shares
Income u/s 2(22)(f) [₹60 per share × 20 shares]	₹1,200
LTCL on such buyback as per section 46A (Value of consideration - COA) (Nil - ₹40 × 20) [Set off and C/F apply]	(₹800)
No. of shares sold in December 2025 by Mr. B @₹70 per share	50 Shares
Long-term capital Gain (₹70 - ₹40) × 50	₹1,500
Chargeable long-term capital gain in P.Y. 2025-26 after set-off of LTCL [₹1,500 - ₹800] would be	₹700



### 3. Casual Income (Section 56(2)(ib))

These are taxed always under "Income from Other Sources."

#### Winnings Other than online games [Section 115BB]

- ✓ Winnings from lotteries, crossword puzzles, races (including horse races), card games, gambling, or betting of any form.

#### Winnings From Online Games [Section 115BBJ]

- ✓ Net winnings from any online game would be taxed.
- ✓ Definition of Online Game: A game offered on the internet, accessible via computer resources or telecommunication devices.

#### Common Tax rates and Conditions both types of winnings

- ✓ Tax Rate is Flat 30% + surcharge + 4% HEC.
- ✓ No expenditure or allowance can be claimed from this income.
- ✓ No Chapter VI-A deductions are allowed.
- ✓ Basic exemption limit cannot be adjusted against this income.



### 4. Interest on Compensation (Section 56(2)(viii))

- ✓ Interest received on compensation or enhanced compensation is taxable in the year it is received. [Only cash basis] [Sec. 145B]
- ✓ U/s 57, Flat 50% Deduction available from the same. [Actual expenses irrelevant]



### 5. Forfeited Advance Due to Failed Negotiations (Section 56(2)(ix))

- ✓ Advance forfeited in failed negotiations for the transfer of a capital asset is taxable as "Income from Other Sources" if the forfeiture is on or after 1<sup>st</sup> April 2014.
- ✓ If forfeited before 1<sup>st</sup> April 2014, the advance will be deducted from the cost of acquisition while calculating capital gains. [Taxation is deferred till actual transfer of capital asset]



### 6. Incomes - Taxable under "IFOS" only if "PGBP" Not applicable

1. Income from letting out of P & M and Furniture. [Deduction u/s 57 allowed for Current Repairs, Insurance and Depreciation]
2. Income from inseparable letting of buildings with machinery, plant, or furniture.
3. Income earned from interest on securities (e.g., government bonds).

Deduction u/s 57: Reasonable sum paid by way of commission or remuneration to a bank or any person for the purpose of realising such interest is allowed as deduction.

Note: Clarification on Interest on Non-SLR Securities of Banks:

- ✓ Clarification: Interest on non-SLR securities (not part of Statutory Liquidity Ratio) held by banks is considered part of banking business.
- ✓ Taxable Head: Income from such investments is taxable under "PGBP".



## 7. Gift taxation [Section 56(2)(x)]

### Gift received from taxable sources [5 Circumstances]

#### Gift of Money Received ["Aggregate" taxation]

1. If Aggregate is Exceeding ₹50,000	Fully Taxable
--------------------------------------	---------------

#### Movable\* Property | "Aggregate" taxation | Only 8\* types of capital assets

Circumstance	Taxable Value
2. Received Without Consideration and Aggregate of FMV exceeding ₹50,000	FMV of aggregate of all Movable properties received
3. Received for Inadequate Consideration and Aggregate FMV minus Consideration, Exceeding ₹50,000	FMV of Aggregate of all movable properties minus consideration

#### Immovable Property | "Each Property wise" taxation | Land, Building or L&B

Circumstance	Taxable Value
4. Received Without Consideration and SDV <sup>\$</sup> of each property exceeding ₹50,000	SDV of such property received.
5. Received for inadequate consideration and the difference between SDV <sup>\$</sup> and Consideration is more than ✓ ₹50,000 ✓ 10% of consideration Whichever is higher	SDV of such property minus consideration

**Note:** In case of Movable and Immovable properties, the gift provision attracts only if they are capital assets in hands of the recipient.

\*8 types of movable properties are subject to taxation as gifts and they are Shares and securities, Jewellery, Archaeological collections, Drawings, Paintings, Sculptures, Any work of art and Bullion. [Also Included Virtual Digital Assets]

<sup>\$</sup>Determination of SDV [Stamp Duty Value]:

Circumstance	Date of SDV to be taken
Advance received from buyer on or before date of agreement by other than cash	SDV on Date of Agreement
Advance received in cash mode	SDV on Date of Transfer [Registration]
No Advance for sale	SDV on Date of Transfer [Registration]





### Gift Received under following circumstances are Exempted

1. Gift Received from relatives.
2. Received from an individual by a trust created solely for the benefit of a relative of such individual.
3. Gifts received on the occasion of marriage.
4. Any property or sum received through a will or inheritance.
5. In contemplation of death of the payer or donor.
6. From a local authority.
7. Received From any funds, foundations, universities, educational institutions, hospitals, or medical institutions. [Covered u/s 10(23C)]
8. Received By any funds, foundations, universities, educational institutions, hospitals, or medical institutions. [Covered u/s 10(23C)]
9. Received from a trust or institution registered u/s 12AA or 12AB
10. By way transactions not considered a transfer u/s 47.
11. Received for Covid-19 treatment of an Individual or Family members:
  - ✓ Received by an Individual for Medical expenses related to COVID-19
  - ✓ Received by a member of Family of deceased person within 12 months from date of death of the individual:
    - From Employer is exempt fully without any limit
    - From any other persons to the extent of aggregate of such sums  $\leq$  ₹10 lakhs[Subject to Conditions Prescribed]

### Meaning of Relative and Family Member

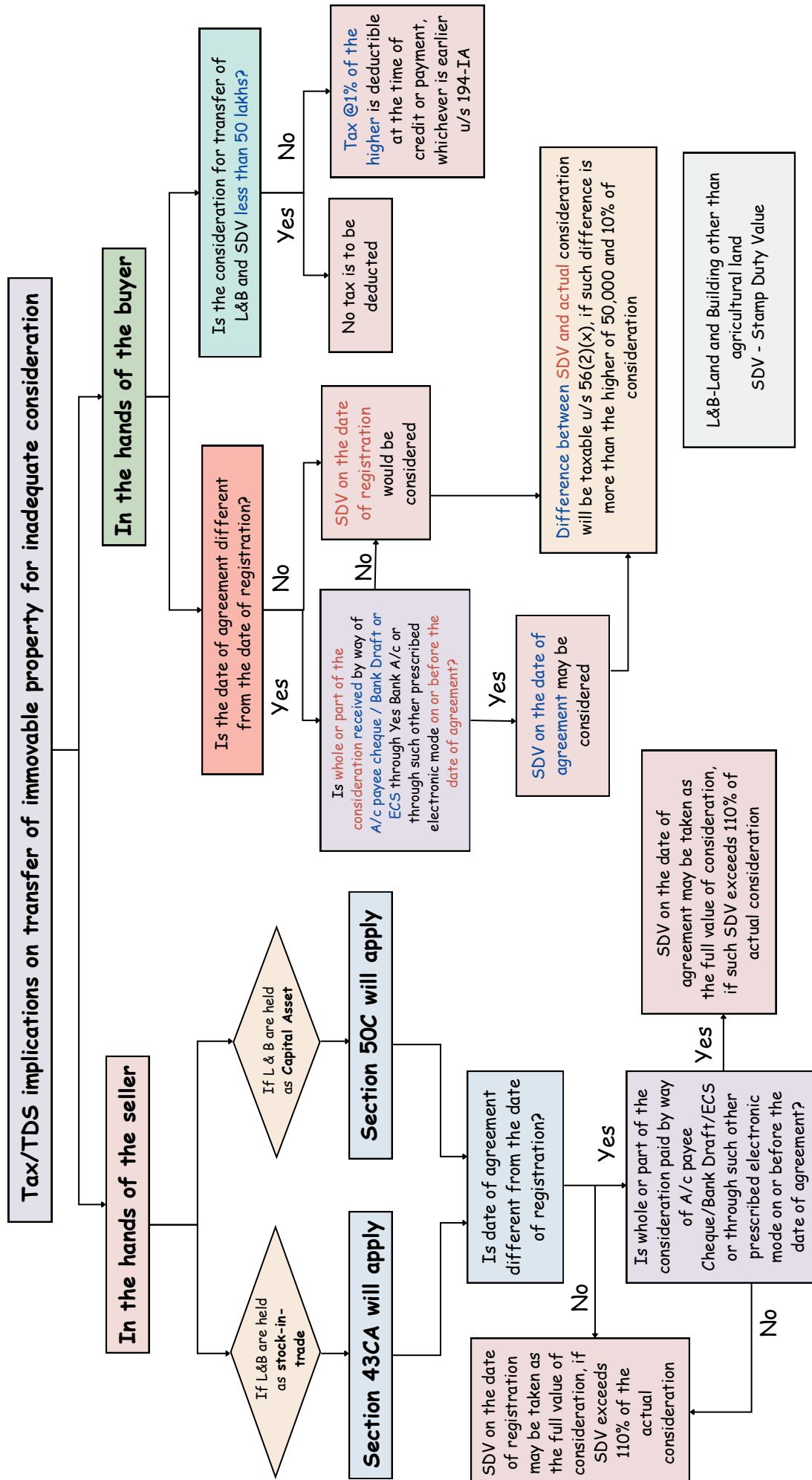
#### Relative

- a. In case of an individual:
  - i. Spouse of the individual.
  - ii. Brother or sister of the individual.
  - iii. Brother or sister of the spouse of the individual.
  - iv. Brother or sister of either of the parents of the individual.
  - v. Any lineal ascendant or descendant of the individual.
  - vi. Any lineal ascendant or descendant of the spouse of the individual.
  - vii. Spouses of any of the persons referred in (i) to (vi) above.
- b. In case of HUF, any member thereof.

#### Family member

Family in relation to an individual means

- i. Spouse and children of the Individual and
- ii. Dependant Parents, Dependant brothers and Dependant sisters.





## 8. Amount received under Insurance Policies [Section 56(2)(xiii)]

### Exempted Maturity amounts under LIP [Other than ULIP]

Section 10(10D) provides an exemption on sums received under life insurance policies (LIP), including any bonus sums, subject to conditions regarding premiums:

Policy Issue Date	Exemption Condition
Before 1.4.2003	Any sum received, including bonuses, is exempt.
Between 1.4.2003 to 31.3.2012	Exempt only if annual premium does not exceed 20% of actual capital sum assured.
Between 1.4.2012 to 31.3.2013	Exempt only if annual premium does not exceed 10% of actual capital sum assured.
On or After 1.4.2013	Exempt only if annual premium does not exceed <ul style="list-style-type: none"> <li>✓ 15% of sum assured [For disability cases] or</li> <li>✓ 10% of sum assured [For others]</li> </ul>

For Policies issued on or After 1.4.2023 the Exemption is subject to:

Condition 1

Annual premium shall not exceed 10% or 15% of sum assured as the case may be

Condition 2

No. of Policies	Exemption
Only single policy taken	Exempt only if the Premium payable for such single policy does not exceed ₹5,00,000 <sup>#</sup> in any P.Y.
If multiple policies are Purchased	If the aggregate of premiums exceeds ₹5,00,000 in respect of all such policies, in any P.Y. during the term of any policy, then, Exemption is available only for those policies whose aggregate premium does not exceed ₹5,00,000 (At the option of the assessee),

[Solve ISM Examples under IFOS Chapter]

**Note:** Amount Received on death of a person from insurance company is always exempt irrespective of premium % and Amount of premium.

<sup>#</sup> Premium amount to be considered shall be excluding GST.

**Imp Note:** For Term Insurance Policies the above monetary limits of ₹5,00,000 DO NOT apply. Moreover, under term insurance only the legal heirs receive the maturity amounts. Hence, they are always exempt u/s 10(10D).

### Taxable Maturity amounts under LIP [Other than ULIP]

Disabled Dependant Predeceases the individual [Section 80DD(3)]:

- ✓ If dependant disabled predeceases the individual, The amounts received under insurance policy is not exempt and is taxable under IFOS in the year of receipt. [Policy Holder - Individual or HUF and Insured - Disabled dependant]



Sum received under a Keyman insurance policy:

- ✓ Amounts received under a Keyman insurance policies are always taxable.
- ✓ Even if the policy is assigned to the keyman, the sum received will not be exempt from tax.
- ✓ A Keyman insurance policy is one where a business owner insures the life of an employee or someone vital to the business.
- ✓ Amount received under KMP policies are taxable either under Salaries, PGBP or Other sources depending on the receiver.

### Taxable amount Determination u/s 56(2)(xiii)

1. Any sum received from a LIP that is not exempt u/s 10(10D) will be taxable under the head "Income from Other Sources".
2. Taxable Amount is as under:
  - a. The taxable income is the excess of the sum received over the aggregate premium paid, and
  - b. Not been claimed as a deduction under any other provision of the Act.

Manner of Computation as per Rule 11UACA:

Situation	Income chargeable to tax
Where the sum is received for the first time under the LIP during the previous year (FPY)	<p>Income = A-B</p> <p>A = Aggregate of sum received under the LIP during the FPY</p> <p>B = Aggregate of the premium paid during the term of the LIP till the date of receipt of the sum in the first previous year that has not been claimed as deduction.</p>
Where the sum is received under the LIP during subsequent previous years to the FPY (SPY)	<p>Income = C-D</p> <p>C = Aggregate of sum received in SPY.</p> <p>D = Aggregate of the premium paid during till the date of receipt of the sum in the SPY NOT being premium:</p> <p>(a) which is claimed as deduction under any other provision of the Act or</p> <p>(b) is included in "B" or "D" in any of the previous year(s).</p>



## 9. Residual Incomes

Any income chargeable to tax under the Act but not falling under any other head of income is taxable under "Income from Other Sources".

### Examples

1. Salary received by MPs/MLAs is taxable under "IFOS", not under Salaries.
2. Exempt Incomes for MPs/MLAs (Section 10(17)):



- ✓ Daily allowance received by MPs/MLAs or members of any Committee thereof.
- ✓ Allowance received by MPs as per Parliament Rules, 1986
- ✓ Allowance received by MLAs any Act or rules made by that State Legislature.



### 10. Family Pension and Pension from Insurers

1. Family Pension is fully Taxable in the hands of the legal heirs.
2. Deduction allowed and is lower of  
1/3rd of income or ₹15,000 (under OTR) / ₹25,000 (under DTR),

Family Pension is fully exempt under Section 10 under following:

1. Received by the widow/children of armed forces members who died during operational duties (Section 10(19)).
2. Received by family members of individuals awarded Param Vir Chakra, Maha Vir Chakra, Vir Chakra, or other gallantry awards (Section 10(18)).
3. Commuted pensions received from LIC or funds approved by IRDA or the Controller of Insurance are fully exempt. [Section 10(10A)]



### 11. Deductions Not Allowable / Disallowances [Section 58]

- ✓ Similar to PGBP [40 Series]. Example:
  - Personal expenses are disallowed
  - Payments without deduction of TDS is disallowed 100% / 30% as the case may be
  - Payments to related persons in excess of reasonable amounts.
  - Payments in cash exceeding ₹10,000 (or ₹35,000 for transport operators)
  - No Deductions in respect of winnings income.

**Note:** A Person earning income from owning and maintaining race horses can claim deduction for reasonable expenses for maintenance of race horses.



### 12. Deemed income chargeable to tax [Section 59]

Similar to the provisions of section 41(1)





### 13. Exemptions

#### Exempted Interest Incomes u/s 10(15)

1.	Interest or Premium on redemption from notified securities, bonds, annuity certificates, or other savings certificates is exempt, subject to specified conditions and limits.
2.	Post Office Savings Bank Account Interest, is exempt up to the following limits: <ul style="list-style-type: none"> <li>✓ ₹3,500 for an individual account.</li> <li>✓ ₹7,000 for a joint account.</li> </ul>
3.	Interest on: <ul style="list-style-type: none"> <li>✓ Gold Deposit Bonds (issued under the Gold Deposit Scheme, 1999).</li> <li>✓ Deposit Certificates (issued under the Gold Monetization Scheme, 2015).</li> </ul>
4.	Interest on bonds issued by: <ul style="list-style-type: none"> <li>✓ A local authority.</li> <li>✓ A State Pooled Finance Entity (specified by the Central Government through a notification).</li> </ul>

80CCA\* Exemption: For Individuals, Amount withdrawn from National Savings Scheme on or after 29<sup>th</sup> August 2024 is exempted. [Finance Act 2025]

\*Section is Not operational Now.

#### Interest on NRE Account [Section 10(4)(ii)]

- For Individuals, Interest earned on Non-Resident External (NRE) Account in any bank in India is exempt provided:
  - ✓ He is a resident outside India as defined under FEMA, 1999, or
  - ✓ Is permitted by the RBI to maintain such an account.
- Joint holders do not constitute an Association of Persons (AOP) by merely holding the account together.

#### Compensation on Account of Disasters [Section 10(10BC)]

- Compensation received or receivable by an individual or their legal heir on account of any disaster, From CG / SG / Local Authority is exempt from tax.
- Exemption is not available for compensation where damage or loss that has already been allowed as a deduction under the Act.
- Disasters can be natural or manmade.

#### Other Exemptions

Scholarships granted to meet the cost of education are fully exempt, regardless of the amount or source. [Section 10(16)]

Awards and rewards in public interest for literary, scientific, or artistic works instituted by the Central/State Government or approved bodies. [Section 10(17A)]

Any Commuted pension received by individual from fund set up by LIC [Section 10(10A)]



## 8. Clubbing of Income



### 1. Transfer of Income without T/f of asset [Section 60]

If a person transfers the income from an asset without transferring the asset, such income is taxable in the hands of the transferor. [Revocable / Irrevocable]

Example: Mr. A confers the right to receive rent in respect of his house property to his wife, Mrs. A, without transferring the house itself to her. In this case, the rent received by Mrs. A will be clubbed with the income of Mr. A.



### 2. Income arising from revocable transfer of assets [Section 61 to 63]

1. Income from a revocable transfer of assets is included in the total income of the transferor.
2. Revocable Transfer [Sec. 63]: A transfer is deemed to be revocable if:
  - ✓ It contains a provision for the retransfer of full/part of income or assets to the transferor, directly or indirectly.
  - ✓ It gives the transferor a right to reassume power over the income or assets, directly or indirectly.

Note: Even if part of the income benefits the transferor, directly or indirectly, the entire income is included in their total income.

3. Clubbing do not apply if: [Sec. 62]
    - ✓ Transfer is made via a trust that is irrevocable during the beneficiary's lifetime.
    - ✓ Any transfer which is not revocable during the transferee's lifetime.
- Note: After the life time of the beneficiary, again the income is taxable in the hands of transferor.



### 3. Remuneration to Spouse in the individual's entity [Sec. 64(1)(ii)]

1. Clubbing: Any remuneration (salary, commission, fees, etc.), cash or kind, received by the spouse of an individual from a concern in which the individual has a substantial interest is included in the income of the individual.
2. Exceptions:
  - ✓ Clubbing provisions do not apply if the spouse possesses technical or professional qualifications, and the income is solely attributable to the application of their knowledge or experience.
  - ✓ In such cases, the income is taxable in the spouse's hands.
3. Both have substantial interest:
  - ✓ If both husband and wife have a substantial interest in the concern and both are earning income from such concern, then such income from concern is included in the hands of the spouse with the higher total income.



- ✓ Once the income is included in the hands of one spouse, the same will apply in subsequent years unless the A.O. deems it necessary to change
  - 4. **Substantial Interest:** A person is deemed to have substantial interest in a concern if:
    - ✓ **Company:** Beneficially own  $\geq 20\%$  of the voting power at any time during the year.
    - ✓ **Other Concerns:** Entitled to  $\geq 20\%$  of the profits at any time during the year.
- Note:** BOTH Individual and Relatives interest shall be considered while calculating Substantial interest in the Entity.



#### 4. Income arising to the spouse on asset transferred [Section 64(1)(iv) and (vii)]

##### Clubbing [64(1)(iv)]:

1. When an asset [Other than House property] is transferred directly / indirectly<sup>#</sup> from one spouse to another, without adequate consideration, any income from the asset is clubbed with the transferor's total income. [Including Capital Gains]
2. However, clubbing will not apply, if the asset is transferred in an agreement to live apart.

**Note:** For House property - Sec. 27 will apply

<sup>#</sup>Income arising to any person or AOP from transferred asset without adequate consideration, which is used for the benefit of spouse of the transferor is also clubbed in hands of transferor, to the extent used. [64(1)(vii)]

##### No Clubbing on Accretion:

Income generated from accretion of the transferred asset is not subject to clubbing.

E.g., Vacant Land is transferred to wife and wife is getting rental income and such rent is invested by her in Bank FD. Here, only Rent is subject to clubbing but not interest.

##### Transferred Asset Invested in Business:

- ✓ If the transferee-spouse invests the transferred asset in a business, proportionate income derived from the investment is clubbed in the transferor's income.

$$\text{Proportionate Income to club from B/P} = \frac{\text{Value of Transferred Asset on Day 1 of RPY}}{\text{Total Business Investment}}$$

- ✓ For capital contributions in case of firms, the proportionate interest earned by the transferee will also be clubbed.



#### 5. Clubbing of income arising to son's wife [Section 64(1)(vi) & (viii)]

Same clubbing provisions [transferred to spouse]

**Note:** Where assets are transferred without consideration or for inadequate consideration, then GIFT Provisions apply in hands of transferee. [Sec. 56(2)(x)]



## 6. Clubbing of Minor's Income [Section 64(1A)]

1. All incomes of a minor child taxed in the hands of the parent [Mother or Father] whose total income is higher, excluding such minor's income.
2. Once clubbing is done with one parent in a P.Y., in the subsequent years also clubbing shall be with the same parent unless A.O. changes depending on circumstances.
3. For HP Transferred without or inadequate consideration then, Transferor is deemed to be owner u/s 27 and taxed directly. Remember HP transferred to Minor married daughter is not covered u/s 27 BUT clubbing of the same can be u/s 64(1A).
4. **Exemption Limit [10(32)]:** When the income of a minor child is included in the parent's income under Section 64(1A), The parent is entitled to an exemption up to ₹1,500 per minor child. [Exemption - Only under Optional Tax Regime]

### Note:

- ✓ No exemption of ₹1500/- for HP income taxed in hands of transferor u/s 27 directly
- ✓ If the marriage of the parents does not subsist, the minor's income is included in the income of the parent who maintains the minor during the relevant year.
- ✓ Income arising on accretion to asset transferred is also subject to clubbing in case of minor's income.

### No Clubbing in the following cases:

- ✓ Income derived by the minor from:
  - Manual work.
  - Any activity involving skill, talent, specialized knowledge, or experience.
- ✓ Income of a minor child suffering from a disability under Section 80U is assessed in the child's hands and not clubbed with the parent's income.



## 7. Cross Transfers

The Supreme Court, in case of CIT v. Keshavji Morarji [1967] 66 ITR 142, observed that if 2 transactions are inter-connected and are parts of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted.

[Illustration is given on the same in QB]



## 8. Conversion of Self-Acquired Property into HUF Property [Section 64(2)]

1. **Clubbing:** Section 64(2) applies when an individual who is a member of an HUF converts their self-acquired property into HUF property or transfers it to the HUF without adequate consideration, Income from the converted property is included in the individual's total income, even though the property belongs to the HUF.
2. **Partition of Converted Property afterwards:** If the converted property is partitioned, either fully or partially, any income derived by the spouse from the property is included in the total income of the individual who converted the property.



3. **Exclusion from HUF or Spouse of clubbed Income:** Once the income from the converted property is taxed in the individual's total income, it is excluded from the income of:
- The HUF, and
  - The spouse, as applicable.



### 9. Income Includes Loss

As per Explanation 2 to Section 64, the term 'income' also includes 'loss'. Which means, the loss from transferred asset is also clubbed as per the provisions discussed.



### 10. Distinction Between Section 61 and Section 64

1. **Section 61:**
  - ✓ Applies only to revocable transfers of assets.
  - ✓ Can be invoked for transfers made by any person, not limited to individuals.
2. **Section 64:**
  - ✓ Covers both revocable and irrevocable transfers.
  - ✓ Applies specifically to transfers made by individuals.

**Clarification on Accretion of Income:** Clubbing provisions are attracted in respect of income arising from the assets transferred, however, income arising on accretion of income arising from transferred asset, would not be clubbed except in case of minor child.





## 9. Set off & Carry Forward of losses



### 1. Intra Head / Inter Source Adjustment [Section 70]

Loss from one source of income (e.g., loss from one business) can be offset against income from another source (e.g., profit from another business) within the same head of income [e.g., PGBP]. However, the following conditions shall be kept in mind while performing intra head setoff:

1. Speculation Business loss can be setoff only against profits from speculation business.
2. Specified Business loss can be setoff only against profits from specified business.
3. Long Term Capital Loss [LTCL] can be setoff only against Long Term Capital Gains [LTCG]
4. Loss from owning and maintaining race horses ~~[horse races]~~ can be setoff only against income from owning and maintaining race horses.  
[Stud farm losses only with stud farm gains]
5. Loss from Exempted source of Income shall be ignored. [Because profit is Ignored]



### 2. Inter Head Adjustment [Section 71]

Loss under one head of income can be adjusted or set off against income under another head. However, the following points should be considered:

Loss under a head	Can be set-off against profits of other heads	
	OTR	DTR [115BAC]
HP Loss	up to ₹2 lakhs	Not permitted
Normal Business Loss	Except Income from Salaries	Except Income from Salaries
Unabsorbed Normal Depreciation loss [Note 1]	Except Income from Salaries	Except Income from Salaries
Unabsorbed Additional Depreciation Loss	Except Income from Salaries	Not Applicable u/s 115BAC [Added to opening WDV]
Speculation Loss	Only with Speculation Gains	Only with Speculation Gains
Specified Business Loss	Only with Specified Business profits	Not Applicable u/s 115BAC
Long Term Capital Loss	Only with LTCG	Only with LTCG
Short Term Capital Losses	Only with LTCG or STCG	Only with LTCG or STCG
Owning & Maintaining Race Horses	Only with Same source of Income	Only with Same source of Income
Loss from Exempted source	Ignore	Ignore



## Clarifications:

1. Unabsorbed Depreciation loss [UAD] will be setoff first with CY Business profits and then with other heads except salaries. [Detailed discussion in the next topics]
2. Further UAD loss will be first reduced while computing Book Profits u/s 40(b) in case of Firms / LLPs. Then from Income of Firm, B/F Business Loss will be allowed to setoff.
3. Normal business loss can be set-off against Any business profits [i.e., Normal Business / Speculation / Specified].
4. STCL can be setoff with LTCG or STCG.
5. Loss from Horse races, Betting, Games etc., shall be Ignored completely.
6. HP loss can be setoff with any head of Income up to ₹2 lakhs under Optional Tax regime.



## 3. Carry Forward of Losses

After applying setoff u/s 70 and 71, if any loss is still available under a head of income, such loss can be carry forwarded. Further once a loss is c/f, it can be setoff only within the same head of income. [Except B/F depreciation].

Sec.	B/F loss	Conditions for C/f	
		OTR	DTR [115BAC]
71B	House Property	HP loss Can be carry forwarded for 8 A.Y.s	HP loss cannot* be carry forwarded. *This point is given in ICAI SM and is Wrong. [Discussed in Class]
32	Normal Depreciation Loss	Can be carry forwarded without any time limit.	Can be carry forwarded without any time limit.
	Additional Depreciation Loss [Sec. 32(1)(ii)]	Can be carry forwarded without any time limit.	Cannot be carry forwarded. Instead, it will be added to Opening WDV.
72	Normal Business Loss [Note 1]	Can be carry forwarded for 8 A.Y.s	Can be carry forwarded for 8 A.Y.s
73	Speculation Loss [Note 2]	Can be carry forwarded for 4 A.Y.s	Can be carry forwarded for 4 A.Y.s
73A	Specified Business Loss [Note 3]	Can be carry forwarded for any number of years. [infinite]	No deduction u/s 35AD. Note: Further, brought forward specified business losses shall be ignored and cannot be carry forwarded
74	Capital Losses [Note 4]	Can be carry forwarded for 8 A.Y.s	Can be carry forwarded for 8 A.Y.s
74A	Loss from O&M Race Horses [Note 5]	Can be carry forwarded for 4 A.Y.s	Can be carry forwarded for 4 A.Y.s



## Notes:

1. A Business loss u/s 72, Only the person who incurred a loss can carry forward and set it off against their profits. This means a successor of business cannot B/F and setoff losses of their predecessor, except in case of inheritance.
2. Speculation business is discussed in detailed under PGBP chapter.
3. Loss from specified business can be setoff only with specified business incomes even though the latter is not eligible for deductions u/s 35AD.  
[E.g., B/F Loss from Eligible Hospital with min 100 Beds can be setoff with Ineligible 2 star and above Hotel business profits]
4. LTCL on assets covered u/s 112A, be set-off and carried forward for set-off against long-term capital gains for 8 Years. [Ignore Sec. 112A, ₹1,25,000/- limit]
5. Loss Computation from Activity of owning and maintaining race horses:

Situation	Amount of Loss
No stake money	The entire revenue expenditure incurred exclusively for maintaining racehorses.
Income from stake money	Loss = Stake money income - Revenue expenditure incurred exclusively for maintaining racehorses.

Stake Money Income means, the total prize money received by a horse owner when their horse(s) win or secure second or lower positions in horse races.



#### 4. Order of Set-off of Losses under PGBP

U/s 72(2), b/f business loss is to be set off before setting off unabsorbed depreciation. The order is as below under PGBP:

1. Current year depreciation [Section 32(1)].
2. Current year capital expenditure on scientific research and current year expenditure on family planning, to the extent allowed.
3. Brought forward loss from business/profession [Section 72(1)].
4. Unabsorbed depreciation\* [Section 32(2)].
5. Unabsorbed capital expenditure on scientific research [Section 35(4)].
6. Unabsorbed expenditure on family planning [Section 36(1)(ix)].

\*Different in case of Book Profits u/s 40(b). In case of Firms, First UAD will be setoff for computing Books Profits and then after arriving Income of Firm, B/F Business Loss will be setoff.



### 5. Submission of Return of Losses [Section 80]

The following losses can be carry forwarded only if the return loss is filed within the due date allowed u/s 139(1):

- ✓ Business loss under section 72,
- ✓ Speculation business loss under section 73,
- ✓ Loss from Specified business under section 73A under optional tax regime,
- ✓ Loss under the head "capital gains" under section 74 and
- ✓ Loss from activity of owning and maintaining race horses under section 74A.

Note: The following losses can be carry forwarded even if the return is filed belatedly:

- ✓ HP loss u/s 71B
- ✓ Depreciation loss u/s 32



### 6. Aggregation of Income

Certain amounts are deemed as income of the assessee, even though they not in the nature of income. These provisions are contained in Sections 68, 69, 69A, 69B, 69C, and 69D and is added to the assessee's total income for the relevant financial year.

[Topic covered in detailed in Basic concepts and will be discussed under this chapter]



# 10. Chapter VIA Deductions and 10AA



## 1. Differences Between Exemptions and Deductions:

Particulars	Exemption (Section 10)	Deduction (Chapter VI-A & Section 10AA)
Sections	Section 10.	Sections 80C to 80U and 10AA.
Treatment in GTI	Excluded from GTI	Included in GTI and then reduced.
Link with GTI	No Link	Deductions Cannot exceed GTI



## 2. Intro to Deductions from GTI

- U/s 80B, GTI refers to total income computed as per provisions of the act before allowing deductions under Chapter VIA and Section 10AA.
- U/s 80A:
  - ✓ Deductions under Sections 80C to 80U are Not allowed under Default tax regime. However, 80CCD(2), 80CCH(2) and 80JJAA are allowed even under DTR.
  - ✓ Total deductions under Chapter VI-A cannot exceed the gross total income.
  - ✓ If Deductions allowed under Section 10AA or Chapter VI-A (Heading C - Deductions in respect of certain incomes), the same cannot be claimed under any other provisions. Further Such deductions cannot exceed the profits and gains of the eligible undertaking or business.
  - ✓ No Deductions if assessee does not claim in the return of income.
  - ✓ If a deduction under Chapter VI-A (C-Deductions) is claimed, no deduction under Section 35AD is allowed for the same business, and vice versa.
- U/s 80AB, Deductions specified in Chapter VI-A under the heading "C.-Deductions in respect of certain incomes", shall be allowed only to the extent such income which is included in the gross total income of the assessee.
- U/s 80AC, furnishing return of income on or before due date mandatory for claiming deduction under Chapter VI-A under the heading C. - Deductions in respect of certain incomes.  
E.g., 80I series, 80LA, 80M, 80P, 80JJA, 80JJAA, 80QQB and 80RRB



## 3. Deductions on Investments [Section 80C]

The maximum deduction allowed under Section 80C is ₹1,50,000 and is subject to overall limit u/s 80CCE

- Contribution in ULIP of LIC Mutual Fund in name of Self, spouse and children and or any member of HUF.





	<p><b>Re-taxation:</b> If ULIP is Terminated within 5 years, the deductions claimed earlier will be treated as income in the year of termination.</p>								
2.	<p><b>Premium Paid for Life Insurance Policy</b> in name of Self, spouse and children and or any member of HUF: Includes life policies and endowment policies.</p> <table border="1"> <thead> <tr> <th>Policy Issue Date</th><th>Deduction of premium paid is Limited to</th></tr> </thead> <tbody> <tr> <td>Before 31.03.2012</td><td>20% of the "actual capital sum assured".</td></tr> <tr> <td>01.04.2012 to 31.03.2013</td><td>10% of the "actual capital sum assured".</td></tr> <tr> <td>On or After 01.04.2013</td><td> <p><b>Disabled:</b> 15% of the "actual capital sum assured" if the insured is covered u/s 80U and 80DDB.</p> <p><b>Others:</b> 10% of the "actual capital sum assured" for other policies.</p> </td></tr> </tbody> </table> <p><b>Re-taxation:</b> If Policy terminated within a Period 2 Years, then deduction claimed earlier is treated as Income of the year in which termination took place. Single Premium policies - within 2 years Other policies - Before premiums paid for 2 years</p>	Policy Issue Date	Deduction of premium paid is Limited to	Before 31.03.2012	20% of the "actual capital sum assured".	01.04.2012 to 31.03.2013	10% of the "actual capital sum assured".	On or After 01.04.2013	<p><b>Disabled:</b> 15% of the "actual capital sum assured" if the insured is covered u/s 80U and 80DDB.</p> <p><b>Others:</b> 10% of the "actual capital sum assured" for other policies.</p>
Policy Issue Date	Deduction of premium paid is Limited to								
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01.04.2012 to 31.03.2013	10% of the "actual capital sum assured".								
On or After 01.04.2013	<p><b>Disabled:</b> 15% of the "actual capital sum assured" if the insured is covered u/s 80U and 80DDB.</p> <p><b>Others:</b> 10% of the "actual capital sum assured" for other policies.</p>								
3.	<p><b>Premiums paid for a deferred annuity contract</b> if the policy is on the life of the individual, their spouse, or any child and the contract does not allow cash payments in lieu of annuity. [Such contracts can be with any person, not necessarily an insurance company]</p>								
4.	<p><b>Government Employees - Deferred Annuity Deductions:</b></p> <ul style="list-style-type: none"> <li>✓ Amount deducted from the salary of a government employee for securing a deferred annuity or provisions for their spouse or children qualifies for deduction.</li> <li>✓ <b>Condition:</b> Only up to 1/5th of the salary is considered for deduction.</li> </ul>								
5.	<p><b>Contributions to Provident Funds (SPF/ RPF /PPF)</b> In the name of the Individual, their spouse, or any child or any member of the HUF. [Max limit to PPF is 1,50,000 p.a.]</p>								
6.	<p><b>Contributions made by an employee to an Approved Superannuation Fund.</b></p>								
7.	<p><b>Contributions made under the Sukanya Samriddhi Scheme (SSC).</b> Contributions by an individual in the name of:</p> <ul style="list-style-type: none"> <li>✓ Any girl child of the individual.</li> <li>✓ Any girl child for whom the individual is the legal guardian.</li> </ul> <p><b>Note:</b> U/s 10(11A) provides that any payment from SSC account shall not be included in the total income of the assessee. Accordingly, the interest accruing on deposits and withdrawals from the said scheme would be exempt.</p>								
8.	<p><b>Investments in National Savings Certificates (VIII Issue)</b> notified by the CG.</p>								
9.	<p><b>Contributions to approved annuity plans of LIC</b> (e.g., New Jeevan Dhara, New Jeevan Akshay, and their variations) or similar plans by other insurers.</p>								
10.	<p><b>Subscriptions to units of mutual funds or plans notified by the CG</b> including UTI.</p>								
11.	<p><b>Contributions to pension funds set up by mutual funds or UTI.</b></p>								
12.	<p><b>Deposits in schemes or pension funds set up by the NHB.</b></p>								
13.	<p><b>Investments in deposit schemes notified by the Central Government</b>, such as:</p> <ul style="list-style-type: none"> <li>✓ Public sector companies financing housing construction or purchase.</li> </ul>								



	✓ Authorities constituted for housing development or urban planning, such as HUDCO.								
14.	<p>1. Payment of tuition fees for full-time education to Indian universities, colleges, schools, or other educational institutions for up to 2 children qualifies for deduction.</p> <p>2. No Deduction for:</p> <ol style="list-style-type: none"> <li>Development fees, donations, or similar charges.</li> <li>Payments made to institutions located outside India.</li> </ol>								
15.	<p>1. Payments made towards the purchase or construction of a new residential house property qualify for deduction under Section 80C if, the property is taxable under the head IFHP.</p> <table border="1"> <thead> <tr> <th>Eligible Deductions</th><th>Ineligible deductions</th></tr> </thead> <tbody> <tr> <td>Principal repayment of loan [Lenders: Govt, banks, LIC, NHB, Housing Finance Companies, Employers of Public sector]</td><td>Membership Costs: Admission fees, share costs, or deposits</td></tr> <tr> <td>Stamp Duty Cost</td><td>Expenses incurred after completion certificate [repairs, renovations etc.,]</td></tr> <tr> <td>Registration Fee, and Other Transfer Expenses</td><td>Interest expense u/s 24(b)</td></tr> </tbody> </table> <p>2. Re-taxation: If the House property is subsequently transferred within a period of 5 years from end of year of possession, the deduction claimed previously will be treated as income in the year of subsequent transfer.</p>	Eligible Deductions	Ineligible deductions	Principal repayment of loan [Lenders: Govt, banks, LIC, NHB, Housing Finance Companies, Employers of Public sector]	Membership Costs: Admission fees, share costs, or deposits	Stamp Duty Cost	Expenses incurred after completion certificate [repairs, renovations etc.,]	Registration Fee, and Other Transfer Expenses	Interest expense u/s 24(b)
Eligible Deductions	Ineligible deductions								
Principal repayment of loan [Lenders: Govt, banks, LIC, NHB, Housing Finance Companies, Employers of Public sector]	Membership Costs: Admission fees, share costs, or deposits								
Stamp Duty Cost	Expenses incurred after completion certificate [repairs, renovations etc.,]								
Registration Fee, and Other Transfer Expenses	Interest expense u/s 24(b)								
16.	<p>Deduction For: Subscription to equity shares or debentures of an eligible issue* and they shall not be sold or transferred within 3 years.</p> <p>Re-taxability: If the shares or debentures are sold or transferred within 3 years, The deduction allowed will be treated as income in the year of transfer</p> <p>*Eligible issue of public company approved by board or PFI</p>								
17.	Subscription to Certain Units of Mutual Funds if the fund approved by the Board and the units are subscribed only in the eligible issue of capital of any company.								
18.	Investment in 5-Year Term Deposits with Banks or Post office or under a scheme of CG. [Refer Note]								
19.	Subscription to bonds issued by the NABARD and notified by CG.								
20.	Deposits made under the Senior Citizens Savings Scheme Rules, 2004. [Refer Note]								
21.	<p>Contribution to additional account under NPS [Tier II]:</p> <ul style="list-style-type: none"> <li>✓ Only Central Government employees can claim deduction U/s 80C for contributions to Tier II accounts under NPS.</li> <li>✓ This deduction applies exclusively to Tier II accounts, not covered under Section 80CCD.</li> </ul> <p>Note: Tier I - Account contribution is covered u/s 80CCD [NPS]</p>								

**Note:**

- ✓ If an assessee withdraws any amount from their account under the Senior Citizens Savings Scheme or the Post Office Time Deposit Rules before completing 5 years from



the date of deposit, the withdrawn amount will be **treated as income** of the assessee for the year in which the withdrawal is made.

- ✓ If any part of the withdrawn amount, specifically **interest**, has already been taxed in earlier years, it will not be taxed again.
- ✓ If the **nominee or legal heir** receives the amount due to the death of the assessee, the amount will **not be taxable**. However, if the **interest** on the deposit was **not included** in the assessee's total income in earlier years, then such interest **will be taxed**.



#### 4. Contribution to pension fund of LIC [Section 80CCC]

1. Deduction is available for an Individuals on amount paid or deposited out of taxable income to an annuity plan with the LIC of India or any other insurer for receiving pension from a fund set up by LIC or the insurer.
2. **Interest accrued or Bonus** is **not treated as contribution**.
3. Maximum deduction allowed is ₹1,50,000 and is subject to overall limit u/s 80CCE
4. The **pension received** or any withdrawal from the fund on surrender, **is taxable in the year of receipt**.



#### 5. Contribution to NPS [Section 80CCD]

##### Eligible Deductions

1. **Contribution to the National Pension System (NPS) or Atal Pension Yojana (APY)** by Any Individuals [Any Employees or Self Employed] is eligible for deduction.
2. Deduction is **also available for Employers contribution**.

##### Deduction For Employer Contribution [80CCD (2)]

Employer contribution is **first treated as income under salaries** and then deduction is available as under:

Government Employer	Other Employer
Deduction up to 14% of Salary <sup>#</sup>	OTR - Deduction up to 10% of Salary <sup>#</sup> DTR - Deduction up to 14% of Salary <sup>#</sup>

##### Deduction for Employee or Assessee contribution

Employee Contribution	By Self Employed person
Identify the Total amount contributed, then allocate as below:	Identify the Total amount contributed, then allocate as below:
1. 80CCD (1B)* - Up to ₹50,000	1. 80CCD(1B) - Up to ₹50,000
2. 80CCD (1) - Balance Contribution is restricted to 10% of Salary <sup>#</sup>	2. 80CCD (1) - Balance Contribution is restricted to 20% of GTI

\*Payment by a Parent or Guardian **to NPS Vatsalya Scheme** in the account of Minor Indian citizen is **also covered here**. Once Minor becomes Major - The account will be shifted to NPS Tier 1. [Finance Act 2025]

<sup>#</sup>Salary = Basic + D.A. [Terms of employment]



### Tax Implications on Withdrawal

Taxable withdrawals:

Amounts standing to the credit of the NPS account or Minor, or Minors account (including contributions, interest, or accretions) are taxed as income in the year of receipt on:

- ✓ Closure of the account.
- ✓ Opting out of the scheme.
- ✓ Receipt of pension from an annuity plan or pension fund on closure.

Note: The above taxability is subject to exemptions u/s 10(12A) and (12B)

Non-taxable withdrawals:

1. If the amount is received by the nominee on the death of the account holder, it is not taxable as the nominee's income.
2. Amount received by parent or guardian or nominee on closure due to death of minor.
3. If the withdrawn amount is reinvested into purchasing an annuity in the same year.

### Partial Exemptions related to taxable withdrawals

#### Exemption on Closure or Opting Out [Section 10(12A)]

1. Payments from the NPS Trust on account of closure or opting out of the pension scheme is chargeable to tax.
2. Exemption u/s 10(12A): 60% of the total amount payable at the time of closure or opting out.

#### Exemption on Partial Withdrawal [Section 10(12B)]

Payments made to an employee under the NPS scheme for a partial withdrawal are exempt from tax to the extent of 25% of the employee's contributions made.

#### Partial Withdrawal by Parent or Guardian [Section 10(12BA)] [Finance Act 2025]

Payments made to a Parent or Guardian on partial withdrawal out of Minors Accounts are exempt from tax to the extent of 25% of the contributions made by him.



### 6. Overall limits for deduction under 80C, 80CCC, 80CCD [Section 80CCE]

Section	Particulars	Ceiling Limit (₹)
80C	Various Investments / Contributions	₹1,50,000
80CCC	Contribution to certain pension funds	₹1,50,000
80CCD (1)	Contribution to NPS / APY	10% of salary or 20% of GTI
80CCE	Aggregate deduction under Sections 80C, 80CCC, and 80CCD (1)	Restricted to ₹1,50,000
Additional deduction Limit for the following amounts [Not covered under overall limit]		
80CCD(1B)	Contribution to NPS by the [A/E/P/G]*	₹50,000
80CCD (2)	Contribution by Employers:	* Assessee, Employee, Parent, Gurdian
	✓ Government Employer	14% of salary
	✓ Other Employer:	
	✓ Assessee paying under OTR	10% of salary
	✓ Assessee paying under DTR	14% of salary





## 7. Contribution to Agnipath Scheme [Section 80CCH]

## Agniveer Corpus Fund

- ✓ Each Agniveer contributes, 30% of monthly customized package to the fund.
- ✓ A matching contribution by the Central Government.
- ✓ Interest will be paid by the Government on contributions.

## Deduction

	80CCH (1)
Agniveer Contribution	<ol style="list-style-type: none"> <li>1. No Deduction under Default tax regime.</li> <li>2. Deduction allowed for Agniveer contribution. [Under OTR]</li> </ol>
	80CCH (2)
CG Contribution	<ol style="list-style-type: none"> <li>1. This contribution is included in the salary income at first.</li> <li>2. Deduction will be allowed for the same under 80CCH(2).</li> <li>3. Deduction under both regimes.</li> </ol>

## Exemption on payment from the Fund [Section 10(12C)]

Any payment from Agnipath Corpus Fund to a person enrolled under the Scheme or to his nominee is fully exempt.



## 8. Deduction in respect of medical insurance premium [Section 80D]

## For Individuals

No.	Deduction for expenditure on	Max Limit
C 1	Medical Insurance Premium paid for [Other than cash] self, spouse and dependent children	₹25,000 for NC ₹50,000 for SC
C 2	Medical Insurance Premium paid for [Other than cash] Parents [Dependent or Independent]	₹25,000 for NC ₹50,000 for SC
	Preventive Health Checkup [PHC] for everyone [Any mode] [Shall be within the above limit applicable to each category and overall PHC deduction shall not exceed ₹5,000]	₹5,000
	Medical Expenditure on a Senior Citizen who do not have medical policy [Other than cash] [Shall be within the limit applicable to each category]	₹50,000 for SC

## For HUFs

No.	Deduction For expenditure on	Max Limit
1.	Medical Insurance Premium paid for [Other than cash] Any member of HUF	₹25,000 for NC ₹50,000 for SC
2.	Medical Expenditure on a Senior Citizen member who do not have medical policy [Shall be within the above limit]	₹50,000 for SC





Thumb rule: Maximum Deduction u/s 80D is Lower of Actual Amount or Max limit as below:

Type	Category of Assessee	Max Limit
Individual	Both - Self & Family and Parents are Normal citizens	₹50,000 [25 + 25]
	Only Parents are Senior citizens	₹75,000 [25 + 50]
	Both - Self & Family and Parents are Senior citizens	₹1,00,000 [50 + 50]
HUF	All members of HUF are Normal Citizen	₹25,000
	Any member is a senior citizen	₹50,000

Note: The medical premium can be paid under medical insurance policy or Central government health scheme [CGHS]

Senior Citizen: Must be a resident and aged 60 years or more

#### Deduction for Lump Sum Payment of Premium (Section 80D(4A))

If a lump sum premium is paid to keep a health insurance policy in force for more than one year, the deduction is allowed as an appropriate fraction for each year.

Term	Meaning
Appropriate Fraction	$1 \div \text{Total number of RPYs.}$
RPY	The year in which the lump sum payment is made plus the subsequent year(s) during which the policy remains in force.



#### 9. Section 80U, 80DD [Disability] and 80DDB [Specified Diseases]

Section	Purpose of deduction	Deduction
80DD	Dependent of Individual / HUF is suffering from Disability and Expenditure on such treatment or rehabilitation or training or Insurance policy:	
	✓ Normal Disability	Flat ₹75,000
	✓ Severe Disability [80% or more disability]	Flat ₹1,25,000
	[Actual Expenditure is Irrelevant]	
80U	Individual himself is suffering from Disability	
	✓ Normal Disability	Flat ₹75,000
	✓ Severe Disability [80% or more disability]	Flat ₹1,25,000
	[Actual Expenditure is Irrelevant]	
80DDB	Resident Individual / Resident HUF or their Dependents suffering from specified Disease or ailment and Expenditure on such treatment	
	✓ Normal Citizen [Lower of Actual or ₹40,000]	Max ₹40,000
	✓ Resident senior citizen [Lower of Actual or ₹40,000]	Max ₹1,00,000



Conditions u/s 80DD:

1. The individual or HUF can claim deduction u/s 80DD, only if the dependent has not claimed deduction u/s 80U in his personal ITR filings.
2. Disability u/s 80DD and 80U includes "autism", "cerebral palsy" and "multiple disabilities"
3. If any insurance policy is taken, it must benefit the dependant in the event of death of individual. The assessee shall nominate the dependent or trust for benefit of dependent
4. Deemed Income: If the dependent with a disability predeceases the assessee, The amount received under the insurance scheme is treated as deemed income and taxable in the year of receipt.
5. However, If the dependent with disability receives the annuity or lump sum before their death upon the individual/HUF member attaining 60 years or more and discontinued contributions to the scheme, the deemed income provision shall not apply.

Conditions U/s 80DDB: The deduction is reduced by any amount reimbursed by insurance company.

Note: Medical certificate from authorised medical practitioner is must to claim above deductions.

Assessee	Meaning of Dependent u/s 80DD and 80DDB
Individual	Spouse, children, parents, brother, or sister who is dependent on the individual wholly or mainly.
HUF	A member of the HUF who is wholly or mainly dependent on the HUF.



## 10. Deduction for interest on higher education loan [Section 80E]

1. Deduction for Individuals for the interest on Higher education loan of individual or relative for education in India or outside India.
2. Deduction is allowed towards Actual interest expenditure on loan in each year for a period of 8 A.Y.s [Starting from the year of taking the loan].
3. Loan must be from Financial Institution or Approved Charitable trust.
4. Higher education means, any course of study (including vocational studies) pursued after passing Class XII or equivalent.
5. Relative includes, Spouse and children of the individual or the student for whom the individual is the legal guardian.
6. No limit on quantum of deduction.



## 11. Deduction for interest payable New Home buyers

Section 80EE	Section 80EEA
Any Individuals	Any Individuals <b>not covered</b> u/s 80EE
Deduction towards Interest on loan for acquisition or construction of HP taken from F/I or HFCs	Deduction towards Interest on loan for acquisition or construction of HP taken from F/I or HFCs
Maximum deduction ₹50,000 per FY until loan is repaid	Maximum deduction ₹1,50,000 per FY until loan is repaid
Conditions: <ol style="list-style-type: none"> <li>Value of HP shall not exceed ₹50 lakhs</li> <li>Loan must have been sanctioned during the financial year 2016-17 [1 Year]</li> <li>The individual <b>should not own any residential house property</b> on the date of Loan sanction.</li> <li>Loan sanctioned shall not exceed ₹35 lakhs.</li> </ol>	Conditions: <ol style="list-style-type: none"> <li>SDV of HP shall not exceed ₹45 lakhs</li> <li>Loan must have been sanctioned during 01.04.2019 to 31.03.2022 [3 Years]</li> <li>The individual <b>should not own any residential house property</b> on the date of Loan sanction.</li> </ol>
No deduction allowed for the same amount of interest u/s 24(b) or other provisions of the act.	No deduction allowed for the same amount of interest u/s 24(b) or other provisions of the act.
This section <b>benefits only for SOP / UOP</b> for which NAV = 0 benefit claimed and Paying tax <b>under OTR</b>	This section <b>benefits only for SOP / UOP</b> for which NAV = 0 benefit claimed and Paying tax <b>under OTR</b>
For LOP / DLOP: Full deduction for Interest is claimed u/s 24(b). <b>[OTR / DTR]</b> [Note]	For LOP / DLOP: Full deduction for Interest is claimed u/s 24(b). <b>[OTR / DTR]</b> [Note]
<b>Note:</b> Since under OTR, Max setoff with other heads is 2 lakhs, So it is advisable to claim additional interest as deduction under the above sections.	



## 12. Deduction for interest on loan taken for electric vehicle [Section 80EEB]

✓ Any Individuals who have taken a loan from F/I, <b>for purchasing an electric vehicle.</b>
1. Loan must be sanctioned between 01.04.2019 to 31.03.2023 [4 years]
2. <b>Deduction is available for interest payable</b> on the loan for each A.Y.
3. The <b>maximum deduction allowable is ₹1,50,000</b> towards interest payable.
4. Interest claimed as a deduction under Section 80EEB cannot be claimed under any other provision of the Income Tax Act.
Electric Vehicle means: <ul style="list-style-type: none"> <li>✓ Vehicle <b>exclusively powered by an electric motor</b> with traction energy supplied by exclusively by a traction battery.</li> <li>✓ Must have <b>an electric regenerative braking system</b> for converting kinetic energy into electrical energy</li> </ul>



### 13. Deductions for Donations by Any Assessee [Section 80G]

Donation Category	Deduction Limit	Deduction
Category I	100% of Amount Paid	XXX
Category II	50% of Amount Paid	XXX
Category III	100% of Qualifying Amount*	XXX
Category IV	50% of Qualifying Amount*	XXX
Total Amount of Deduction		XXXX

\*Qualifying Amount means:

- Lower of Amount paid or 10% of ATI [i.e., Total of Amount Paid under III and IV to be considered, shall not exceed 10% of ATI].
- 1st Priority shall be given for III, while allocating the limit of 10% of ATI.

Computation of Adjusted Total Income [ATI]	Amount
1. Gross Total Income	XXXX
2. Less: Deductions under Chapter VIA [Excluding 80G]	(XXX)
3. Less: Capital Gains u/s 111A, 112A and 112	(XXX)
4. Adjusted Total Income [ATI] [1 - 2 - 3]	XXXX

Other Conditions:

- ✓ Donations in kind shall not qualify for deduction
- ✓ Deduction is not allowed for cash donations exceeding ₹2,000.
- ✓ Employees paying donation through the employer, can claim deduction based on proof of donation given by Employer/Drawing and Disbursing officer.
- ✓ Category IV (1), donation is eligible only if the details of such donation are furnished by institution or fund who received the donation.

Category I - Donation eligible for 100% deduction	
1.	National Defense Fund set up by the Central Government
2.	Prime Minister's National Relief Fund.
3.	Prime Minister's Armenia Earthquake Relief Fund
4.	The Africa (Public Contributions-India) Fund
5.	The National Children's Fund
6.	The National Foundation for Communal Harmony
7.	Approved University or educational institution of national eminence
8.	Chief Minister's Earthquake Relief Fund, Maharashtra
9.	Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of the Gujarat earthquake
10.	Any Zila Saksharta Samiti constituted in any district for improvement of primary education in villages and towns and for literacy and post- literacy activities





11.	National Blood Transfusion Council or any State Blood Transfusion Council whose sole objective is the control, supervision, regulation or encouragement in India of the services related to operation and requirements of blood banks
12.	Any State Government Fund set up to provide medical relief to the poor
13.	The Army Central Welfare Fund or Indian Naval Benevolent Fund or Air Force Central Welfare Fund established by the armed forces of the Union for the welfare of past and present members of such forces or their dependents.
14.	The Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996
15.	The National Illness Assistance Fund
16.	The Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund in respect of any State or Union Territory
17.	The National Sports Development Fund set up by the Central Government
18.	The National Cultural Fund set up by the Central Government
19.	The Fund for Technology Development and Application set up by the Central Government
20.	National Trust for welfare of persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities
21.	The Swachh Bharat Kosh, set up by the Central Government, other than the sum spent by the assessee in pursuance of CSR u/s 135(5) of the Companies Act, 2013
22.	The Clean Ganga Fund, set up by the Central Government, where such assessee is a resident, other than the sum spent in pursuance of CSR u/s 135(5) of the Companies Act, 2013
23.	The National Fund for Control of Drug Abuse
24.	Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM Cares Fund)

#### Category II - Donation qualifying for 50% Deduction

1.	Prime Minister's Drought Relief Fund
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#### Category III - Donation qualifying for 100% deduction, subject to Qualifying Amount

1.	The Government or to any approved local authority, institution or association for promotion of family planning
2.	Sum paid <u>by a company</u> as donation to the Indian Olympic Association or any other association/institution established in India for the development of infrastructure for sports or games, or the sponsorship of sports and games in India





### Category IV - Donation qualifying for 50% deduction, subject to Qualifying Amount

1. Any Institution or Fund established in India for charitable purposes fulfilling prescribed conditions
2. The Government or any local authority for utilisation for any charitable purpose other than the purpose of promoting family planning
3. An authority constituted in India for dealing with the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or both
4. Any Corporation for promoting the interests of the members of a minority community
5. For renovation or repairs of Notified temple, mosque, gurdwara, church or other place of historic, archaeological or artistic importance or which is a place of public worship of renown throughout any State or States.



### 14. Deduction for Rent paid [Section 80GG]

The deduction will be the least of the following:

- ✓ Rent paid minus 10% of ATI
- ✓ 25% of ATI
- ✓ ₹5,000 per month (i.e., ₹60,000 annually).

**Note:** ATI refers to Total income after reducing Chapter VI-A deductions but before Section 80GG. [Similar to 80G only]

Conditions for Claiming Deduction:

- ✓ Any individual not receiving HRA from the employer.
- ✓ No deduction if, the assessee and their spouse, minor child or their HUF owns accommodation in a place where the assessee ordinarily resides, works, or conducts business. Also, the accommodation must be used for assessee's own residence purpose.
- ✓ The provisions of DLOP / SOP / ~~UOP~~<sup>#</sup> shall not apply to the individual. <sup>#</sup>[Mistake in Law]



### 15. Donations for scientific research and rural development [Section 80GGA]

- ✓ Any Assessee not having income chargeable under PGBP.

Donations Qualifying for Deduction:

- ✓ Payments to a research association, university, college, or institution approved under Section 35(1)(ii) for scientific research.
- ✓ Payments to a research association, university, college, or institution approved under Section 35(1)(iii) for social science or statistical research.
- ✓ Payments to associations or institutions approved under Section 35CCA for:
  - Undertaking rural development programs.
  - Training individuals for rural development programs.
- ✓ Payments to public sector companies, local authorities, or approved associations or institutions for eligible projects or schemes notified by the National Committee.
- ✓ Payments to Rural Development Funds notified under Section 35CCA.



- ✓ Payments to the **National Urban Poverty Eradication Fund (NUPEF)**.

Clarification: Deduction is allowed even if approval of the recipient entity (association, institution, or fund) is withdrawn after the donation is made.

Conditions:

- ✓ **Deduction cannot be claimed for the same donation** under any other provision of the Income Tax Act for the same or another assessment year.
- ✓ **Donations exceeding ₹2,000 must be paid other than cash.** [40A(3) - Modes]



### 16. Donations to Political parties [PP] / Electoral Trusts [ET]

80GGB - Indian Companies	80GGC - For Individuals, HUF, AOP or BOI
✓ Deduction for Donation to PP / ET [only Registered]	✓ Deduction for Donation to PP / ET [only Registered]
✓ Donation must be in <b>other than cash</b>	✓ Donation must be in <b>other than cash</b>
✓ Donation <b>include expenditure on advertisements</b> in publications by or on behalf of PP [ref u/s 37(2B)]	Not Applicable

Note: **80GGC** not available for AJP or Local authorities



### 17. Deductions in Respect of Additional Employee cost [Section 80JJAA]

#### 30% Deduction for Additional Employee cost

Eligibility:

- ✓ Any Assessee having Income from Business / ~~Profession~~ and liable to Audit u/s 44AB.
- ✓ Deduction is available under both old and new tax regimes.

Deduction Amount:

- ✓ Deduction is equal to **30% of additional employee cost** incurred in the C.P.Y. and claimed **for 3 assessment years**, including the year of employment. [Same Amount of Deduction]

Meaning of Additional Employee Cost:

- ✓ In case of New B/P, **Total emoluments paid to new employees** during the year.
- ✓ For existing businesses, the Additional Employee cost will be ZERO if:
  - There is **NO increase in total employees** compared to the previous year.
  - **Emoluments are paid in cash.** [Not paid in specified modes]

Meaning of Additional Employee:

- ✓ An Employee **employed during the year** and **due to which there is an increase in total number employees** compared to last day of preceding year.
- ✓ Exclusions:
  - Employee whose total emoluments are **more than ₹25,000 per month**.
  - Employee for whom entire contribution is paid by government under pension schemes. [e.g., PMRJY scheme]
  - Employees **not participating in a RPF**.
  - An employee **employed for Less than 240 days** (150 days for apparel, footwear, or leather industries).



Note: Employees satisfying 240 or 150 days condition in the succeeding year will qualify for deduction for 3 years from that year.

#### Meaning of Emoluments:

- ✓ Includes salary or wages paid to employees.
- ✓ Excludes:
  - Employer contributions to provident or pension funds or any other funds.
  - Lump-sum payments like gratuity, commuted pension, leave encashment, VRS etc.

#### Conditions:

- ✓ The business should not be formed by splitting up or reconstruction of an existing business.
- ✓ The business should not be acquired from another person or due to a business reorganization.
- ✓ The accountant's report in prescribed form must be filed before specified date u/s 44AB. [i.e., One month prior to the due date u/s 139(1)]



### 18. Deduction for Royalty income

80QQB Royalty on Books* [other than Text books]	80RRB Royalty on Patents
Only Resident Individual	Only Resident Individual
Lumpsum Royalty: Deduction is Lower of <ul style="list-style-type: none"> <li>✓ ₹3,00,000 or</li> <li>✓ Income from Royalty</li> </ul> [No deduction under any other provisions]	Lumpsum Royalty: Deduction is Lower of <ul style="list-style-type: none"> <li>✓ ₹3,00,000 or</li> <li>✓ Income from Royalty</li> </ul> [No deduction under any other provisions]
Other than Lumpsum Royalty: Deduction = Royalty Income [before expenses] not exceed 15% of Value of Books sold. Note: Further, If any expenditure is claimed under PGBP while calculating Income, the same shall be reduced from deduction u/s 80QQB.	Not Applicable
Period for repatriation: Income earned from outside India must be brought into India as convertible foreign exchange within 6 months from the end of the previous year or such extended period by RBI	Period for repatriation: Income earned from outside India must be brought into India as convertible foreign exchange within 6 months from the end of the previous year or such extended period by RBI
Joint authors are covered u/s 80QQB.	Co-owner of patents are covered u/s 80RRB.

\* Books of literary, artistic, or scientific nature. [Royalty includes copyright fee also]



## 19. Deduction on Interest Income

80TTA	80TTB
✓ Deduction for Interest Income on Savings deposits [Banks / P.O]	✓ Deduction for Interest Income on Savings and time deposits [Banks / P.O]
✓ Any Individual or HUF	✓ Only Resident Senior Citizens
✓ The Income shall be first included in IFOS	✓ The Income shall be first included in IFOS
✓ Deduction up to ₹10,000	✓ Deduction up to ₹50,000
✓ No Deduction for partners or members in firms/AOPs in representative capacity.	✓ No Deduction for partners or members in firms/AOPs in representative capacity.

\*Banks includes cooperative banks as well.

Note:

1. P.O. Savings interest is exempt up to ₹3500 / ₹7000 and balance is taxable - "IFOS"
2. Deduction u/s 80TTA and 80TTB shall not exceed the net income included under IFOS.



## 20. Deduction for export profits U/s 10AA

## Eligibility for Deduction

- ✓ Deduction available only under the optional / Normal tax regime. i.e., For default/concessional tax regime, No Deduction u/s 10AA. [E.g., 115BAA, 115BAB, 115BAC, 115BAD and 115BAE]
- ✓ Available to all categories of assessee deriving profits from a unit in a Special Economic Zone (SEZ). However, the Deduction is only towards export profits generated from SEZ.
- ✓ The unit must be engaged in manufacturing, production, or providing services and approved under SEZ Act, 2005.
- ✓ The unit must start operations between A.Y. 2006-07 and A.Y. 2020-21.
- ✓ If approval was granted by March 2020, operations can start by March 2021 (or later if notified).
- ✓ Deduction shall not exceed total income of the assessee.
- ✓ The assessee must submit a report from a chartered accountant before the specified date u/s 44AB, certifying the correct claim of the exemption.
- ✓ The assessee must file the return of income within due date u/s 139(1).

## Receipt of Export turnover

- ✓ The proceeds from the export of goods/services must be received in foreign exchange within 6 months from the end of the financial year. [A further extension may be allowed by the RBI]
- ✓ Export proceeds are deemed to be received in India if they are credited to a special account in a foreign bank, with RBI's approval.





## Export profit and Period of deduction

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

Years of Deduction	Deduction as a % of export profits
First 5 Consecutive A.Y.s [1 to 5]	100% of Export profits
Next 5 Consecutive A.Y.s [6 to 10]	50% of Export profits
Next 5 Consecutive A.Y.s [11 to 15]	50% of Export profits subject to SEZRR*

\*Conditions for claiming deduction from Year 11 to 15 [Sec.10AA (2)]:

- ✓ The amount deducted (up to 50% of Export profits) must be credited to the "Special Economic Zone Re-investment Reserve Account" for utilization in the next 5 years, as per section 10AA (2).
- ✓ The amount in the reserve account must be used for acquiring machinery or plant within 3 years, which should be first used for business purposes. Further the details of new P&M shall be given in ITR in the year in which they are first used.
- ✓ The reserve cannot be used for:
  - Dividend or profit distribution
  - Remittance outside India as profit
  - Creating assets outside India

Consequences of mis-utilisation/ non-utilisation of reserve [Sec. 10AA (3)]:

- ✓ Mis-utilised: If the amount credited to the SEZRR is used for purposes other than allowed, the amount used will be treated as profits and taxed in the year it was mis-utilized.
- ✓ Un-utilised: If the amount is not utilized within 3 years, the unused amount will be treated as profits in the year immediately following the 3-year period and taxed accordingly.

## Meaning of Export Turnover

It Excludes:

- ✓ Freight charges
- ✓ Telecommunication charges
- ✓ Insurance expenses related to the delivery of goods outside India
- ✓ Foreign exchange expenses for services (including computer software) rendered outside India

**Note:** The above expenses shall be excluded from both export turnover and total turnover when calculating the deduction under section 10AA, as long as they relate to delivery outside India or services rendered outside India.





### Clarification on Export of Computer Software

- ✓ Profits from the export of computer software (including software development services) qualify for deduction under section 10AA.
- ✓ On-site development of software outside India is also considered export and eligible for the same benefit.

### Other conditions or restrictions for claiming deduction u/s 10AA

- ✓ Losses under Section 72(1) (business loss) or Section 74(1) (capital gains loss) related to the eligible business of the SEZ unit can be carried forward or set off.
- ✓ Depreciation is deemed to have been allowed on the assets, and the Written Down Value (WDV) of the assets is accordingly reduced. [Export related which is exempt]
- ✓ No Deductions under Section 80-IA and Section 80-IB are allowed.
- ✓ No deduction will be allowed under Section 35AD for the same specified business, either in the current or future years.
- ✓ Transfer of Goods or Services Between Businesses: If goods or services held for the eligible business are transferred to another business (or vice versa), and the consideration does not reflect the market value, the profits eligible for deduction will be computed based on the market value of the goods or services on the transfer date.

### Deduction allowable in case of amalgamation and demerger

If a unit entitled to deduction under section 10AA is transferred in a scheme of amalgamation or demerger:

- ✓ The amalgamated or resulting unit will continue to be eligible for the deduction, as if the amalgamation or demerger had not occurred, provided it fulfils the conditions of the section. [Transferee company is eligible for deduction]
- ✓ The amalgamating or demerged unit will not be eligible for the deduction in the year of amalgamation or demerger. [Transferor company NOT eligible for deduction]



# 11A. TDS & TCS



## 1. Deduction of Tax at Source and Advance Payment [Section 190]

Income tax for a previous year (P.Y.) is taxable in the relevant assessment year (A.Y.). For example, income for P.Y. 2025-26 is taxable in A.Y. 2026-27. However, **tax is recovered in the previous year itself** through:

1. Tax Deduction at Source (TDS)
2. Tax Collection at Source (TCS)
3. Advance Tax Payment
4. Other Recovery Methods: Employers pay tax under Section 192(1A) on non-monetary perquisites provided to employees.



## 2. Main Differences Between TDS and TCS

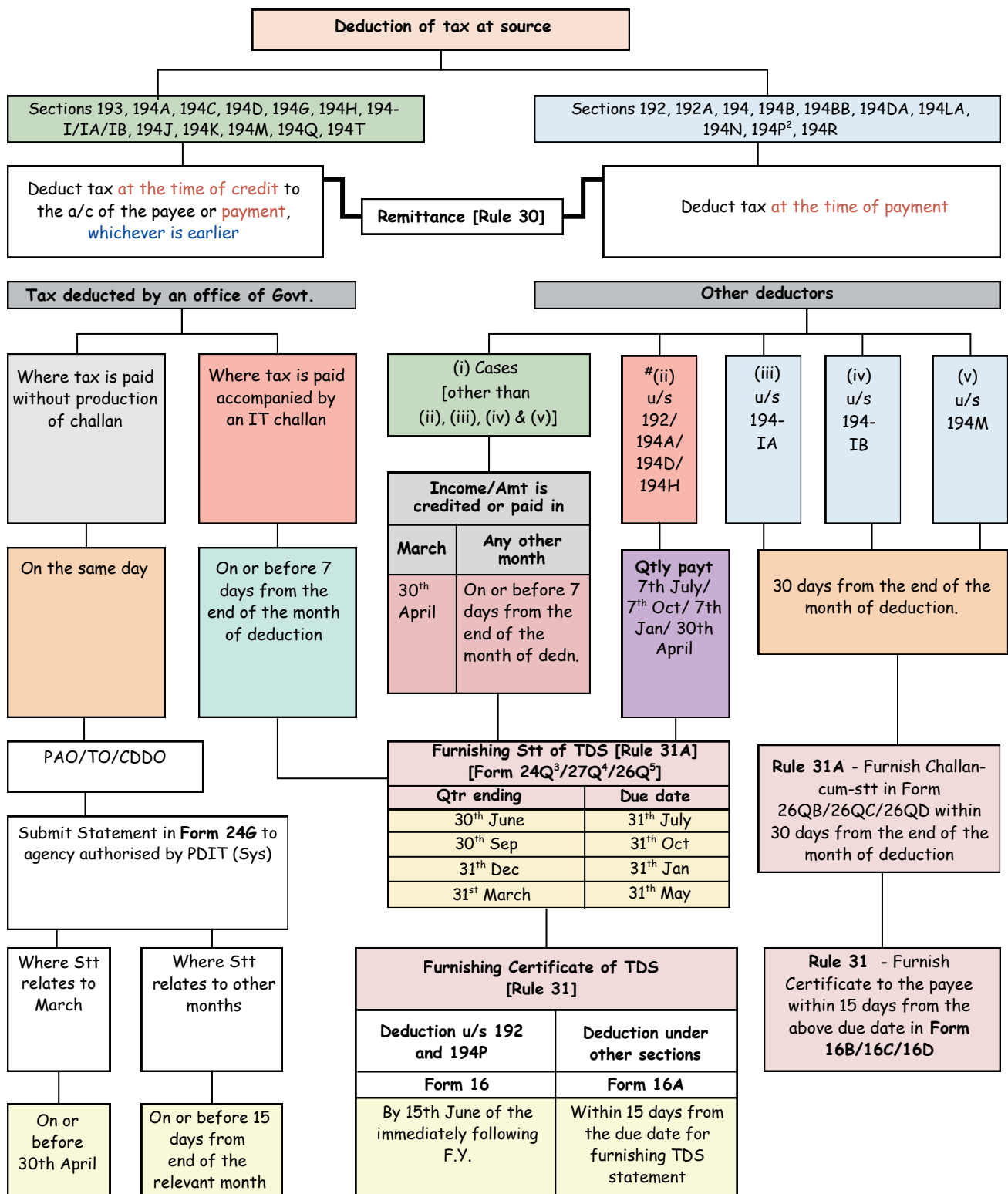
Feature	TDS	TCS
Nature	Tax Deducted at Source	Tax Collected at Source
Responsibility	The <b>person responsible for making payments</b> must deduct tax at the prescribed rate.	The <b>seller of certain goods</b> (including licensees and lessees) is responsible for collecting tax at source from buyers.
Timing	Generally deducted at Earliest of <b>time of crediting the payee's account</b> or at <b>the time of payment</b> .	Generally collected <b>Earliest of the time of debiting buyer's account</b> or at the time of <b>receipt of payment</b> .  For specific sales (e.g., motor vehicles over ₹ 10 lakhs), TCS is collected <b>at the time of receipt of sale consideration</b> .



## 3. Direct Payment [Section 191]

### Cases Where Tax Is Payable Directly by the Assessee

1. When the income of the assessee not subject to TDS / TCS or
2. TDS or TCS is not deducted or collected on the income.



# In special cases, the A.O. may, with the prior approval of the JC, permit quarterly payment of TDS

2. TDS is required to be deducted at the time of payment, if declaration is furnished by the specified senior citizen

3. If deduction of tax is under section 192 or 194P

4. If deduction of tax is u/s 193 to 196D other than section 194P in respect of deductee who is a non-corporate non-resident or a foreign company or RNOR

5. If deduction of tax is u/s 193 to 196D other than section 194P in respect of all other deductees



## 4. TDS on Salaries [Section 192]

Nature of Payment	Income taxable under salaries
Payer / Deductor	Employer
Payee / Deductee	Employee [Resident / Non-resident]
Rate of Tax	Average rate of Tax [Based on Total Income of the employee] [Applicable rates under relevant finance act]
Threshold limit	Income exceeding BEL
Time of Deduction	At the time of Payment
Exempted Payments	Not Applicable
Additional Matters	
Identify Employee tax regime	The employer shall ask employees regarding their intended tax regime and compute tax deduction accordingly.
Employee Not responded on tax regime	If the employee does not provide intimation, it's presumed they remain in the default tax regime.
Tax on Non-monetary Perquisites	<ul style="list-style-type: none"> <li>✓ The employer may pay tax on non-monetary perquisites instead of deducting TDS from salary.</li> <li>✓ Tax on such perquisites is calculated at the average rate.</li> </ul>
Salary from Multiple Employers	Employees working with more than one employer should provide details of income from other employers and tax deducted, for proper computation of TDS.
Details of other Incomes	Employees must inform the employer of other income and any TDS on them, along with losses under 'IFHP' through a prescribed form.
Statement of Particulars in Form 12BA	<ul style="list-style-type: none"> <li>✓ Employees earning salary &gt; ₹ 1,50,000, Employer must provide a statement in Form 12BA detailing perquisites/profits in lieu of salary.</li> <li>✓ For others, the details of perquisites should be provided in Form 16 itself.</li> </ul>
Evidence for claims [Rule 26C]	Employees must submit evidence for claims and deductions under HRA, Chapter VIA Deductions etc.,
Specific Evidences for Deductions (Form 12BB)	
1. HRA	Name, address, and PAN of the landlord(s) if rent > ₹1 lakh.
2. LTC	Evidence of expenditure
3. Interest on HP	Name, address, and PAN of the lender
4. Chapter VI-A Deduction	Evidence of investment or expenditure



## 5. Premature withdrawal from Employees' Provident Fund [Section 192A]

Nature of Payment	Premature withdrawal from RPF
Payer / Deductor	Trustees of the RPF or Authorised Persons
Payee / Deductee	Employees
Rate of Tax	10% on the taxable portion of the premature withdrawal
Threshold limit	Aggregate payment ₹ 50,000 or more
Time of Deduction	At the time of payment
Exemptions	No TDS on exempted withdrawals from RPF. [Discussed in Salaries Chapter]



## 6. Interest on securities [Section 193]

Nature of Payment	Interest on securities
Meaning of Interest on securities [2(28B)]	Interest on securities issued by CG / SG / Local authority / Company / Statutory corporations
Payer / Deductor	Every person paying interest on securities
Payee / Deductee	Any Resident
Rate of Tax	10%
Threshold limit	Aggregate Exceeding ₹ 10,000 during FY. [Fin Act 2025]
Time of Deduction	Earlier of time of credit or time of Payment Note: Credit means liability recognised in books with whatever name including suspense account [Payee account is credited]
Threshold limits / Exempted Payments	

### Interest Payable on:

- Securities beneficially owned by LIC / GIC / their subsidiaries / any other insurer.
- Any securities of CG or SG other than
  - ✓ 8% Savings (taxable) bonds 2003,
  - ✓ 7.75% savings (taxable) bonds 2018
  - ✓ Floating Rate Savings Bonds, 2020
Where annual interest exceeds ₹ 10,000
- National Development Bonds.
- 7-year National Savings Certificates (IV Issue).
- Debentures issued by any Institution or Authority or public sector company or cooperative society [CLMB or CLDB], as Notified:  
Notified - Sec. 54EC Capital Gains Bonds:
  - Power Finance Corporation Limited.
  - Indian Railway Finance Corporation Limited



## 7. TDS on Dividends [Section 194]

Nature of Payment	Dividends, including preference dividend and Deemed Dividend
Payer / Deductor	The Principal Officer of a domestic company.





Payee / Deductee	Resident shareholder.
Rate of Tax	10% on the dividend amount.
Threshold limit	<ul style="list-style-type: none"> <li>✓ Individual Payee - Exceeding ₹ 10,000 per FY [Any mode other than cash] [Fin Act 2025]</li> <li>✓ Other Payees - No threshold</li> </ul>
Time of Deduction	Earlier of Payment or distribution of dividend.
Exemptions	<p>No TDS on dividends paid or credited on:</p> <ol style="list-style-type: none"> <li>Shares beneficially owned by LIC, GIC, and subsidiaries of GIC, or any other insurer.</li> <li>Notified persons by the Central Government.</li> </ol>



### 8. Interest other than interest on securities [Section 194A]

Nature of Payment	Interest [Other than interest on securities]
Payer / Deductor	<ol style="list-style-type: none"> <li>Any person [other than Individuals/HUFs],</li> <li>Individuals and HUFs, where: <ul style="list-style-type: none"> <li>✓ T/o from Business Exceeding ₹ 1 crore in PFY or</li> <li>✓ G/R from profession Exceeding ₹ 50 lakh in PFY</li> </ul> </li> </ol>
Payee / Deductee	Any Resident
Rate of Tax	10%
Threshold limit	Discussed Below
Time of Deduction	<p>Earlier of time of credit or time of Payment</p> <p>Note: Credit means liability recognised in books with whatever name including suspense account. [Payee account is credited]</p> <p>CBDT Circular: Interest provisioned in Core Banking solutions on daily/monthly basis for macro monitoring is not treated as Credit or payment.</p>

### Threshold limits / Exempted Payments

- No TDS on Interest, if aggregate amount in the F.Y. does not exceed as below:

Interest Paid or credited by	Aggregate Interest shall not exceed
Banks and Cooperative banks [CBS - Bank wise] [Others - Branch wise]	₹ 50,000 [Fin Act 2025] [₹ 1,00,000 if payee is a SC]
Post offices for Notified schemes: <ul style="list-style-type: none"> <li>✓ Senior citizens Savings scheme or</li> <li>✓ Mahila Samman savings certificates 2023</li> </ul>	₹ 50,000 [₹ 1,00,000 if payee is a SC] [Fin Act 2025]
Any other payer	₹ 10,000

- No TDS on Interest on Savings Deposit with a banking company.
- No TDS on interest paid or credited by a firm to its partners. [194T Applies]
- No TDS in respect of deposits under any scheme framed by CG and notified.



### 5. Interest paid by a cooperative society [Other than cooperative Banks]

Payment type	TDS @ 10%
Cooperative Society with T/o exceeding ₹50 Crore in PFY [Fin Act 2025]	If Annual Interest exceeds ₹ 50,000 [₹ 1,00,000 if payee is a SC]
Cooperative Society [other than bank] with T/o Does not exceed ₹50 Crore in PFY	
✓ Interest paid to any member	No TDS
✓ Interest to another cooperative society	No TDS
✓ Interest paid by PACS, PCS, CLMB or CLDD	No TDS
✓ Savings interest by a cooperative bank	No TDS

### 6. No TDS on Interest credited or paid by the CG under this act. [E.g. IT refunds]

### 7. No TDS on Interest paid or credited to:

- ✓ Banking companies
- ✓ Co-operative societies engaged in banking
- ✓ Life Insurance Corporation of India
- ✓ Insurance companies
- ✓ Unit Trust of India
- ✓ Notified institutions (e.g., HUDCO, National Skill Development Fund)

### 8. No TDS on Interest on Compensation by Motor Accident Claim Tribunal:

Situation	Threshold
Credited the party in books	No TDS
Actually Paid	No TDS if Interest ≤ ₹50,000

### 9. No TDS on Interest on Zero coupon Bonds

### 10. Any other Notified persons by CG in this regard.

### Takeaway [Key Provision]

1. TDS @10% apply if interest credited / paid exceeds:
  - ✓ ₹ 50,000 [₹ 1,00,000 for SC] - by Banking companies
  - ✓ ₹ 10,000 - By others.
2. Individuals and HUFs paying interest shall deduct TDS only if their T/o exceeds in PFY ₹1 Crore from Business and ₹50 Lakhs from Profession.
3. No CBS - Interest amount shall be computed branch wise in case of Banks and HFCs.
4. Time Deposits include FD's and RD's. [No TDS for Savings Interest]



### 9. TDS on Winnings [Section. 194B]

Nature of Payment	Lotteries, Crossword puzzles, Card Games, Betting [Other than Online Games and Horse races]
Payer / Deductor	The person responsible for paying.
Payee / Deductee	Any person receiving such winnings.



Rate of Tax	30% of the winnings.
Threshold limit	Single Transaction Exceeding ₹10,000. [Fin Act 2025]
Time of Deduction	At the time of payment.
Special Points	<p>Winnings wholly in kind or partly in kind and cash: If the cash portion is insufficient to cover the TDS, the payer must ensure that tax is paid before releasing the winnings. [Through Challan]</p> <p>Set-off against losses: If winnings are credited and losses are debited to the account of the punter, TDS must be calculated on the winnings before setting off losses.</p> <p>[Net amount, post-deduction and set-off, is paid to the winner]</p>



### 10. Winnings from Horse race [Section. 194BB]

Nature of Payment	Winnings from Horse races.
Payer / Deductor	Bookmaker [A person holding a license for horse racing or arranging for wagering or betting in any race course]
Payee / Deductee	Any person receiving winnings from horse races.
Rate of Tax	30% on the winnings.
Threshold limit	Single Transaction exceeding ₹10,000. [Fin Act 2025]
Time of Deduction	At the time of payment.
Special Points	Deduction shall be before releasing the winnings to the payee.



### 11. Winnings from online games [Section 194BA]

Nature of Payment	Winnings from Horse races.
Payer / Deductor	Any person paying winnings from Online Games.
Payee / Deductee	Any person receiving winnings from Online Games.
Rate of Tax	30% on the Net winnings in the user Account.
Threshold limit	No Threshold.
Time of Deduction	<ul style="list-style-type: none"> <li>✓ Withdrawn: Tax is deducted at the time of withdrawal on the net winnings included in the withdrawal</li> <li>✓ Not withdrawn: Tax is deducted on net winnings in the user account at the end of the F.Y.</li> </ul>
Special Points	<p>Winnings wholly in kind or partly in kind and cash: If the cash portion is insufficient to cover the TDS, the payer must ensure that tax is paid before releasing the winnings. [Through challan]</p> <p>Online Gaming Intermediary: An intermediary offering one or more online games.</p> <p>User: A person accessing or availing computer resources of an online gaming intermediary.</p> <p>User Account: Account registered with an online gaming intermediary.</p>



### CBDT Circular on Section 194BA

1. TDS need not be deducted on small withdrawals if all these conditions are met:
  - ✓ Limit condition: Net winnings withdrawn do not exceed ₹100 in a month.
  - ✓ Timing condition: If not deducted earlier, TDS must be deducted when withdrawals exceed ₹100 in that month/next month, or at the end of the financial year (if not withdrawn).
  - ✓ Responsibility condition: The deductor (platform) must ensure payment of any shortfall if the user's balance is not enough at the time of TDS deduction.
2. If winnings are in kind (e.g., prize, goods):
  - ✓ If winnings are wholly in kind, or partly in kind and partly in cash (but cash is not enough to cover TDS), then section 194BA(2) applies.
  - ✓ Before releasing the prize, the payer must ensure TDS is paid by the winner.
  - ✓ Proof of TDS payment (like challan details) must be provided. Only then winnings in kind can be released.

Alternative:

  - ✓ The deductor may pay the TDS themselves and deposit it with the Government.
3. Valuation of Winnings in Kind (for TDS under section 194BA)
  - ✓ Normally, valuation is done at Fair Market Value (FMV).
  - ✓ Exceptions:
    - If the game intermediary purchased the item → Purchase price is taken as value.
    - If the game intermediary manufactured the item → Selling price charged to customers is taken as value.

Note: GST will not be included in valuation for TDS purposes.



## 12. Payments to contractors and sub-contractors [Section 194C]

Nature of Payment	Carrying out Contracts / Subcontracts for Works
Payer / Deductor	<ol style="list-style-type: none"> <li>1. Any person [other than Individuals/HUFs],</li> <li>2. Individuals and HUFs, where:               <ul style="list-style-type: none"> <li>✓ T/o from Business Exceeding ₹1 crore in PFY or</li> <li>✓ G/R from profession Exceeding ₹50 lakh in PFY</li> </ul> </li> </ol>
Payee / Deductee	Resident contractor
Rate of Tax	1% - If payee is Individual / HUF 2% - If Payee is any other person NIL - If Payee is a Transporter referred u/s 44AE [PAN + Declaration]
Threshold limit	No TDS if:





	<ul style="list-style-type: none"> <li>✓ A single payment does not exceed ₹30,000.</li> <li>✓ Aggregate payments during the FY does not exceed ₹1,00,000.</li> </ul>												
Time of Deduction	<p>Earlier of time of credit or time of Payment</p> <p>Note: Credit means liability recognised in books with whatever name including suspense account. [Payee account is credited]</p>												
Exemptions	Payments by Individuals or HUFs for personal purposes.												
Meaning of Works	<p>Includes:</p> <ul style="list-style-type: none"> <li>✓ Supply of labour for carrying out work.</li> <li>✓ Advertising.</li> <li>✓ Broadcasting &amp; telecasting including production of programme.</li> <li>✓ Carriage of goods or passengers (other than railways).</li> <li>✓ Catering.</li> <li>✓ Manufacturing/supplying a product based on customer specifications using materials provided by the customer.</li> </ul> <p>[TDS shall not be deducted on material value supplied by customer if such value mentioned separately in the invoice]</p> <p>Excludes:</p> <ul style="list-style-type: none"> <li>✓ Manufacturing/supplying a product based on customer specifications using materials purchased from others [Not customer and their associates] and is treated as Sale. However, construction contracts are treated as work as it doesn't amount to manufacture or supply of article.</li> <li>✓ Professional services (covered under Section 194J(1)).</li> </ul>												
Broadcasting and telecasting [Real example in Classroom]	<table border="1"> <thead> <tr> <th>Payment by</th><th>TDS</th></tr> </thead> <tbody> <tr> <td>Client to Ad agency / TV channel for B/T including production</td><td>194C</td></tr> <tr> <td>Ad agency to TV channel</td><td>No TDS</td></tr> <tr> <td>TV Channel to PH [as per specifications]</td><td>194C</td></tr> <tr> <td>Production House [PH] to film artists</td><td>194J</td></tr> <tr> <td>TV channels to PH for readymade content</td><td>No TDS</td></tr> </tbody> </table>	Payment by	TDS	Client to Ad agency / TV channel for B/T including production	194C	Ad agency to TV channel	No TDS	TV Channel to PH [as per specifications]	194C	Production House [PH] to film artists	194J	TV channels to PH for readymade content	No TDS
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TV Channel to PH [as per specifications]	194C												
Production House [PH] to film artists	194J												
TV channels to PH for readymade content	No TDS												



### 13. Insurance Commission [Section 194D]

Nature of Payment	Remuneration for bringing Insurance Business
Payer / Deductor	Any person responsible for paying Insurance commission.
Payee / Deductee	Any resident
Rate of Tax	<ul style="list-style-type: none"> <li>✓ 2% if the Payee is a Non-corporate Resident. [Fin Act 2025]</li> <li>✓ 10% if the payee is a Domestic company.</li> </ul>
Threshold limit	Aggregate amount exceeding ₹ 20,000 in a Financial Year. [Fin Act 2025]
Time of Deduction	Earlier of time of credit or time of Payment



**14. TDS on sum received under LIPs [Section 194DA]**

Nature of Payment	Taxable sum received under a Life Insurance Policy (LIP)
Payer / Deductor	Any person paying any Taxable sum under a Life Insurance Policy.
Payee / Deductee	Any resident
Rate of Tax	✓ 2% of the income portion.
Threshold limit	Aggregate amount is ₹1,00,000 or more in a financial year.
Time of Deduction	At the time of payment of the sum.
Exemptions	No TDS on sum received which is exempt u/s 10(10D)

**15. TDS on Commission for Sale of Lottery Tickets [Section 194G]**

Nature of Payment	Commission, remuneration on the sale of lottery tickets
Payer / Deductor	Any person paying income by way of commission or remuneration on lottery tickets.
Payee / Deductee	Any person involved in stocking, distributing, purchasing, or selling lottery tickets. [i.e., Lottery ticket seller]
Rate of Tax	✓ 2% of the Amount
Threshold limit	Aggregate amount > ₹ 20,000 in a financial year. [Fin Act 2025]
Time of Deduction	Earlier of time of credit or time of Payment Note: Credit means liability recognised in books with whatever name including suspense account. [Payee account is credited]

**16. Commission or brokerage [Section 194H]**

Nature of Payment	Commission [Other than Insurance and Lottery commission]
Payer / Deductor	<ol style="list-style-type: none"> <li>Any person [other than Individuals/HUFs],</li> <li>Individuals and HUFs, where: <ul style="list-style-type: none"> <li>✓ T/o from Business Exceeding ₹1 crore in PFY or</li> <li>✓ G/R from profession Exceeding ₹50 lakh in PFY</li> </ul> </li> </ol>
Payee / Deductee	Any Resident
Rate of Tax	✓ 2% of Amount
Threshold limit	Aggregate amount ₹20,000 or more in a FY. [Fin Act 2025]
Time of Deduction	Earlier of time of credit or time of Payment Note: Credit means liability recognised in books with whatever name including suspense account. [Payee account is credited]
Commission or Brokerage Means	Amounts Received directly or indirectly on behalf of another: <ol style="list-style-type: none"> <li>For Services rendered. [Other than Professional u/s 194J]</li> <li>For any Services in course of buying or selling goods.</li> <li>For Transactions related to any asset, valuable article, or thing, except securities.</li> </ol>



Exclusions u/s 194H	<ol style="list-style-type: none"> <li>Professional Services: Legal, medical, engineering, architecture, accountancy, technical consultancy, or interior decoration services. [Covered u/s 194J]</li> <li>No TDS on commission/brokerage payments by BSNL/MTNL to their PCO franchisees.</li> <li>Advertising Payments: No TDS u/s 194H at all. [Ref Sec. 194C]</li> </ol>
Clarifications	<ul style="list-style-type: none"> <li>Fees/charges retained by advertising companies from media (e.g., 15% of billing) are discounts, not commissions, and hence not subject to TDS under Section 194H.</li> <li>Payments for engaging models, photographers, or artists are separate and may attract TDS under relevant provisions.</li> </ul>



### 17. Rent [Section 194-I]

Nature of Payment	Rental Expenditure [Includes Lease rental]
Payer / Deductor	<ol style="list-style-type: none"> <li>Any person [other than Individuals/HUFs],</li> <li>Individuals and HUFs, where: <ul style="list-style-type: none"> <li>T/o from Business Exceeding ₹1 crore in PFY or</li> <li>G/R from profession Exceeding ₹50 lakh in PFY</li> </ul> </li> </ol>
Payee / Deductee	Any Resident [Need not be the owner]
Rate of Tax	<ul style="list-style-type: none"> <li>2% for rent of Plant, Machinery or Equipment</li> <li>10% for rent on Immovable property and Furniture</li> </ul> <p>Note: No TDS on GST Component if mentioned separately in invoice</p>
Threshold limit	₹ 50,000 or more p.m. or part thereof [Fin Act 2025]
Time of Deduction	<p>Earlier of time of credit or time of Payment</p> <p>Note: Credit means liability recognised in books with whatever name including suspense account. [Payee account is credited]</p>
Exclusions u/s 194I	<ul style="list-style-type: none"> <li>Payments for cooling charges to cold storages are contract payments and fall under Section 194C.</li> <li>Payments of Passenger service fee by airlines to airport operators are not considered rent.</li> <li>One-time upfront payment for long-term leasehold rights that are not adjustable against periodic rent is not treated as rent.</li> </ul>



### 18. Payment of Rent by Individuals / HUFs [Section 194-IB]

Nature of Payment	Rental Expenditure [Includes Lease rental]
Payer / Deductor	<p>Individuals and HUFs, where:</p> <ul style="list-style-type: none"> <li>T/o from Business Not Exceeding ₹1 crore in PFY or</li> <li>G/R from profession Not Exceeding ₹50 lakh in PFY</li> </ul>
Payee / Deductee	<p>Any Resident</p> <p>Note: Payee Need not be the owner of the assets rented to payer.</p>
Rate of Tax	2% of the Amount



Threshold limit	Amount of Rent Exceeds ₹50,000 p.m. or part there of
Time of Deduction	Earlier of Credit or Payment, of rent for last month of the FY or last month of tenancy as the case may be.
If section 206AA applies	TDS shall not exceed the rent payable for the last month of the previous year or the last month of the tenancy, whichever applies.
Clarification	✓ TAN u/s 203A doesn't apply to Deductor u/s 194-IB



### 19. TDS on Purchase of Immovable Property [Section 194-IA]

Nature of Payment	Purchase of Immovable property [Other than Rural Agri. Land]
Payer / Deductor	A Transferee (other than a person covered u/s 194LA) [Buyer]
Payee / Deductee	Resident transferor [Seller of IMP]
Rate of Tax	1% of consideration or SDV, whichever is higher
Threshold limit	Consideration or SDV, both, is less than ₹50 lakh
Time of Deduction	Earlier of time of credit or time of Payment to transferor
Clarifications	<ul style="list-style-type: none"> <li>✓ If multiple transferors / transferees are involved, consideration is aggregated across all transferors/transferees.</li> <li>✓ TAN u/s 203A doesn't apply to Deductor u/s 194-IA</li> <li>✓ Consideration includes club membership fee, car parking fee, electricity/water facility fee, maintenance fee, advance fee, etc., incidental to the transfer.</li> </ul>



### 20. Fees for professional or technical services [Section 194J]

Fees for Professional Services [FPS], Fees for Technical Services [FTS], Non-Compete Fee [NCF], Royalty [R] and Directors Remuneration [DR]			
Payer / Deductor	1. Any person [other than Individuals/HUFs]: All 5 types of payments - FPS, FTS, NCF, Royalty and DR		
	2. Individuals and HUFs, where: ✓ T/o from Business Exceeding ₹1 crore in PFY or ✓ G/R from profession Exceeding ₹50 lakh in PFY Only 2 types of Payments - FPS and FTS		
Payee / Deductee	Resident Payee		
Rate of Tax and Threshold	[Fin Act 2025]		
	Nature of Payment	Rate	Limit [FY]
	Fees for Professional Services	10%	₹ 50,000
	Fees for Technical Services*	2%	₹ 50,000
	Royalty (for cinematographic films)	2%	₹ 50,000
	Any other Royalty	10%	₹ 50,000
	Non-Compete Fee	10%	₹ 50,000
	Directors Remuneration	10%	No Threshold
*TDS @ 2% If Payee Engaged only in business of call centre.			



Time of Deduction	<b>Earlier of time of credit or time of Payment</b> <b>Note:</b> Credit means liability recognised in books with whatever name including suspense account. [Payee account is credited]
Clarifications	<ul style="list-style-type: none"> <li>✓ <b>No TDS on Payments</b> exclusively made for personal purpose by Individuals/HUFs</li> <li>✓ TDS applies on <b>payments by TPAs to hospitals for medical services.</b></li> </ul>
Meanings	<p><b>Professional Services:</b> Same meaning of Notified Professions u/s 44AA.          [Additionally Notified u/s 194J: Sports persons, umpires, referees, coaches, trainers, commentators, sports columnist, physicians and physiotherapists, event managers, anchors]  <b>Note:</b> This section <b>will not apply to professions of teaching, sculpture, painting</b> etc. unless they are notified]</p> <p><b>Technical Services</b> means, Managerial, technical, consultancy services, or provision for services of technical/other personnel and excludes Payments related to <b>construction, mining, or payments chargeable under salaries.</b></p> <p><b>Royalty:</b> Means consideration for <b>Use or right to use</b> IPRs, software, patents, etc. or Use of cinematographic films.  <b>Note:</b> The following software Payments <b>are exempt from TDS</b> if:</p> <ul style="list-style-type: none"> <li>✓ It is a <b>subsequent transfer</b> without modification.</li> <li>✓ TDS <b>deducted in a prior transfer.</b></li> <li>✓ The <b>transferee has a declaration with the transferor's PAN.</b></li> </ul>



## 21. TDS on Income from Units [Section 194K]

Nature of Payment	Income in respect of units of a mutual fund [Other than CGs]
Payer / Deductor	Any person
Payee / Deductee	Any resident
Rate of Tax	10%
Threshold limit	Aggregate amount <b>exceeds ₹ 10,000 in a financial year.</b> [FA 2025]
Time of Deduction	<b>Earlier of time of credit or time of Payment</b>



## 22. TDS on Compensation for compulsory acquisition [Section 194LA]

Nature of Payment	Compensation for compulsory acquisition of IMP
Deductor	Any person [Generally Govt undertaking]
Deductee	Any resident
Rate of TDS	10%
Threshold Limit	Aggregate amount <b>exceeds ₹ 5,00,000 in a FY.</b> [Fin Act 2025]
Time of Deduction	<b>At the time of payment.</b>
Exemptions	No TDS on compensation for acquisition of agricultural land in India, <b>whether rural or urban.</b>



**23. Payment made by an individual or a HUF [Section 194M]****Payments for works contract, commission or brokerage, Professional Fees**

Deductor	<ul style="list-style-type: none"> <li>✓ Payments by Individuals and HUFs who are <b>Not covered u/s 194C, 194H, or 194J</b></li> <li>✓ Payments made for personal purposes.</li> </ul>
Deductee	<b>Any resident</b>
Rate of TDS	✓ 2% of the Amount
Threshold Limit	Aggregate amount paid/credited during the FY exceeds ₹ 50,00,000.
Time of Deduction	<b>Earlier</b> of time of credit or time of Payment
Non-Applicability	<ul style="list-style-type: none"> <li>✓ Not applicable if the Individual or HUF is required to deduct TDS u/s 194C, 194H or 194J.</li> <li>✓ Provisions of TAN u/s 203A do not apply.</li> </ul>

**24. TDS on cash withdrawal [Section 194N]****Cash withdrawal from Banking Companies**

Payer /Deductor	Banks, Cooperative Banks or Post offices																																
Payee / Deductee	Any person. [Customers withdrawing cash]																																
Rate of TDS	<table><tr><th>Customer type</th><th>Threshold Exceeding</th><th>TDS Rate</th></tr><tr><td colspan="3">Cooperative Societies withdrawing cash</td></tr><tr><td>✓ ITRs Filed in PFYs</td><td>Above ₹ 3 Crore</td><td>2%</td></tr><tr><td>✓ All 3 PFYs ITRs not filed</td><td>From ₹ 20 Lakh to 3 Crore</td><td>2%</td></tr><tr><td></td><td>Above ₹ 3 Crore</td><td>5%</td></tr><tr><td colspan="3">Others withdrawing cash</td></tr><tr><td>✓ ITRs Filed in PFYs</td><td>Above ₹ 1 Crore</td><td>2%</td></tr><tr><td>✓ All 3 PFYs ITRs not filed</td><td>From ₹ 20 Lakhs to 1 Crore</td><td>2%</td></tr><tr><td></td><td>Above ₹ 1 Crore</td><td>5%</td></tr><tr><td></td><td></td><td></td></tr></table> <p>Note: ITRs must be filed within Due date u/s 139(1)</p>			Customer type	Threshold Exceeding	TDS Rate	Cooperative Societies withdrawing cash			✓ ITRs Filed in PFYs	Above ₹ 3 Crore	2%	✓ All 3 PFYs ITRs not filed	From ₹ 20 Lakh to 3 Crore	2%		Above ₹ 3 Crore	5%	Others withdrawing cash			✓ ITRs Filed in PFYs	Above ₹ 1 Crore	2%	✓ All 3 PFYs ITRs not filed	From ₹ 20 Lakhs to 1 Crore	2%		Above ₹ 1 Crore	5%			
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	Above ₹ 1 Crore	5%																															
Time of Deduction	At the time of payment of cash exceeding the prescribed limits.																																
Non-Applicability	No TDS on Payments made to: 1. The Government. 2. Banks, Cooperative Banks or Post offices. 3. Business correspondents of banks or co-operative societies. 4. White-label ATM operators authorized by RBI. 5. Any other notified persons by CG																																



**25. TDS on Pension for Specified Senior Citizens [Section 194P]**

Only Pension and interest income from Bank accounts held  
With a specified bank by a Specified Resident Senior Citizens.

Payer /Deductor	Notified specified banks
Payee / Deductee	Specified senior citizen [SSC] (Resident Individual Aged 75 years or more).
Rate of TDS	Applicable tax rates + Cess [Depending on tax regime]
Threshold Limit	Total Income exceeding Basic Exemption limit
Time of Deduction	Earlier of time of credit or Payment of pension or interest income.
Condition:	
<ul style="list-style-type: none"> <li>✓ Specified senior citizens must furnish a declaration that they are not earning any other income except pension and interest which is credited with specified Bank.</li> <li>✓ Such senior citizens are exempt from filing income tax returns for the assessment year if tax has been deducted under this section.</li> <li>✓ Tax is computed by the bank after applying Chapter VI-A deductions and section 87A Rebate (based on info by SSC).</li> </ul>	

**26. TDS on Purchase of Goods [Section 194Q]**

Nature of Payment	Payment for purchase of goods.
Payer /Deductor	Buyers whose turnover in the PFY exceeding ₹10 crores.
Payee / Deductee	Any resident Seller.
Rate of TDS	0.1% of the sum paid exceeding ₹50 lakhs. [5% if PAN is not provided]
Threshold Limit	Exceeding ₹50 lakhs in a previous year. [Up to 50L - No TDS]
Time of Deduction	Earlier of time of credit or Payment to seller account.
Non-applicability	TDS u/s 194Q is not applicable in the following cases: <ul style="list-style-type: none"> <li>✓ Tax is deductible under any other provisions of the Act.</li> <li>✓ If TCS u/s 206C applies. [Fin Act 2025] <sup>206C(1H) - Removed</sup></li> </ul>

**27. TDS on Perquisites Arising from B/T [Section 194R]**

Any Benefit or Perquisite (convertible into money or not) arising from B/P

Payer /Deductor	<ol style="list-style-type: none"> <li>Any person [other than Individuals/HUFs],</li> <li>Individuals and HUFs, where: <ul style="list-style-type: none"> <li>✓ T/o from Business Exceeding ₹1 crore in PFY or</li> <li>✓ G/R from profession Exceeding ₹50 lakh in PFY</li> </ul> </li> </ol>
Payee / Deductee	Any resident
Rate of TDS	10% of the Aggregate value of the perquisites
Threshold Limit	Aggregate of value of benefits exceeds ₹20,000 in a FY.
Time of Deduction	Before providing such benefit or perquisite.

**In Kind perquisite**

For benefits wholly in kind, or partly in kind and cash component is insufficient, the payer must ensure tax has been paid before releasing the benefit or perquisite. [Through Challan]

**28. TDS on Remuneration to partners of a Firm [Section 194T]****Salary, Remuneration, Commission, Bonus or Interest Paid by Firms to Partners**

Payer /Deductor	Firms [Including LLPs]
Payee / Deductee	Partner [Resident / Non-Resident]
Rate of TDS	10% of the Amounts Paid
Threshold Limit	Aggregate Payments ₹20,000 in a FY.
Time of Deduction	Earlier of time of credit or Payment.

Note: 40(b) Disallowances are irrelevant. Here the Amount Paid is criteria for TDS.

**29. Administrative Provisions for TDS and TCS****Income payable "net of tax" [Section 195A]**

- ✓ The TDS shall be computed on Gross amount. The amount payable shall be after reducing TDS.
- ✓ The Income shall be taxed in hands of recipient is of Gross amount only.
- ✓ U/s 198, TDS deducted is treated as income received. [Except 192(1A) and 194N]

$$\text{Gross Amount} = \frac{\text{Net Amount}}{1 - \text{Tax Rate}}$$

- ✓ No Grossing up required for nonmonetary perquisites u/s 192(1A) as the same is exempted in hands of employee u/s 10(10CC).

**No TDS on payments to Government, RBI and others [Section 196]**

TDS is not required to be deducted on sums payable to:

1. The Government.
2. The Reserve Bank of India.
3. A corporation established under a Central Act and exempt from income-tax.
4. A Mutual Fund (as per Section 10(23D)).

**Certificates u/s 197 or 197A**

Aspect	Section 197	Section 197A
Purpose	Certificate for deduction of tax at a lower rate or no deduction.	Declaration for no TDS in certain cases where income is below the exemption limit.
Applicability	Any entities	Individuals (excluding companies and firms)



Application Process	The recipient <b>applies to A.O</b> for a certificate.	Taxpayer submits a <b>self-declaration</b>
Form	Certificate issued by the A.O.	Form 15G (general) and 15H (for senior citizens)
Validity	Valid for the <b>period specified by the A.O.</b> or until cancelled.	Valid for a FY.
Non-Permissible Cases	NA	<b>Declaration invalid if income exceeds exemption limit</b> or for specific payments like premature EPF withdrawal.

Detailed Discussion on 197 / 197A - Refer ICAI SM [Not Imp for Exams]



### 30. Duty of the Persons Deducting Tax

- ✓ Deposit of Deducted Tax [U/s 200]: The Deductor **must deposit the tax amount within the time limits** prescribed.
- ✓ Tax on Non-Monetary Perquisites: Employers who deduct tax under Section 192(1A) (for non-monetary perquisites) must also deposit within time limits.
- ✓ Remit and file e-TDS statements [Discussed in earlier diagram]
- ✓ Sec 200A allows **to file rectified statements if mistakes found**.

Certificate TDS u/s 203: Form 16/16A/16B/16C/16D [Discussed at beginning chart]

Person responsible for paying TDS u/s 204: Refer ICAI SM. [Not relevant for exams]



### 31. Consequences of Failure to Deduct or Pay [Section 201]

Sec. 201(1) - AID: Any person, including the principal officer of a company **will be considered an assessee-in-default [AID]** if:

- ✓ They **fail to deduct** the tax.
- ✓ They **fail to remit** the tax after deduction.

Non-Applicability of AID: Payer **will not be deemed an AID** if the payee has:

1. **Furnished their return** of income under Section 139.
2. **Included this amount in their income**.
3. **Paid the tax** due on that income.
4. The payer must **provide a certificate from an accountant** confirming the above.

Interest u/s 201(1A): Interest must be paid before submitting e-TDS statement.

Situation	Rate	From date	To Date
Fails to Deduct Tax	1% p.m. or part	From date <b>on which TDS is Deductible</b>	Till Date of Deduction
Fails to remit on time	1.5% p.m. or part	From Date of Deduction <del>[Due date of TDS]</del>	Till Date of Remittance
Payee furnishing ROI and paid tax	1% p.m. or part	From date <b>on which TDS is deductible</b>	Till Date of furnishing of ROI by Payee



### 32. TDS at Higher Rates

#### Failure to furnish PAN [206AA]

TDS Shall be deducted at **Higher of**

- ✓ Rates in Act
- ✓ Rates in Finance act
- ✓ 20% [194Q - Max 5%]

No Specific Exemption

#### Clarifications:

1. **Both Deductor and Deductee must compulsorily quote the PAN** in all correspondence, bills, vouchers, and other documents exchanged between them.
2. If the **PAN provided is invalid** or does not belong to the deductee, it **will be considered as if No PAN** was furnished.



## 33. Tax Collection at Source

Section	Nature of Goods Sold By seller to Resident Buyer	Rate
206C(1)   Earlier of Time of Debit or Receipt   Specified Goods as below		
Note 1	a. Alcoholic liquor	1%
	b. Tendu leaves	5%
	c. Timber or any other forest produce <small>Refer ICAI SM for Meaning</small> [Not Tendu leaves] Obtained under Forest lease. [Fin Act 2025]	2%
	d. Timber (other means) [Fin Act 2025]	2%
	e. Scrap	1%
	f. Minerals (coal, lignite, iron ore)	1%
206C(1C)   At the Time of Receipt   Lease or License		
Note 2	Lease or License of Parking lot, toll plaza, mine or Quarry	2%
206C(1F)   At the Time of Receipt   Sale of Motor vehicle and Notified goods		
Note 3	Sale of Motor vehicle for consideration exceeding ₹10 lakhs	1%
	For notified goods [Notification Dated 22.04.2025] (Wrist Watch, Art Pieces [Antique, Painting, sculptures], Collectibles [coins, stamps], Yacht, Boat, Helicopter, Sunglasses, Any bags [handbag, purse], Shoes, Sportswear and Equipment [Golf kit, ski-wear], Home theatre system, Horse for Horse racing in racing club and horse for polo)	1%
206C(1G)   Earlier of Time of Debit or Receipt   Remittance of Foreign exchange		
Note 4	1. Seller of Overseas Tour Package [OTP] from Buyer:	
	✓ Up to ₹ 10 lakhs [Fin Act 2025]	5%
	✓ After ₹ 10 lakhs	20%
	2. Remittance for Purpose of Education & Medical:	
	✓ Up to ₹ 10 lakhs [Fin Act 2025]	No TCS
	✓ Above ₹ 10 lakhs [Slab limit type]	
	• Amount remitted out of own funds	5%
	• If Amount is remitted out of education loan [Fin Act 2025] [Loan obtained from FI]	NIL
	3. Remittance for Any other purpose	
	✓ Up to ₹ 10 lakhs	NA
	✓ Above ₹ 10 lakhs [Slab limit type]	20%

## Exclusions and Clarifications:

- Under 206C (1): No TCS, If Resident buyer declares that the goods are used for manufacturing or power generation and not for trading.
- Under 206C(1C): Mining or Quarrying does not include Mineral oil.
- Under 206C(1F): Refer CBDT Circular in ICAI SM Page 7.92.
- 206C(1G) Exclusions:
  - No TCS by Authorised dealer if TCS is collected by seller of Foreign exchange.
  - No TCS if buyer is liable to deduct TDS under other provisions.





- c. No TCS is buyer is CG, SG, Embassy, High Commission, Consulate, Local Authority and Non-resident who doesn't have Permanent establishment in India.
- d. Refer CBDT Circular on computation of limits for remittances of foreign exchange. [Refer Questions in ICAI SM Page 7.87 in Edition 2025]

Section	Meaning of Seller
206C(1)	1. Any person [other than Individuals/HUFs],
206C(1F)	2. Individuals and HUFs, where: <ul style="list-style-type: none"> <li>✓ T/o from Business Exceeding ₹1 crore in PFY or</li> <li>✓ G/R from profession Exceeding ₹50 lakh in PFY</li> </ul>
Section	Meaning of Buyer
206C(1)	Do Not Include: <ul style="list-style-type: none"> <li>✓ A buyer purchased goods for personal consumption.</li> <li>✓ Public sector company, CG, SG, high commission, embassy, consulate etc.</li> </ul>
206C(1F)	Do Not Include: <ul style="list-style-type: none"> <li>✓ Public sector company which is engaged in transportation of passengers</li> <li>✓ CG, SG, Local authority, high commission, embassy, consulate etc.</li> </ul>



### 34. Higher Rate of TCS

#### Failure to furnish PAN [206CC]

##### Higher of

- ✓ 2 times of Rates in Act
- ✓ 5% [206C(1H) - Max 1%]

Note: Max rate cannot exceed 20%

#### Clarifications:

1. Similar to 206AA.
2. Sec. 206CC do not apply to non-residents without a permanent establishment in India.



### 35. Tax Deduction and Collection Account Number (Section 203A)

1. Persons responsible for TDS or TCS must apply to the Assessing Officer for a TAN.
2. In Certain documents they must compulsorily quote this number.
3. The requirement for obtaining and quoting TAN may not apply to certain persons as notified by the Central Government.

Note: TAN is not applicable to assesses covered under 194IA, 194IB and 194M.



# 11B. Advance Tax Provisions

[Section 207 to 219]



## 1. Charging section and Exemption

Liability to Pay [U/s 207]	Advance tax shall be computed as per Section 208 to 219 and must be paid during the previous year itself.
Exemption from Advance tax	Only Resident Senior citizens with No "PGBP" Income, are exempted.
Threshold [U/s 208]	<ul style="list-style-type: none"> <li>✓ Advance tax obligations attracts only if the Tax Payable [TP] is ₹10,000 or more. [TP means GTL - TDS/TCS]</li> <li>✓ If the TP is less than ₹10,000.</li> </ul> <p>[No Interest applicability u/s 234B and 234C] [234A and 234F is still applies if filed ROI belatedly]</p>



## 2. Computation of Advance Tax

Section	Computation as per u/s 209
Computation by Assessee	Computes the tax payable on their estimated Total Income at the rates applicable. [No Need to submit to A.O]
Computation and order by A.O. U/s 210(3)	If the assessee has been previously assessed under regular assessment, the A.O. may serve an order under section 210(3), requiring the assessee to pay advance tax based on the latest assessed or returned income.
Discrepancy Between Assessee's Estimate and A.O.s Estimate	If the assessee's estimate is lower than the A.O., the assessee can file their own estimate.



## 3. Instalments of advance tax and due dates

For All Assesseees [other than u/s 44AD and 44ADA]

On or before	Advance tax payable
15th June	Minimum 15% of the Tax Payable.
15th September	Minimum 45% of the Tax Payable, Minus Amounts paid in the earlier.
15th December	Minimum 75% of the Tax Payable, Minus Amounts paid in the earlier.
15th March	100% of the Tax Payable, Minus Amounts paid in the earlier.

Note:

- Any Tax paid on or before 31st March is treated as advance tax paid for the respective financial year.
- For Sec. 44AE assesseees also the above 4 instalments apply.



### Advance Tax for Assessee Under Presumptive Basis (Sections 44AD and 44ADA)

On or before	Advance tax payable
On or before 15th March	100% of Tax Payable [Only Single Instalment] [Note: Amount paid up to 31 <sup>st</sup> March also treated as Advance tax]

#### Clarifications:

1. If the due date for payment is a bank holiday, the payment can be made on the next working day without penalty and Interest.
2. Credit for advance tax [Section 219]: Any sum paid as an advance tax, is treated as a payment of tax in respect of the income of the previous year and credit thereof shall be given in the regular assessment.



#### 4. Interest on short-payment of advance tax in the AY [Section 234B]

Computation of Shortfall for Interest Calculation	Amount
A. Gross Tax Liability [Assessed Tax] [Note 1]	XXXX
B. Less: TDS / TCS / AMT Credit	(XXX)
C. Tax Payable [A - B]	XXXX
D. Less: Advance Tax Paid till 31 <sup>st</sup> March of R.P.Y.	(XXX)
E. Short Fall [C - D]	XXXX
F. Interest on Short fall [Only if D < 90% of C] [E * 1% * No. of Months]	XXX

#### Notes:

1. Assessed tax shall be computed on Total Income as determined under 143(1) or regular assessment u/s 143(3).  
[Note: Generally, in absence of this information the assessed tax is computed based on income filed in the return]
2. U/s 234B Interest is calculated on shortfall at 1% p.m. or part, from 1<sup>st</sup> of April of A.Y. to Until determination of income u/s 143(1) or regular assessment as the case may be.
3. No Interest is applicable if Advance tax paid [D] till 31<sup>st</sup> March is 90% or more of Tax Payable [C].

#### Clarifications:

1. Tax U/s 143(1) does not include additional income tax under Sections 140B or 143.
2. Regular assessment tax does not include the additional income tax under Section 140B.
3. If self-assessment tax is paid under Section 140A, interest is calculated up to the date of payment of such tax only. After reducing this, the interest is calculated at 1% on the shortfall.



## 5. Interest for short payment of Instalments [Section 234C]

Interest at 1% per month or part for the period on the shortfall in advance tax paid by the due dates.

Computation of Shortfall for Interest Calculation	Amount
A. Gross Tax Liability [Returned Tax] [Note 1]	XXXX
B. Less: TDS / TCS / AMT Credit	(XXX)
C. Tax Payable [A - B]	XXXX
D. Less: Advance Tax Paid till Specified Date	(XXX)
E. Short Fall [C - D]	XXXX
F. Interest on Short fall [E * 1% * No. of Months]	XXX

Specified Date	Instalment	Shortfall in Advance Tax	Period
15th June	15%	15% of tax due on returned income (-) advance tax paid by 15th June	3 Months [Note 2]
15th September	45%	45% of tax due on returned income (-) advance tax paid till 15th September	3 Months [Note 2]
15th December	75%	75% of tax due on returned income (-) advance tax paid till 15th December	3 Month
15th March	100%	100% of tax due on returned income (-) advance tax paid till 15th March	1 Month

### Notes:

- Returned tax means, Tax due on returned income and is calculated as the tax on the total income declared in the return of income.
- Exemption:** No Interest for first 2 instalments of short fall, If the advance tax paid by the assessee is not less than 12% or 36% of the tax payable in respect of 15th June or 15th September respectively.
- For assessees U/s 44AD or 44ADA, If the advance tax paid till 15th March is less than the tax payable as per returned income, 1% simple interest will be levied on the shortfall. [Only for 1 Month]
- Unexpected Incomes:** No interest under Section 234C will be charged for shortfalls in advance tax where the under payment of advance tax is due to:
  - ✓ Capital gains.
  - ✓ Winnings from lotteries, crossword puzzles, etc. (Section 2(24)(ix)).
  - ✓ Newly started B/P under "Profits and gains of business or profession".
  - ✓ Dividend income (other than deemed dividend under Section 2(22)(e)).

Condition: The assessee must have paid the entire tax due for these incomes as part of the remaining advance tax instalments or by 31st March of the financial year.



## 12. Return of Income



### 1. Compulsory Filing of Return of Income (Section 139(1))

	Assessee	Condition on mandatory filing
1.	For Companies and Firms	Mandatory to file a return of income or loss for each previous year
2.	Individual/HUF/AOP/BOI/AJP	Mandatory, If Total income exceeds BEL, before considering deductions [Chapter VI-A or Exemptions u/s 54, 54B, 54D, 54EC, or 54F]
3.	For ROR [Individual] in respect of any asset located Outside India	A. Holds Beneficial ownership or signing authority in any account, O/s India. B. Is a beneficiary of any asset. [Note]
4.	Any other person	Mandatory if the Total Income exceeds BEL during the previous year.
5.	Special Assessee <sup>#</sup>	Discussed Below

Note: A beneficiary [B] of an asset located outside India is not required to file the return if Income from such asset is included in the income of Beneficial owner [A].

<sup>#</sup>Special Assessee: Persons other than a company or firm not covered under 1,2,3,4 categories and satisfying ANY of the following criteria's:

Criteria	Threshold Limit
Deposits in one or more current accounts.	Exceeds ₹1 crore
Deposits in savings accounts	₹50 lakh or more
Expenditure on Foreign Travel	Exceeds ₹2 lakh
Expenditure on Electricity Consumption	Exceeds ₹1 lakh
Turnover from Business	Exceeds ₹60 lakh.
Gross Receipts from Profession	Exceeds ₹10 lakh.
Aggregate of TDS and TCS on:	
✓ For Resident Senior citizens	₹50,000 or more
✓ For others	₹25,000 or more

Beneficial Owner [B.O]

• An individual who has paid consideration for the asset for the immediate or future benefit of himself or any other person

Beneficiary

• An individual who derives benefit from the asset during the previous year and the consideration for such asset has been paid by B.O.





Due date for filing:

Assessee	Due date u/s 139(1)
Assessee subject to transfer pricing	30 <sup>th</sup> November of A.Y.
Assessee liable for Audit under, Income tax Act or Other Acts.	31 <sup>st</sup> October of A.Y.
Partners of the Firm which is subject to audit	31 <sup>st</sup> October of A.Y.
Any other assessee	31 <sup>st</sup> July of A.Y.

**Exemption from Filing:** U/s 139(1C), CG may exempt any person from filing ROI by notification in the Official Gazette.

### Loss Return u/s 139(3) read with Sec. 80

- Return of Income includes Return of Loss.
- Further as we discussed u/s 80, the losses u/s 72, 73, 73A, 74 and 74A can be carry forwarded only if the return of loss is filed within above due dates.



### 2. Consequences for failure to file Return u/s 139(1)

#### Fee for Late Filing [Section 234F]

- A fee of ₹5,000 is to be paid, If the person fails to furnish a return of income within the due date u/s 139(1).
- The fee Cannot exceed ₹1,000, If the total income does not exceed ₹5 lakhs.

#### Interest for late filing of ROI [Section 234A]

If an assessee Fails to file the within the due date u/s 139(1) or does not file the return at all, Interest at 1% p.m. or part of a month is attracted.

Interest shall be computed from the date after the due date u/s 139(1):

Situation	Till the Date of:
✓ Return filed belatedly	✓ Furnishing of the return
✓ Return Not filed at all	✓ Completion of assessment

Interest Amount is computed as below:

Particulars	Amount
A. Assessed Tax* [Tax determined u/s 143(1) or regular assessment]	XXXX
B. Less: TDS, TCS, AMT credit (OTR) or Relief u/s 89	(XXX)
C. Less: Self-assessment tax paid u/s 140A	(XXX)
D. Balance Tax Liability [A-B-C]	XXXX
E. Interest u/s 234A [D x 1% x No. of Months]	XXX



\*Note:

1. Assessed tax u/s 143(1) **do not include**, Additional income-tax payable U/s 140B or 143
2. Assessed **tax under Regular assessment do not include Additional Income tax u/s 140B.**



### 3. Belated Return [Section 139(4)]

Any person who has not furnished a return within the due date u/s 139(1), may furnish the return belatedly,

- ✓ At any time before 3 months prior to the end of the A.Y. or
- ✓ Before the completion of the assessment,

Whichever is earlier.



### 4. Revised Return [Section 139(5)]

If any person who furnished a return u/s 139(1) or 139(4), finds any omission or any wrong statement, then, he may furnish a revised return:

- ✓ At any time before 3 months prior to the end of the A.Y. or
- ✓ Before the completion of the assessment,

Whichever is earlier.



### 5. Self-Assessment tax [Section 140A]

#### Determination of Self-Assessment tax

Particulars	Amount
A. Gross Tax Liability [Discussed in Basic Concepts]	XXXX
B. Less: TDS / TCS / Relief u/s 89 / AMT Credit (OTR)	(XXX)
C. Add: Tax Payable on specified security or sweat Equity shares [u/s 191(2)]	XXX
D. Balance Tax Amount [A - B + C]	XXXX
E. Add: Late filing fee u/s 234F and Interest u/s 234A and 234B*	XXX
F. Self-Assessment tax to be paid [D + E]	XXXX

\*Note: For the purpose of Sec. 140A, Interest u/s 234A and 234B, shall be computed based on returned tax for determining self-assessment tax u/s 140A. [Returned tax means tax on total income declared in the return] [140A(1A)]

Important Clarifications:

Adjustment Order for Payment Shortfall [140A (2)]: If the amount paid by the assessee is insufficient, it will be adjusted in the following order:

- ✓ Fee payable.
- ✓ Interest payable.
- ✓ Tax payable.

Non-Payment of Tax, Interest or Fees [140A (3)]: Treated as "assessee in default."



## 6. Updated Return of Income [Section 139(8A)]

- ✓ **Time Limit:** Any person can file an updated return for the previous year within 24 months from the end of the relevant assessment year. [Irrespective of 139(1), (4) and (5)]  
**Example:** For A.Y. 2024-25, the updated return can be filed up to 31.3.2027.
- ✓ **Not permitted:** Updated return provisions do not apply if the updated return:
  1. Is a loss return.
  2. Reduces the total tax liability determined in an earlier return.
  3. Results in a refund or increases the refund determined in an earlier return.**Example:** A loss returns filed u/s 139(1) can be revised by filing updated return with Income.
- ✓ **Updated return for Subsequent Years:** If the updated return results in change of carried forward losses, unabsorbed depreciation, or tax credits under Section 115JD, an updated return must also be filed for all subsequent years impacted.
- ✓ **Ineligible cases:**
  - An updated return has already been filed for such relevant assessment year.
  - Any proceedings (assessment, reassessment, re-computation, or revision) are pending or completed for the relevant assessment year.
  - The person or class of persons is notified by the Board as ineligible.
  - Prosecution proceedings have been initiated under the Income-tax Act, 1961.



## 7. Tax on Updated Return [Section 140B]

### Computation of Gross Tax where No return filed earlier [Sec 140B (1)]

Particulars	Amount
A. Compute Gross Tax on Income as per updated return	XXXX
B. Less: TDS and TDS / Relief u/s 89 / AMT Credit of RPY	(XXX)
C. Balance Before reducing Advance tax paid [A - B]	XXXX
D. Less: Advance Tax paid up to 31 <sup>st</sup> March of RPY	(XXX)
E. Balance after reducing advance tax paid [C - D]	XXXX
F. Add: Interest u/s 234A [As per 140A(1A) provisions] [1% p.m. or part on "E" from expiry of original due date till the date of filing of updated return]	XXX
G. Add: Interest u/s 234B [1% p.m. or part on "E" from 1 <sup>st</sup> April of Relevant A.Y. till the date of filing of updated return]	XXX
H. Add: Interest u/s 234C [on Shortfall "C" as we discussed in 234C]	XXX
I. Total Tax and Interest before Additional Tax [E + F + G + H]	XXXX
J. Add: Additional Tax u/s 140B [ 25% or 50% of I]	XXX



K. Add: Late filing fees u/s 234F	5,000
L. Tax Payable u/s 140B before submitting updated return [I + J + K]	XXXX

### Computation of Gross Tax where Return is furnished earlier [Sec 140B (2)]

Particulars	Amount
A. Compute Gross Tax on Income to be declared in updated return	XXXX
B. Less: TDS and TDS / u/s 89 relief / AMT Credit	(XXX)
C. Balance Before reducing Advance tax paid [A - B]	XXXX
D. Less: Advance Tax paid up to 31 <sup>st</sup> March of RPY	(XXX)
E. Balance after reducing Advance tax paid [C - D]	XXXX
F. Less: Self-Assessment tax paid u/s 140A	(XXX)
G. Balance tax payable [E - F]	XXXX
H. Add: Interest u/s 234B [1% p.m. or part on short fall from 1 <sup>st</sup> April of Relevant A.Y. till date of filing updating return]	XXX
I. Add: Interest u/s 234C [on Shortfall "C" as we discussed in 234C]	XXX
J. Less: Interest paid already u/s 234B and 234C as per original return	(XXX)
K. Total Tax to before additional tax [G + H + I - J]	XXXX
L. Add: Additional Tax u/s 140B [ 25% or 50% of K]	XXX
M. Tax Payable u/s 140B before submitting updated return [K + L]	XXXX

### Note: Additional Income Tax Payable [Section 140B(3)]

Situation	Rate of Additional Tax
If the updated return is filed <b>after the due date under Section 139(4) or 139(5)</b> but within 12 months from the end of the Relevant Assessment Year.	25% of Tax and Interest
If the updated return is filed <b>after 12 months</b> but within 24 months from the end of the Relevant Assessment Year.	50% of Tax and Interest
If the updated return is filed <b>after 24 months</b> but within 36 months from the end of the Relevant Assessment Year.	60% of Tax and Interest [Finance Act 2025]
If the updated return is filed <b>after 36 months</b> but within 48 months from the end of the Relevant Assessment Year.	70% of Tax and Interest [Finance Act 2025]

Note: Interest is based on tax payable per the updated return, reduced by interest already paid (if any).



### 8. Defective Return [Section 139(9)]

#### Power of the Assessing Officer (AO):

- ✓ The AO may call upon an assessee to rectify a defective return by issuing an intimation and rectify within 15 days from date of intimation.
- ✓ The AO may extend the 15-day period upon an application by the assessee.

**Consequences of Non rectification:**

- ✓ If the defect is **not rectified within the specified time** (or extended time), the return is **treated as invalid**. An invalid return is considered **as if no return was filed**.

**Condonation for Delay:**

- ✓ If the defect is **rectified after the prescribed time** but before the assessment, the AO may **condone the delay** and treat the return as valid.

**A return is considered defective if:**

- ✓ **Annexures, statements, or columns** related to the computation of income, gross total income, and total income are **not duly filled**.
- ✓ It is **not accompanied by proof of payment of tax**.

**9. Permanent Account Number (PAN) [Section 139A]****Persons Required to Apply for PAN (Rule 114)**

Category	Time Limit
Every person with <b>total income exceeding BEL</b>	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.
<b>Every resident</b> (other than an individual) <b>entering financial transactions aggregating to ₹2,50,000 or more</b> .	By 31st May of the following F.Y.
<b>Managing director, partner, trustee, etc., of entities in the above category</b> .	By 31st May of the following F.Y.

**Additional PAN Application Requirements (Rule 114BA)**

Transaction	Time Limit
<b>Deposit of cash</b> in one or more accounts aggregating to <b>₹20 lakhs or more</b> .	<b>At least 7 days before the intended deposit</b> .
<b>Withdrawal of cash</b> aggregating to <b>₹20 lakhs or more</b> .	<b>At least 7 days before the intended withdrawal</b> .
<b>Opening of a current or cash credit account with a bank or post office</b> .	<b>At least 7 days before account opening</b> .

**Transactions Requiring Quoting of PAN (Rule 114B)**

S. No.	Nature of Transaction	Value/Threshold
1.	<b>Sale or purchase of a motor vehicle (excluding 2-wheelers)</b> .	<b>All such transactions</b> .





2.	Opening an account (other than time deposit and Basic Savings Bank Deposit Account) with a bank or cooperative bank.	All such transactions.
3.	Application for issue of credit or debit card from any banking or financial institution.	All such transactions.
4.	Opening of a demat account with a depository, participant, or custodian.	All such transactions.
5.	Payment to hotels or restaurants against a bill.	Cash payments exceeding ₹50,000.
6.	Payment for foreign travel or purchase of foreign currency.	Cash payments exceeding ₹50,000.
7.	Purchase of units of a Mutual Fund	Payments exceeding ₹50,000.
8.	For acquiring debentures or bonds issued by it.	Payments exceeding ₹50,000.
9.	Payment to the RBI for acquiring bonds issued by it.	Payments exceeding ₹50,000.
10.	Deposit with a bank, cooperative bank, or post office.	Cash deposits exceeding ₹50,000 in a day.
11.	Purchase of bank drafts, pay orders, or banker's cheques.	Cash payments exceeding ₹50,000 in a day.
12.	Time deposits with banks, post offices, NBFCs, or Nidhi's.	Exceeding ₹50,000 per transaction or ₹5 lakhs annually.
13.	Payment for pre-paid payment instruments to banks or other institutions.	Exceeding ₹50,000 annually.
14.	Payment of life insurance premium to an insurer.	Aggregate premium exceeding ₹50,000 annually.
15.	Contract for sale or purchase of securities (other than shares).	Exceeding ₹1 lakh per transaction.
16.	Sale or purchase of shares of an unlisted company.	Exceeding ₹1 lakh per transaction.
17.	Sale or purchase of immovable property.	Exceeding ₹10 lakhs or valued at ₹10 lakhs by stamp authorities.
18.	Sale or purchase of goods or services (other than those specified above).	Exceeding ₹2 lakhs per transaction.

**Clarifications:**

- ✓ **Minors must quote the PAN of a parent/guardian** for transactions.
- ✓ **Individuals** (excluding companies or firms) **without a PAN** entering specified transactions **must declare details in Form No. 60** either on paper or electronically.
- ✓ Foreign companies without taxable income in India must also file Form No. 60 for transactions in IFSC banking units.
- ✓ **Exemptions from Rule 114B:**
  - Central and State Governments, Consular Offices.
  - Non-residents (as per Section 2(30)) except for certain specified transactions.
- ✓ **Updates to PAN Details:** Changes in name, address, or business nature must be reported to the Assessing Officer as per Section 139A (5)(d).
- ✓ **Document Verification:** PAN or Aadhaar numbers must be quoted in documents related to the specified transactions.

**Intimation of PAN:**

1. The recipient shall intimate PAN to Tax Deductor/Collector.
2. Deductor or collector shall quote PAN of the recipient in statements, certificates and returns.
3. **Section 139A(5A)/(5B) does not apply to persons, who do not have taxable income or Are not required to obtain a PAN** provided they give a declaration under Section 197A stating that **their tax will be NIL for the year.**

**Interchangeability of PAN with Aadhaar:** If a person **does not have a PAN but possesses an Aadhaar number**, they can use the Aadhaar number instead of PAN, and they will be allotted a PAN as per the prescribed procedure under Section 139AA(2).

**Quoting and Authentication of PAN/Aadhaar:**

- ✓ **Section 139A(6A):** Every **person entering prescribed transactions** must quote and authenticate their PAN or Aadhaar number.
- ✓ **Section 139A(6B):** The recipient of the document must ensure the PAN or Aadhaar number is quoted and authenticated.
- ✓ **Rule 114BB:** Details the requirement to quote and authenticate PAN/Aadhaar for specified transactions.

Nature of Transaction	Transaction with
Cash deposits aggregating to ₹20 lakhs or more in a financial year in one or more accounts	A bank, cooperative bank, or Post Master General of a Post Office
Cash withdrawals aggregating to ₹20 lakhs or more in a financial year in one or more accounts	
Opening of a current account or cash credit account	

- ✓ **Exemption for Government and Consular Offices:** **Quoting PAN or Aadhaar is not required** if the depositor, withdrawer, or account opener (as per Sl. No. 1, 2, or 3) is the **Central Government, State Government, or a Consular Office.**
- ✓ **Exemption for Non-Residents and Foreign Companies:**



- No PAN/Aadhaar required if the deposit or withdrawal is made by a non-resident (individual or foreign company) through non-cash methods or for opening a current account (not a cash credit account).
- Exemption applies if the transaction is with an IFSC banking unit, and the non-resident/foreign company has no taxable income in India.

**CBDT Power to make rules on:**

1. PAN Application
2. Transactions Requiring PAN/Aadhaar
3. Documents Requiring PAN/Aadhaar
4. Exemptions
5. Declaration by Non - PAN Holders
6. PAN/Aadhaar Quoting
7. Transaction Intimation

### Penalties for Non-Compliance Under Section 139A (Section 272B)

Section	Nature of Default	Penalty Amount
272B(1)	Failure to comply with provisions of Section 139A.	₹10,000.
272B(2)	Failure to quote PAN/Aadhaar in documents referred under Section 139A(5)(c).	₹10,000 per default.
	Failure to intimate PAN/Aadhaar under Section 139A(5A)/(5C).	
	Knowingly quoting or intimating a false PAN/Aadhaar.	
272B(2A)	Failure to quote PAN/Aadhaar or authenticate such numbers in documents under Section 139A(6A).	₹10,000 per default.
272B(2B)	Failure to ensure PAN/Aadhaar is quoted in documents under Section 139A(5)(c) or Section 139A(6A).	₹10,000 per default.
	Failure to ensure PAN/Aadhaar is authenticated in respect of transactions under Section 139A(6A).	

**Note:** Before imposing a penalty under Section 272B, the income-tax authority must provide the person with an opportunity of being heard.



## 10. Quoting of Aadhaar Number [Section 139AA]

**Mandatory Quoting of Aadhaar Number:** From 1.4.2019, quoting Aadhaar is mandatory in:

- ✓ Application for PAN.
- ✓ Income Tax Returns (manual or electronic).

**Enrolment ID (EID) as an Alternative:**

- ✓ If **Aadhaar is unavailable**, the 28-digit Enrolment ID must be quoted.
- ✓ **From 1.10.2024, quoting EID is no longer allowed.** PAN holders issued on the basis of EID must update their Aadhaar by a notified date.

**Intimation of Aadhaar:**

- ✓ PAN holders as of 1.7.2017 **must link Aadhaar by 31.3.2022** to keep PAN operative.
- ✓ Returns filed post 1.4.2019 require Aadhaar linking unless exempted.
- ✓ A person who was allotted PAN before 1.10.2024 based on EID, shall intimate AADHAR Number on or before 31.12.2025 or specified date.

**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.

**Quoting Aadhaar is not required for:**

- ✓ Residents of **Assam, Jammu & Kashmir, and Meghalaya.**
- ✓ **Non-residents** as per the Income-tax Act.
- ✓ Individuals **aged 80 years or above** during the year.
- ✓ **Non-citizens** of India.



## 11. Tax Return Preparers [Section 139B]

Particulars	Contents
Who can be TRP?	Any individual or Hindu Undivided Family (HUF).
TRP	Any individual <b>authorized with a "Tax Return Preparer Certificate"</b> and a "unique identification number" under the scheme.
Persons Not Eligible to act as TRPs	<ul style="list-style-type: none"> <li>✓ <b>Officers of scheduled banks</b> with whom the assessee has regular dealings.</li> <li>✓ <b>Legal practitioners</b> entitled to practice in civil courts in India.</li> <li>✓ <b>Accountants.</b></li> </ul>



Qualifications for TRPs	Must hold a bachelor's degree from a recognized Indian university or institution, or have passed the intermediate level exam conducted by ICAI, ICSI, or ICMAI.
Filing Returns through TRPs	Eligible persons can get their return of income prepared by a TRP for any assessment year, but certain restrictions apply.
Filings Not permitted with TRPs	<ul style="list-style-type: none"> <li>✓ Cannot file a return through a TRP if they carry out business/profession and liable for audit u/s 44AB or other laws.</li> <li>✓ Cannot file through a TRP if they are non-residents during the previous year.</li> <li>✓ Cannot file a revised return through a TRP unless the original return was also filed through the same or another TRP.</li> </ul>
<b>NOTE:</b> Employees of companies and individuals whose accounts are required to be audited under Section 44AB or other laws (as they do not belong to the specified class) are eligible to act as TRPs.	



## 12. Persons Authorised to Verify Return of Income [Section 140]

Assessee	Authorized Person
<b>Individuals</b>	
✓ Normal circumstances	The individual himself.
✓ Absent from India	<ul style="list-style-type: none"> <li>✓ The individual himself.</li> <li>✓ Any person with a valid power of attorney (attached to the return).</li> </ul>
✓ Mentally incapacitated	<ul style="list-style-type: none"> <li>✓ Guardian.</li> <li>✓ Any competent person acting on the individual's behalf.</li> </ul>
✓ Other reasons preventing verification	Any person with a valid power of attorney (attached to the return).
<b>Hindu Undivided Family (HUF)</b>	
✓ Normal circumstances	The karta of the HUF.
✓ Karta absent from India	Any other adult member of the HUF.
✓ Karta mentally incapacitated	Any other adult member of the HUF.
<b>Company</b>	
Normal circumstances	Managing director.
Managing director unavailable/no managing director	<ul style="list-style-type: none"> <li>✓ Any director.</li> <li>✓ Any prescribed person.</li> </ul>
Non-resident company	<ul style="list-style-type: none"> <li>✓ Managing director.</li> <li>✓ Authorized person holding a valid power of attorney (attached to the return).</li> </ul>
Company under winding up	Liquidator.
Management taken over by Government	Principal officer of the company.





Under corporate insolvency process (IBC, 2016)	Insolvency professional appointed by the Adjudicating Authority.
<b>Firm</b>	
Normal circumstances	Managing partner.
Managing partner unavailable/no managing partner	Any partner (not a minor).
<b>Limited Liability Partnership (LLP)</b>	
Normal circumstances	Designated partner.
Designated partner unavailable/no designated partner	Any partner of the LLP or prescribed person.

<b>Other Assesseees</b>	<b>Authorised Persons</b>
Local Authority	Principal officer.
Political Party	Chief executive officer (e.g., secretary or similar designation).
Other Association	Any member or the principal officer of the association.
Other Persons	The person or another competent person acting on their behalf.



## 13. Total Income and AMT



### 1. Alternate Minimum Tax (AMT) [Section 115JEE read with 115JC]

Aspect	Description														
Applicability of AMT	<p>Any person other than a company, who has claimed deduction under:</p> <ul style="list-style-type: none"> <li>✓ Under Chapter VI-A Heading C - Deductions in respect of certain incomes (other than Sec. 80P) [E.g., 80JJAA, 80QQB or 80RRB]</li> <li>✓ U/s 10AA or</li> <li>✓ Deduction u/s 35AD</li> </ul>														
Exemption from AMT / Non-Applicability of AMT	<p>The provisions of AMT don't apply to:</p> <ol style="list-style-type: none"> <li>1. In case of Individuals, HUF, AOPs, BOIs or AJP's, if the Adjusted Total Income [ATI] Does Not exceed Rs. 20 lakhs.</li> <li>2. If the above assessee's declaring income under default tax regime u/s 115BAC</li> </ol>														
ATI and AMT Liability	<table border="1"> <thead> <tr> <th>Computation of ATI and AMT liability</th><th>Amount</th></tr> </thead> <tbody> <tr> <td>Total Income under Normal Tax provisions</td><td>XXXX</td></tr> <tr> <td>Add: deductions claimed, if any, under section 10AA</td><td>XXX</td></tr> <tr> <td>Add: Deduction u/s 35AD</td><td>XXX</td></tr> <tr> <td>Less: Depreciation for the assets of 35AD, if No deduction claimed u/s 35AD</td><td>(XXX)</td></tr> <tr> <td>Add: Deductions claimed u/s 80JJAA, 80QQB, 80RRB</td><td>XXX</td></tr> <tr> <td>Adjusted Total Income [ATI]</td><td>XXXX</td></tr> </tbody> </table> <p>AMT = 18.5% of ATI + Surcharge [If applies] + HEC</p> <p>Note: Special Incomes if any are also taxable at 18.5% only under AMT Provisions</p>	Computation of ATI and AMT liability	Amount	Total Income under Normal Tax provisions	XXXX	Add: deductions claimed, if any, under section 10AA	XXX	Add: Deduction u/s 35AD	XXX	Less: Depreciation for the assets of 35AD, if No deduction claimed u/s 35AD	(XXX)	Add: Deductions claimed u/s 80JJAA, 80QQB, 80RRB	XXX	Adjusted Total Income [ATI]	XXXX
Computation of ATI and AMT liability	Amount														
Total Income under Normal Tax provisions	XXXX														
Add: deductions claimed, if any, under section 10AA	XXX														
Add: Deduction u/s 35AD	XXX														
Less: Depreciation for the assets of 35AD, if No deduction claimed u/s 35AD	(XXX)														
Add: Deductions claimed u/s 80JJAA, 80QQB, 80RRB	XXX														
Adjusted Total Income [ATI]	XXXX														
Tax Liability	<p>If regular income-tax payable by a person for a P.Y. as per the normal provisions is less than the AMT payable, then, ATI shall be deemed to be the total income of the person and AMT shall be payable through challan.</p>														
AMT Credit [115JD]	<ol style="list-style-type: none"> <li>1. AMT credit is the excess of AMT paid over the regular income tax payable under the provisions.</li> <li>2. The AMT credit can be carried forward for set-off up to a maximum period of 15 A.Y.s succeeding the A.Y. in which the credit becomes allowable.</li> <li>3. Such tax credit can be set-off against regular income-tax payable in the later years to the extent of excess of regular income-tax payable exceeding the AMT payable in that year. [i.e., An amount equal to AMT in every year must be paid by challan only. In other words, AMT credit cannot be set off with AMT]</li> </ol>														
Clarifications	<ol style="list-style-type: none"> <li>1. Tax Credit allowable even if ATI does not exceed Rs. 20 Lakh in the year of set-off.</li> <li>2. Tax Credit allowable to set off even assessee doesn't claim deduction u/s 10AA, Chapter VIA Heading C, 35AD.</li> </ol>														

**Most Imp Note:** A person who is paying tax under the default tax regime under section 115BAC would not be eligible to claim AMT credit.



## 2. Total Income Solving [15 Marks Question]

### Approach to Total Income Solving [15 Marks]

#### Total Income Computation - Check Points

1. Identify Residential Status [For Individuals]
2. Identify **The Regime**, [AMT Applicability under OTR]
3. Identify **Major HEAD**
  - a. PGBP Based [Mostly]
    - ✓ P&L Based [For Businesses] [Disallowances u/s 40, 40A] [Check 40(b) Applicability]
    - ✓ R&P Based [For Professions] [No Deduction for disallowed items]
  - b. Salary Based [Rare] [6 Marks Question Possible]
  - c. Capital Gains Based [Extreme Rare]
4. After Computing Major Head, **Compute for Other Heads Incomes**.
5. Clubbing Provisions and Setoff and Carry-forward Provisions
6. **Gross Total Income** [In WN - Split into **Normal Incomes** and **Special Incomes**]
7. Check For Chapter VIA - Deductions [Remember the Tax Regime here] and **Total of Deductions shall not exceed Normal Incomes**.
8. Arrive Total Income

#### Computation of Tax Liability [Relevant for MCQs as well]

Compute Tax on Total Income [Follow the Below Format for 100% Accurate Computation]

Particulars	Amount
A. Basic Tax	XXXX
B. Add: Surcharge	XXX
C. Sub Total [A+B]	XXXX
D. Less: Rebate 87A / Marginal Relief	(XXX)
E. Sub Total [C-D]	XXXX
F. Add: HEC@ 4%	XXX
G. Gross Total [E+F]	XXXX

9. Basic Tax Computation Check Points:
  - a. Check Tax Regime [Check for Age and Residential Status under OTR]
  - b. Check - If Agriculture Income is there and if so, Compute BT as per Aggregation Method
  - c. While calculating Basic Tax - Apply Rates on Normal Incomes and Special Incomes
  - d. Check [For Resident Individuals] - **whether Unexhausted BEL Applicability** if Normal Incomes are less than Applicable BEL.
  - e. Check for **LTCG on Residential IMP** Immovable Property sold by Individual / HUF of IMP **acquired before 23rd July 2024** and Transferred on or after 23<sup>rd</sup> July 2024. [Consider Indexation at the time of Computation of Basic Tax]
10. Then follow steps as per above Tax Computation Format to arrive Gross Tax Liability.
 

#### AMT Check [Only under OTR]

  - a. Most Important - Check once again AMT Applicability and
  - b. Compute AMT on ATI at 18.5% + Surcharge + Cess [Even on Special Incomes - Same rate]
  - c. If AMT is higher than Regular GTL - then **GTL will be AMT Liability**.
11. Arrive Tax Payable amount after reducing TDS / TCS / Advance Tax Paid from GTL [This info will be Given in Question]





**WINNER!**

Let's aim for a perfect 50/50 in Income Tax! Yes, it's absolutely achievable, and I'm ready to put in the work for you. But remember, it takes two hands to clap. So, come on—join me! Together, we can conquer this and achieve success.

Wish you  
Clarity, Confidence and Success



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