

Practice Session 4

Topic : Income u/h Other Sources; Clubbing of Income; Set-Off & Carry Forward Of Losses

Other Sources

Illustration 01 [PYQ Nov 2016]

Mr. Rakesh has 15% share holding in RSL (P) Ltd. and has also 50% share in Rakesh & Sons, a partnership firm.

The accumulated profit of RSL (P) Ltd. is 20 Lakh. Rakesh & Sons had taken a loan of ₹ 25 Lakh, from RSL (P) Ltd. Explain, whether the above loan is treated as dividend, as per the provision of Income Tax Act, 1961.

Solution

As per Section 2(22)(e), any payment by a company, not being a company in which public are substantially interested, of any sum by way of advance or loan:

- to a shareholder, being a person who is the beneficial owner of shares holding not less than 10% of voting power, or
- to any concern in which such shareholder is a partner and in which he has a substantial interest (i.e., he is beneficially entitled to not less than 20% of the income of such concern) is deemed as dividend, to the extent the company possesses accumulated profits.

In the present case, the loan given by RSL(P) Ltd. to Rakesh & Sons, a partnership firm would be deemed as dividend, since Mr. Rakesh is the beneficial owner of 15% shareholding in RSL(P) Ltd. and also has substantial interest in Rakesh & Sons (as he is beneficially entitled to 50% of the income of the firm)

However, the amount of loan would be deemed as dividend only to the extent RSL(P) Ltd. possesses accumulated profits. Therefore, out of the loan of ₹ 25 lakhs given to Rakesh & Sons, only ₹ 20 lakhs, being the amount of accumulated profit of RSL (P) Ltd., would be deemed as dividend.

Illustration 02 [PYQ Nov 2016]

State with reason whether the following receipt is taxable or not under the provision of Income-tax Act, 1961?

Mr. Suri received a sum of ₹ 5,00,000 as compensation, from 'Yatra Foundation', towards the loss of property on account of Flood Disaster at Chennai during December 2024.

Solution**Taxability of receipt under the provision of the Income-tax Act, 1961**

Taxable/ Not Taxable	Reason
Taxable	As per Section 10(10BC), any amount received or receivable as compensation by an individual, on account of any loss or damage caused by disaster, from the Central Government, State Government or a local authority is exempt from tax, to the extent the individual has not been allowed deduction under any other provision of the Income-tax Act, 1961. However, in this case, since Mr. Suri has received a compensation of ₹ 5 lakhs from Yatra Foundation, and not the Central or State Government or local authority, no exemption will be available under Section 10(10BC).

Illustration 03 [PYQ May 2018]

Discuss the taxability of the following receipts in the hands of Mr. Sanjay Kamboj under the Income Tax Act, 1961 for A.Y. 2025-26 :

1. ₹ 51,000 received from his sister living in US on 1-6-2024.
2. Received a car from his friend on payment of ₹ 2,50,000, the FMV of which was ₹ 5,50,000.

Solution

Computation of Income from other sources:

1. Gift received from relative is not taxable irrespective of amount. Since in the given case gift is received by Sanjay from his sister, hence not taxable.
2. As per Sec. 56(2)(vii), motor car is not a movable property, hence in the given case it will not be chargeable to tax irrespective of amount.

Illustration 04 [PYQ Nov 2018]

Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income Tax Act, 1961: During the previous year 2024-25, Mrs. Aishwarya, resident, received a sum of ₹ 8,50,000 as dividend from Indian companies and ₹ 4,00,000 as dividend from Indian equity oriented mutual fund units.

Solution

Charge-ability	Amount liable to tax (₹)	Reason
Taxable	8,50,000	Dividend received of ₹ 10 lakhs from Indian companies taxable in the hands of shareholder. No exemption is available from A.Y. 2025-26. As per section 10(35), income received from units of mutual fund is fully taxable now Hence, ₹ 8,50,000, being the dividend from Indian companies and ₹ 4,00,000, being the dividend from Indian equity oriented mutual fund units is taxable in the hands of Mrs. Aishwarya.

Illustration 05 [PYQ Nov 2020]

Ms. Julie received following amounts during the previous year 2024-25.

- (1) Received loan of ₹ 5,00,000 year from the ABC Private Limited, a closely held company engaged in textile business. She is holding 10% of the equity share capital in the said company. The accumulated profit of the company was ₹ 2,00,000 on the date of the loan.
- (2) Received Interest on enhanced compensation of ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2020-21, ₹ 1,90,000 relates to previous year 2021-22 and ₹ 1,60,000 relates to previous year 2022-23. She paid ₹ 1 lakh to her advocate for his efforts in the matter. Discuss the tax implications, if any, arising from these transactions in her hand with reference to Assessment Year 2025-26.

Solution

- (a) Loan of ₹ 5 Lacs taken by Ms. Julie from the closely held company will be treated as deemed dividend u/s 2(22)(e) to the extent of accumulated profit i.e. 2 lacs. It will be taxable under the head income from other sources.
- (b) Interest on enhanced compensation of ₹ 5 Lacs is taxable under the head income from other sources after giving the deduction u/s 57 of 50%. Net taxable amount is 2,50,000.

Illustration 06 [PYQ Jan 2021]

Discuss the taxability of the following transactions giving reasons, in the light of relevant provisions, for your conclusion.

Mr. Rajpal took a land on rent from Ms. Shilpa on monthly rent of ₹10,000. He sub-lets the land to Mr. Manish for a monthly rent of ₹11,500. Manish uses the land for grazing of cattle required for agricultural activities. Mr. Rajpal wants to claim deduction of ₹ 10,000 (being rent paid by him to Ms. Shilpa) from the rental income received by it from Mr. Manish.

Solution

The rent or revenue derived from land situated in India and used for agricultural purposes would be agricultural income under section 2(1A)(a). Therefore, rent received from sub-letting of the land used for grazing of cattle required for agriculture activities is agricultural income. The rent can either be received by the owner of the land or by the original tenant from the sub-tenant.

Accordingly, rent received by Mr. Rajpal from Mr. Manish for using land for grazing of cattle required for agricultural activities is agricultural income exempt u/s 10(1). As per section 14A, no deduction is allowable in respect of exempt income.

Illustration 07 [PYQ May 2022]

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

1. Received a motor car of ₹ 5,00,000 as gift from his friend Sunil on the occasion of his marriage anniversary.
2. Cash gift of ₹ 21,000 each from his four friends.

3. Land at Jaipur on 1st July, 2024 as a gift from his friend Kabra, the stamp duty value of the land is ₹ 6 lakhs as on the date. The land was acquired by Mr. Kabra in the previous year 2001-2002 for ₹ 2 lakhs.

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

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

He received a shop (building) of the fair market value ₹ 1,50,000 and cash ₹ 50,000 in distribution from the ABC (P) Ltd. at the time of liquidation process of the company in proportion of his share capital.

The balance in general reserve of the company attributable to his share capital is ₹ 1,25,000.

On 1st March, 2025, he sold the plot of land at Jaipur for ₹ 8 lakh.

The value of the cost inflation index is 100 and 348 for the previous year 2001-2002 and 2024-25 respectively.

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

Solution

Computation of "Income from Other Sources" of Mr. Lalit for the A.Y. 2025-26

Particulars	₹
1. Motor car is not included in the definition of "property" for the purpose of section 56(2)(x), hence, value of the same is not taxable, even though it is received without any consideration.	
2. Cash gift is taxable under section 56(2)(x) [since the aggregate of ₹ 84,000 (₹ 21,000 x 4) exceeds ₹ 50,000]	84,000
3. Stamp value of plot of land at Jaipur, received without consideration, is taxable under section 56(2)(x), since the same exceeds ₹ 50,000	6,00,000
4. Difference of ₹ 2 lakh [1000 shares x ₹ 200] in the value of shares pf ABC Ltd. purchased from Mr. Abhishek, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. Lalit (since he is a dealer in shares) and not capital asset.	
5. Difference between the stamp duty value of ₹ 24 lakh on the date of booking (since advance was paid by account payee cheque on that date) and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration.	4,00,000
6. Distribution of assets by ABC (P) Ltd. on liquidation attributable to the accumulated profits (general reserve) of the company is taxable as dividend under section 2(22)(c).	1,25,000

Income taxable under the head "Income from other sources"	12,09,000
---	-----------

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

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

Note:

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

Illustration 08 [PYQ Nov 2022]

Examine whether the following are chargeable to tax and the amount liable to tax:

1. Interest on enhanced compensation ₹ 3,00,000 received on 31.03.2025 from government of Tamil Nadu towards urban land acquired by it. 40% of enhanced compensation interest pertains to previous year 2023-24.
2. Narayanan transferred 1000 shares of BS Ltd to AB Pvt. Ltd on 01-06-2024 for a consideration of ₹ 2,00,000 when the fair market value of the same as on transaction date was ₹ 3,00,000. The indexed cost of acquisition of shares for Narayanan was ₹ 2,75,000. The transfer was effected off market on which securities transaction tax was not paid. BS Ltd is a closely held unlisted company.
3. Mr. A received ₹ 5,00,000 on 1st March, 2025 from Sree Pushpaka Charitable Trust for meeting his medical expenses. The trust is registered under Section 12AB of Income Tax Act.

Solution

1. Interest on enhanced compensation received on 31.03.25 from Government of Tamil Nadu (including 40% of interest on enhanced compensation relating to P.Y. 2023 -24) would be deemed to be the income of P.Y. 2024-25, being the year in which it is received irrespective of the method of accounting followed by the assessee.

Interest of ₹ 3,00,000 on enhanced compensation is chargeable to tax during the P.Y. 2024-25 after providing deduction of 50% under section 57. Therefore, ₹ 1,50,000 is chargeable to tax under the head “Income from other sources”.

2. In the hands of Mr. Narayanan:

Since the consideration of ₹ 2,00,000 is less than ₹ 3,00,000, being the fair market value of unquoted shares of BS Ltd., the fair market value of shares i.e., ₹ 3,00,000 would be deemed to be the full value of consideration.

Accordingly, ₹ 25,000 [₹ 3,00,000 - ₹ 2,75,000, being indexed cost of acquisition] would be liable to tax as long term capital gains in the hands of Mr. Narayanan.

In the hands of AB Pvt. Ltd.:

Shares received by AB Pvt. Ltd. from Mr. Narayanan for inadequate consideration is chargeable to tax, since the difference exceeds ₹ 50,000. Accordingly, ₹ 1,00,000, being the difference between aggregate Fair Market Value of the shares i.e., ₹ 3,00,000 and consideration i.e., ₹ 2,00,000 would be chargeable to tax under the head “Income from other sources”.

3. The sum of ₹ 5,00,000 received from Sree Pushpaka Charitable Trust, without consideration, for meeting medical expenses would not be chargeable to tax in the hands of Mr. A, since the same is received from a trust registered under section 12AB.

Illustration 09 [PYQ May 2024]

Mr. Ravi received an advance of ₹ 2,00,000 on 10.5.2024 from a closely held manufacturing company (private company in which the public are not substantially interested) in which he holds 22% shareholding. The company had an accumulated profit of ₹ 1,00,000 at the time of giving the advance. Compute the amount of income to be included in the hands of Mr. Ravi for the assessment year 2025-26 and also state the head under which it is to be included.

Solution

In the present case, the amount of advance of ₹ 2,00,000 received by Mr. Ravi from closely held manufacturing company would be deemed as dividend to the extent of accumulated profit of ₹ 1,00,000, since Mr. Ravi holds 22% shareholding in the company which is not less than 10% of the voting power in the company.

Accordingly, deemed dividend of ₹ 1,00,000 would be taxable in the hands of Mr. Ravi under the head “Income from Other Sources” for the A.Y. 2025-26.

Clubbing of Income

Illustration 01 [PYQ May 2016]

Mr. Ramesh gifted a sum of ₹ 5 lacs to his brother's minor son on 16-4-2024. On 18-4-2024, his brother gifted debentures worth ₹ 6 lacs to Mrs. Ramesh. Son of Mr. Ramesh's brother invested the amount in fixed deposit with Bank of India @ 9% p.a. interest and Mrs. Ramesh received interest of ₹ 45,000 on debentures received by her. Discuss the implications under the provisions of the Income-tax Act, 1961.

Solution

In the given case, Mr. Ramesh gifted a sum of ₹ 5 lacs to his brother's minor son on 16.4.2024 and simultaneously, his brother gifted debentures worth ₹ 6 lacs to Mr. Ramesh's wife on 18.4.2024. Mr. Ramesh's brother's minor son invested the gifted amount of ₹ 5 lacs in fixed deposit with Bank of India. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted.

As per Section 64(1 A), all income of a minor child is includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Ramesh's brother's son from fixed deposits would be included in the total income of Mr. Ramesh's brother, assuming that Mr. Ramesh's brother's total income is higher than his wife's total income, before including minor's income. Mr. Ramesh's brother can claim exemption of ₹ 1,500 under section 10(32). Interest on debentures arising in the hands of Mrs. Ramesh would be taxable in the hands of Mr. Ramesh as per section 64(1)(iv).

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

In the hands of Mr. Ramesh, interest received by his spouse on debentures of ₹ 5 lacs alone would be included and not the entire interest income on the debentures of ₹ 6 lacs, since the cross transfer is only to the extent of ₹ 5 lacs.

Hence, only proportional interest (i.e., $\frac{5}{6}$ th of interest on debentures received) ₹ 37,500 would be includible in the hands of Mr. Ramesh.

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

Illustration 02 [PYQ Nov 2016]

Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:

Mr. N, a member of his father's HUF, transferred a house property to the HUF without consideration. The value of the house is ₹ 10 lacs as per the Registrar of stamp duty.

Solution

Gift from a relative is not taxable in the hands of HUF.

Illustration 03 [PYQ Nov 2017]

Kamal gifted ₹ 10 lakhs to his wife, Sulochana on her birthday on, 1st January, 2024. Sulochana lent ₹ 5,00,000 out of the gifted amount to Krishna on 1st April, 2024 for six months on which she received interest of ₹ 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2024, which were sold for ₹ 75,000 on 30th December, 2024. Securities transactions tax was paid on such sale. The balance amount of gift was invested as capital by Sulochana in a business. She suffered loss of ₹ 15,000 in the business in Financial Year 2024-25.

In whose hands the above income and loss shall be included in Assessment Year 2025-26. Support your answer with brief reasons.

Solution

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

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

Assuming that the capital was invested in business by Ms. Sulochana on or before 1st April, 2024, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹ 15,000 from the business carried on by Ms. Sulochana would also be includible in the total income of Mr. Kamal [As per Explanation 3 to Section 64(1)(iv)]. If, however, it is assumed that capital invested was partly out of the funds gifted by her husband, the loss includible in the hands of Mr. Kamal has to be determined by apportioning the loss of ₹ 15,000 incurred during the year on the basis of the capital employed on 1.4.2024.

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

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

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the hands of Ms. Sulochana. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable @ 20% in the hands of Ms. Sulochana.

Illustration 04 [PYQ Nov 2018]

Answer the following:

Mrs. and Mr. Vinod Amin have two minor children M and N. The following are the receipts in the hands of M and N during the year ended 31-3-2025:

- (i) M received a gift of ₹ 70,000 from her friend's father on the occasion of her birthday.
- (ii) M won a prize money of ₹ 3,00,000 in National Quiz Competition. This was invested in debentures of a company, from which interest of ₹ 19,000 (gross) accrued during the year.
- (iii) N won prize in a lottery. The net amount received after deduction of tax at source was ₹ 1,05,000.

Mr. Vinod Amin's income before considering clubbing provisions is higher than that of his wife. Discuss how these items will be considered for taxation under the provisions of the Income Tax Act, 1961. Detailed computation of income is not required.

Solution

- (i) Gift received from non-relative by minor daughter M Gift of ₹ 70,000 received by minor daughter M, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Vinod Amin, since his income before considering clubbing provisions is higher than that of his wife.
- (ii) Prize money of ₹ 3,00,000 in National Quiz Competition/Interest on debentures received by minor daughter M
Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be included in the hands of parent. Hence, the prize money of ₹ 3,00,000 won in National Quiz Competition by minor daughter M from exercise of special talent would not be included in the income of either parent.
However, interest of ₹ 19,000 on debentures has to be included in the hands of her father, Mr. Vinod Amin, even if the investment is made out of income arising from application of special talent.
Exemption of ₹ 1,500 would be allowed in respect of the aggregate income of minor daughter M so included in the hands of Mr. Vinod Amin under section 10(32).
- (iii) Winning from lottery by minor child N
Winnings of ₹ 1,50,000 ($1,05,000 \times 100/70$) from lotteries by minor child N is includible in the hands of his father, Mr. Vinod Amin. Mr. Vinod Amin can claim credit of tax of ₹ 45,000 deducted at source from such lottery income.

Note : As regards availability of exemption under section 10(32) in respect of lottery income of minor child N includible in the hands of his father, there are two possible views. Since exemption of upto ₹ 1,500 under section 10(32) is available in respect of any income of minor child includible in the total income of parent, one view is that such exemption would also be available in respect of lottery income of a minor child includible in the hands of parent.

The alternate view is that since as per section 58(4), no deduction is allowable in respect of any expenditure or allowance in connection with lottery income under any provision of the Income-tax Act, 1961, exemption under section 10(32) would also not be available in respect of such income of minor child includible in the hands of the parent. Further, lottery income is subject to tax at a flat rate of 30%, and hence, if any

exemption is allowed in respect of such income, it would reduce the tax liability and the effective rate of tax.

Illustration 05 [PYQ Nov 2019]

Mr. Mahadev, a noted bhajan singer of Rajasthan and his wife Mrs. Dariya furnish the following information relating to the Assessment Year 2025-26.

		₹
1	Income of Mr. Mahadev - professional bhajan singer (computed)	5,65,000
2	Salary income of Mrs. Dariya (computed)	3,80,000
3	Loan received by Mrs. Dariya from Ramu & Jay (Pvt) Ltd. (Mrs. Dariya holds 35% shares of the Co. The Co. has incurred losses since its inception 2 years back)	2,50,000
4	Income of their minor son Golu from winning singing reality show on T.V.	2,50,000
5	Cash gift received by Golu from friend of Mr. Mahadev on winning the show	21,000
6	Interest income received by minor married daughter Gudia from deposit with Ramu & Jay Pvt Ltd.	40,000

Compute total taxable income of Mr. Mahadev & Mrs. Dariya for the Assessment Year 2025-26.

Solution

Computation of total taxable income of Mr. Mahadev and Mrs. Dariya for the Assessment Year 2025-26

	Particulars	Mr. Mahadev	Mrs. Dariya
(i)	Income from Salary (computed)	-	3,80,000
(ii)	Income of Profession (computed)	5,65,000	-
(iii)	Loan received by Mrs. Dariya from Ramu and Jay (Pvt.) Ltd. [As Mrs. Dariya holds 35% shares of the company and it is receiving loan from the company it is covered by Section 2(22)(e), but it will be taxable to the extent of accumulated profits. Since the company incur losses from inception hence nothing is taxable in this case.]	-	-
(iv)	Income of minor son golu winning singing reality show Will be taxable in his hands only since its income from own Talent.	-	-
(v)	Cash gift received by golu from friend of Mr. Mahadev Since it does not exceed ₹ 50,000 hence not taxable and hence It cannot be clubbed	-	-
(vi)	Income of minor married daughter clubbed in hands of parents whose income is higher after exemption under Section 10(32) of ₹1,500 40,000 -1,500 =	38,500	-
	Total Taxable Income	6,03,500	3,80,000

Illustration 06 [PYQ Nov 2020]

Determine the Gross total income of Shri Ram Kumar and Smt. Ram Kumar for the assessment year 2025-26 from the following :

- (i) Salary received by Shri Ram Kumar from a company ₹ 1,80,000 per annum and Smt. Ram Kumar also doing job in a company and getting salary of ₹ 2,40,000 per annum.
- (ii) Shri Ram Kumar transferred a flat to his wife Smt. Ram Kumar on 1st September, 2024 for adequate consideration. The rent received from this let-out flat is ₹ 9,000 per month.
- (iii) Shri Ram Kumar and his wife Smt. Ram Kumar both are partners in a firm. Shri Ram Kumar received ₹ 36,000 and Smt. Ram Kumar received ₹ 64,000 as interest from the firm and also had a share of profit of ₹ 12,000 and ₹ 26,000 respectively.
- (iv) Smt. Ram Kumar transferred 10% debentures worth ₹ 3,00,000 to Shri Ram Kumar. The whole amount of ₹ 3,30,000 invested by Shri Ram Kumar in the similar investments and earned income of ₹ 39,000.
- (v) Mother of Shri Ram Kumar transferred a property to Master Rohit (son of Shri Ram Kumar) in the year 2021. Master Rohit (Aged 13 years) received of ₹ 15,000 as income from this property on 20th February, 2025.

Solution

Computation of Gross Total Income of Shri Ram Kumar and Smt. Ram Kumar for A.Y. 2025-26:

Particulars	Mr. Ram	Smt. Ram
Salary (1,80,000 - standard deduction 50,000, 2,40,000 - standard deduction 50,000)	1,30,000	1,90,000
Income from HP [$9,000 \times 5 = 45,000$]		
(-) standard deduction 30%, $9,000 \times 7$ months (-) standard deduction @30%	31,500	44,100
Share of profit from firm (exempt)	Nil	Nil
Salary/Interest from partnership firm	36,000	64,000
Interest/received by Ram Kumar on 30.04.2024 from PQR Ltd.		
(taxable in the hands of Smt. Ram as debentures were transferred to Shri Ram Kumar without consideration)	Nil	30,000
Interest received by Shri Ram Kumar on 25.03.2025 from DEF Ltd.:		
• Interest taxable in the hands of Smt. Ram ($39,000 \times 3,00,000 / 3,30,000$)	Nil	35,455
• Interest taxable in the hands of Shri Ram Kumar ($39,000 \times 30,000 / 3,30,000$)	3,545	Nil
• Property Income of Master Smt. Ram Kumar [15,000 (-) Standard deduction u/s 24 (a) 4,500 (-) exemption u/s 10(32) 1,500]		
(it is assumed that income of Shri Ram Kumar is higher than that of Shri Ram and property given to Smt. Ram is house Property)	-	9,000
Gross total income	2,01,045	3,72,555

Illustration 07 [PYQ July 2021]

Mr. Dharmesh who is 45 years old and his wife Mrs. Anandi who is 42 years old furnished the following information:

	Particulars	Amount (₹)
(i)	Salary income (computed) of Mrs. Anandi	9,60,000
(ii)	Income of minor Son "A" who suffers from disability specified in Section 80 U	3,08,000
(iii)	Income of minor daughter "C" from script writing for Television Serials	1,86,000
(iv)	Income from garment trading business of Mr. Dharmesh	17,50,000
(v)	Cash gift received by minor daughter "C". on 02-10-2023 from friend of Mrs. Anandi, on winning of a story writing competition	45,000
(vi)	Income of minor son "B" form Scholarship received from his School	1,00,000
(vii)	Income of minor son "B" from fixed deposit with Punjab National Bank, made out of income earned from Scholarship	5,000

Compute the total income of Mr. Dharmesh and his wife Mrs. Anandi for Assessment Year 2025-26 assuming that they have not opted to be taxed under section 115BAC.

Solution**Computation of Total Income of Mr. Dharmesh and Mrs. Anandi for A.Y. 2025-26:**

Particulars		Mr. Dharmesh	Mrs. Anandi
		Amount (₹)	
Salary income (computed)			9,60,000
Income from garment trading business		17,50,000	
Total Income before including income of minor children		17,50,000	9,60,000
Income of minor son "A"			
Income of ₹ 3,08,000 of minor son A who suffers from disability specified in section 80U [Since minor child A is suffering from disability specified under section 80U, hence, his income would not be included in the income of the parent but would be taxable in the hands of the minor child]			
Income of minor son "B"			
Income of ₹ 1,00,000 from scholarship [Exempt u/s 10(16)]		—	
Income from fixed deposit with PNB		5,000	
[Since Mr. Dharmesh's income is greater than that of Mrs. Anandi, income of minor son B from fixed deposit would be included in the hands of Mr. Dharmesh. Interest from bank			

deposit has to be included in Mr. Dharmesh's income, even if deposit is made out of income earned from scholarship]			
Less: Exemption under section 10(32)	1,500	3,500	
Income of minor daughter "C"			
Income of ₹ 1,86,000 from script writing for television serials [Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of the parent]		Nil	
Hence, clubbing provisions will not apply in this case/no adjustment is required. Cash gifts of ₹ 45,000 received from friend of Mrs. Anandi [Gift not exceeding ₹ 50,000 received from a non-relative is not taxable under section 56(2)(x)] Hence, clubbing provisions will not apply in this case / no adjustment is required.			
Gross Total Income/Total Income		17,53,500	9,60,000

Note: As per section 10(16), scholarships granted to meet the cost of education is exempt from tax. The purpose of scholarship received by minor son B is explicitly not mentioned in the question. However, scholarships given by schools are generally in the form of financial assistance for meeting the cost of education. Hence, it is logical to assume that the scholarship to B has been granted to him to meet his cost of education. Based on this assumption, the same has been treated as exempt from tax u/s 10(16).
Alternate view: However, in absence of specific information, it is possible to assume that such scholarship has been granted on account of B's exceptional academic achievements i.e., involving application of his skill, talent, specialised knowledge and experience and hence would be covered under the proviso to section 64(1 A) and thus should not be included in the income of parent.

Illustration 08 [PYQ Dec 2021]

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

- (i) Mr. R transferred his self-occupied property without any consideration to the HUF of which he is a member. During the previous year 2024-25 the HUF earned an income of ₹ 50,000 from such property.
- (ii) Mr. R transferred ₹ 4,00,000 to his wife Mrs. R on 01.04.2007 without any consideration which was given as a loan by her to Mr. Girish. She earned ₹ 3,50,000 as interest during the earlier previous years which was also given as a loan to Mr. Girish. During the previous year 2024-25, she earned interest @11% per annum.
- (iii) Mr. R and Mrs. R both hold equity shares of 27% and 25% respectively in AMG Limited. They are also working as employees in such Company. During the financial year 2024-25 they have withdrawn a salary of ₹ 3,20,000 and 2,70,000 respectively.

- (iv) Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17.09.2015 to Mr. R without any consideration. The Company issued 3,000 bonus shares to Mr. R in 2018. On 04.03.2025, Mr. R sold entire share holdings and earned ₹ 5,20,000 as capital gains.

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

Compute Gross Total income of Mr. R and Mrs. R for the assessment year 2025-26.

Solution

Computation of Gross Total Income of Mr. R and Mrs. R for A.Y. 2025-26

	Particulars	Mr. R	Mrs. R
		Amount (₹)	
I.	Income from house property		
	Income from property transferred to HUF without consideration		
	Since Mr. R has transferred his property to his HUF without consideration, income of ₹50,000 from such property would be included in the total income of Mr. R as per section 64(2).	50,000	
II.	Capital Gains		
	Income from equity shares transferred by Mrs. R to Mr. R without consideration		
	Capital gains arising to Mr. R from transfer of equity shares of RSB Ltd. gifted to him by Mrs. R would be included in the hands of Mrs. R [₹ 5,20,000 x 5,000/8,000]		3,25,000
	Capital gains arising to Mr. R from transfer of bonus shares issued by RSB Ltd. on the basis of holding of the said equity shares would be included in the income of Mr. R and not Mrs. R, since income derived from accretion of the transferred asset cannot be clubbed with the income of transferor of the original asset i.e., Mrs. R [₹ 5,20,000 x 3,000/8,000]	1,95,000	
III.	Income from Other Sources		
	Income from commission	4,00,000	
	Interest income		3,30,000
	Interest income on ₹ 4 lakh transferred by Mr. R to Mrs. R without consideration		
	Income of ₹ 44,000, i.e., 11% of ₹4,00,000, being the amount transferred by Mr. R to Mrs. R without any consideration and loaned by her to Mr. Girish, would be included in the income of Mr. R.	44,000	
	Income of ₹ 38,500 i.e., 11 % of ₹3,50,000, being the interest earned by Mrs. R out of amount gifted by Mr. R and thereafter, given by her as		38,500

	loan to Mr. Girish, would be included in the income of Mrs. R, as income derived by Mrs. R from accretion of the amount gifted by Mr. R (i.e., interest income) cannot be included in the income of Mr. R.		
	Total income [before considering adjustment on account of item (iii) i.e., salary income from a company in which both Mr. R and Mrs. R have substantial interest]	6,89,000	6,93,500
IV.	Salary income from a company in which both Mr. R and Mrs. R have substantial interest		
	Since both Mr. R and Mrs. R have substantial interest in AMG Ltd. (on account of holding equity shares carrying 20% or more of voting power) and both are in receipt of income by way of salary from AMG Ltd., such salary income would be includible in the hands of that spouse, whose total income, before including such salary income, is higher. Accordingly, the salary income of both Mr. R and Mrs. R would be included in the hands of Mrs. R in this case, since her total income, before including such income, is higher than that of Mr. R.		>
	Salary income of Mr. R = ₹ 3,20,000 - ₹50,000 (standard deduction)		2,70,000
	Salary income of Mrs. R = ₹ 2,70,000 - ₹50,000 (standard deduction)		2,20,000
	Gross Total Income	6,89,000	11,83,500

Illustration 09 [PYQ May 2022]

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

On 01.10.2024, HUF is partitioned and such property being divided equally. Net annual value of the property for the Previous Year 2024-25 is ₹ 1,00,000. Determine the tax implications.

Solution

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

Since the HUF was partitioned on 1.10.2024, the income derived from such converted house property as is received by Mr. Sarthak's spouse, Juhi, on partition will be deemed to arise to Mr. Sarthak from house property transferred indirectly by him to her and consequently, such income would also be included in the total income of Mr. Sarthak. Accordingly, Mr. Sarthak's share (25%) and Juhi's share (25%) would be included in the total income of Mr. Sarthak. Sarthak's Share [25% of ₹ 35,000 (₹ 70,000 x 6/12)]	8,750
Juhi's Share [25% of ₹ 35,000] included in the total income of Sarthak	8,750
Income from house property includible in the income of Mr. Sarthak	52,500
25% share of Sarthak's minor daughter, Aditi, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in the total income of Mr. Sarthak or Juhi, whosoever's total income, before including Aditi's income, is higher. Such parent shall be entitled to an exemption of ₹ 1,500 under section 10(32). 25% share of Sarthak's major son, Arjun, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in Arjun's total income. Distribution of house property on partition of HUF is not a transfer for levy of capital gains tax.	

Illustration 10 [PYQ Nov 2022]

From the following transactions compute the total income of Mr. Raman and his wife Savita for the Assessment year 2025-26.

- (i) Mr. Raman had a fixed deposit of ₹ 5,00,000 in the bank. He instructed the bank to credit the interest on deposit @ 6% from 01-04-2024 to 31-03-2025 to the savings account of his brother's son for his education.
- (ii) Savita is a B.com graduate and working in the ABC Private Limited as an accountant with a monthly salary of ₹ 25,000. Raman holds 30 % equity shares of the ABC Private Limited.
- (iii) Raman started proprietary business on 01-04-2023 with a capital of ₹ 10,00,000. He incurred a loss of ₹ 2,00,000 during the previous year 2023-24. To overcome the financial position, Savita gifted a sum of ₹ 4,00,000 to him on 01-04-2024 which was immediately invested in the business by Mr. Raman. He earned a profit of ₹ 3,00,000 during the previous year 2024-25.
- (iv) Sajan, younger son of Raman, aged 17 years won in a debate competition during the annual competitions held at his school and received a cash award of ₹ 10,000 and he also earned interest of ₹ 7,000 on balance maintained in his savings bank account.

Solution**Computation of Total Income of Mr. Raman and Mrs. Savita for A.Y. 2025-26**

Particulars	Mr. Raman	Mrs. Savita
	Amount (₹)	
(i) Interest on fixed deposits [Income would be included in the hands of Raman, since he has transferred income to his brother's son without transfer of the asset, being fixed deposit] [₹ 5,00,000 x 6%]	30,000	

(ii) Salary income [₹ 3,00,000 (₹ 25,000 x 12) less standard deduction of ₹ 50,000] [Mrs. Savita's salary would not be included in the income of Raman, who has substantial interest in the company, since she possesses the relevant professional qualifications for working as an accountant]		2,50,000
(iii) Savita gifted ₹ 4,00,000 to Mr. Raman, which Mr. Raman has invested in the business. In such case, proportionate income (i.e., $\frac{1}{3} \times ₹ 3,00,000$) arising from such investment is to be included in the total income of Savita. Mr. Raman's contribution in capital as on 1.4.2024 = ₹ 8,00,000 [₹10,00,000-₹ 2,00,000] Mrs. Savita's contribution on 1.4.2024 = ₹ 4,00,000. ₹ 3,00,000, being the profit for P.Y.2024-25 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2024 (8:4 or 2:1)	2,00,000	1,00,000
Total income [before considering minor income from interest on savings account]	2,30,000	3,50,000
(iv) Cash award won in a debate by Sajjan, minor son, would not be included in the hands of either- parent, since such income arises from his own skills/talent.	—	—
However, interest of ₹ 7,000 on savings bank account (after providing for deduction of ₹ 1,500) is to be included in the hands of Mrs. Savita, since her income is higher than that of her husband [₹ 7,000 - ₹ 1,500]	—	5,500
Gross Total Income	2,30,000	3,55,500
Less: Deduction under section 80TTA (Interest on savings bank account)		
Total Income	2,30,000	3,50,000

Illustration 11 [PYQ Nov 2023]

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

- (i) Mr. Chaman's salary income-₹11,00,000.
- (ii) Mrs. Chaman's income from Kathak performances ₹ 2,50,000. She is a professional Kathak dancer and pursue dancing as her profession.
- (iii) Mrs. Chaman earned long-term capital gains of ₹ 5,50,000 from sale of shares.
- (iv) Mrs. Chaman gifted ₹ 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2024. Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000.

- (v) Miss Naina, their minor daughter, earned ₹ 3,56,000 by performing in various quiz competitions held online during the year 2024-25. She kept that amount in savings bank account and earned interest of ₹ 15,000 during the year 2024-25.
- (vi) Master Neelabh, their minor son earned ₹ 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned under Section 80U. The medical certificate shows a disability of upto 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the Assessment Year 2025-26. Ignore Section 115BAC pertaining to alternative tax regime.

Solution

Computation of total income of Mr. Chaman, Mrs. Chaman and their minor children for the A.Y. 2025-26

Particulars	Mr. Chaman	Mrs. Chaman	Naina, minor daughter	Neelabh, minor son
	₹	₹	₹	₹
Income under the head Salaries				
Salaries (computed)	11,00,000			
Profits and gains from business or profession				
Income from Kathak performances		2,50,000		
Capital Gains				
Long term capital gains from sale of shares		5,50,000		
Less: Set off of short-term capital loss from long term capital gain [Short term capital loss to the extent of ₹ 2 lakhs would be included in the income of Mrs. Chaman, since the shares are purchased by Mr. Chaman from the amount of ₹ 2 lakhs gifted by Mrs. Chaman out of her Stridhan. Clubbing provisions would be attracted even if it is a loss and not income] [Refer Note 1 and 2 below]		2,00,000		
The balance short-term capital loss of ₹ 3,10,000 has to be carried forward by Mr. Chaman, since it cannot be set-off against salary income.		3,50,000		
Income [before considering income of minor son and minor daughter]	11,00,000	6,00,000		
Income of Naina, minor daughter, from performances in various quiz			3,56,000	

competitions would not be included in the hands of either parent, since				
such income arises from her own skills/talent.	13,500			
However, interest of ₹ 15,000 on saving bank account [after providing for deduction of ₹ 1,500, being exempt under section 10(32)] is to be included in the hands of Mr. Chaman, since his income is higher than that of his wife [₹ 15,000- X 1,500] Income of Neelabh, minor son suffering from disability u/s 80U, from fixed deposits would not be included in the income of parent but would be taxable in his hands.				35,000
Gross Total Income	11,13,500	6,00,000	3,56,000	35,000
Less: Deductions				
- Under section 80TTA In respect of interest on saving bank account to the extent of	10,000			
- Under section 80U Flat deduction of ₹ 75,000 to a person with disability. However, deduction would be restricted to gross total income				35,000
Total Income	11,03,500	6,00,000	3,56,000	Nil

Note 1:

The question mentions that Mrs. Chaman gifted ₹ 2 lakh to Mr. Chaman out of her Stridhan on 1.4.2025 and that Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000. It is not possible to invest ₹ 2 lakhs and incur short-term capital loss of ₹ 5.10 lakhs. Accordingly, in the above solution, it has been assumed that the remaining ₹ 3,10,000 is invested by Mr. Chaman and hence the same would be a short-term capital loss to be carried forward by him.

Due to the use of the words “invested the entire amount in the stock market” in the question, it is possible to take a view that the entire capital loss of ₹ 5,10,000 has to be set off against long-term capital gains of ₹ 5,50,000 in the hands of Mrs. Chaman. In which case the total income of Mrs. Chaman would be ₹ 2,90,000 instead of ₹ 6,00,000. Also, there would be no short-term capital loss in the hands of Mr. Chaman.

Note 2:

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

Illustration 12 [RTP May 2022]

Mr. Samrat and his wife, Mrs. Komal, holds 12% voting power each in ABC (P) Ltd. Mr. Samrat and Mrs. Komal are working in ABC (P) Ltd. However, Mrs. Komal is not qualified for the job. From the following information given in respect of F.Y. 2024-25, you are required to compute the gross total income of Mr. Samrat and Mrs. Komal for the A.Y. 2025-26

- (i) Dividend of ₹ 22,500 and ₹ 45,000 is received by Mr. Samrat and Mrs. Komal, respectively, from ABC (P) Ltd. Mr. Samrat has instructed the company to pay 50% of his dividend to Ms. Kajal, daughter of his deceased brother.
- (ii) Salary earned by Mr. Samrat and Mrs. Komal from ABC (P) Ltd. is ₹ 8,50,000 and ₹ 5,50,000, respectively.
- (iii) Business income earned by Mr. Samrat from his sole proprietary business is ₹ 15,60,000
- (iv) Interest on fixed deposit earned by Mrs. Komal of ₹ 9,00,000.
- (v) Their son, Akash, aged 10 years having PAN, received interest of ₹ 54,000 from bank on a fixed deposit created by his grandfather in his name.

Solution**Computation of Gross Total Income of Mr. Samrat and Mrs. Komal for A.Y. 2025 -26**

Particulars	Mr. Samrat		Mrs. Komal	
	₹	₹	₹	₹
Salary of Samrat	8,50,000		[45,000/90 x 100]	-
Less: Standard deduction under section 16(ia)	50,000	8,00,000		-
Salary of Komal	5,50,000			-
Less: Standard deduction under section 16(ia)	50,000	5,00,000		-
[Salary earned by Mrs. Komal has to be included in the total income of Mr. Samrat, since he has substantial interest in the concern (i.e., having 24% voting power in ABC (P) Ltd., along with his wife) and Mrs. Komal does not have any professional qualification for the job.]				
Business Income		15,60,000		-
Dividend income from ABC (P) Ltd. [Taxable in the hands of Mr. Samrat as per section 60, since he transferred the income i.e., dividend without transferring the asset i.e., shares]	[22,500/90 x 100 x 2]	50,000		50,000
Interest on Fixed Deposit earned by Mrs. Komal		-		9,00,000
Total Income (before including minor's income)		29,10,000		9,50,000

Income of minor child to be included in Mr. Samrat's income, since his total income before including minor's income is higher than that of Mrs. Komal. [$\text{₹ } 54,000 / 90 \times 100$]	60,000			
Less: Exemption of ₹ 1,500 u/s 10(32) in respect of the income of each child so included.	1,500	58,500		
Gross Total Income		29,68,500		9,50,000

Illustration 13 [RTP Nov 2020]

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

Solution

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

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted.

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

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

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

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

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

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

Illustration 14 [RTP May 2020 & MTP Nov 2020 & MTP Nov 2021]

Rayaan gifted ₹ 15 lakhs to his wife, Sargam on her birthday on, 23rd February, 2024. Sargam lent ₹ 8,00,000 out of the gifted amount to Karuna on 1st April, 2024 for six months on which she received interest of ₹ 80,000. The said sum of ₹ 80,000 was invested in shares of a listed company on 5th October, 2024, which were sold for ₹ 96,000 on 28th March, 2025. Securities transactions tax was paid on purchase and sale of such shares. The balance amount of gift was invested on 1st April 2024, as capital by Sargam in her new business. She suffered loss of ₹ 52,000 in the business in Financial Year 2024-25.

In whose hands the above income and loss shall be included in Assessment Year 2025-26, assuming that capital invested in the business was entirely out of the funds gifted by her husband. Support your answer with brief reasons.

Solution

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

Interest on loan: Accordingly, ₹ 80,000, being the amount of interest on loan received by Mrs. Sargam, wife of Mr. Rayaan, would be includible in the total income of Mr. Rayaan, since such loan was given out of the sum of money received by her as gift from her husband.

Loss from business: As per Explanation 2 to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss and not income.

Thus, the entire loss of ₹ 52,000 from the business carried on by Mrs. Sargam would also be includible in the total income of Mr. Rayaan, since as on 1st April 2024, the capital invested was entirely out of the funds gifted by her husband.

Short-term capital gain: Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, short-term capital gain of ₹ 16,000 (₹ 96,000, being the sale consideration less ₹ 80,000, being the cost of acquisition) arising in the hands of Mrs. Sargam from sale of shares acquired by investing the interest income of ₹ 80,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in the hands of Mr. Rayaan. Thus, such income is taxable in the hands of Mrs. Sargam

Illustration 15 [MTP May 2022]

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

Particulars	₹
Income of minor son Raj from company deposit	1,60,000

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

Assume that Mr. Suresh does not opt for the provisions of section 115BAC and his income before considering clubbing provisions is higher than that of his wife.

Solution

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

Particulars	₹	₹	₹
Profits and gains from business and profession			
Income from profession		10,00,000	
Less: Loss from house property (can be set-off to the extent of ₹ 2,00,000, as per section 71(3A).		2,00,000	8,00,000
Capital gains			
Long term capital gains on sale of equity shares under section 112A		1,20,000	

Long term capital gain under section 112		3,00,000	
Less: Short term capital loss set off against long-term capital gain as per section 74		(4,20,000)	Nil
Income from other sources			
Income of minor son Raj			
Income from company deposit includible in the hands of Mr. Suresh as per section 64(1A)	1,60,000		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	1,58,500	
Income of minor daughter Rashmi			
- Income of ₹ 15,00,000 of minor daughter Rashmi (professional dancer) not includible in the hands of parent, since such income is earned on account of her special skills	Nil		
- Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible as per section 64(1A), since interest income arises out of deposit made and not on account of her special skills	15,000		
Less: Exemption in respect of income of minor child u/s 10(32)	Nil		
Total Income	1,500	13,500	1,72,000
			9,72,000

Losses to be carried forward to A.Y.2023-24

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

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

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

Illustration 16 [MTP Nov 2021]

Aggarwal & Sons, HUF purchased a house property in the year 1950 for ₹ 50,000. On 31.10.2024, the HUF was totally partitioned and the aforesaid house property was given to Mr. Subhash Aggarwal, a member of the family. Fair Market value of the house as on 31.10.2024 was ₹ 21,00,000. FMV of the house as on 1.4.2001 was ₹ 3,50,000. What will be the tax implications in the hands of Mr. Subhash Aggarwal and the HUF?

Solution

Tax implications in the hands of HUF

As per section 47, any distribution of capital assets on the total or partial partition of a HUF would not be regarded as transfer for the purpose of capital gains tax.

In this case, Aggarwal & Sons, HUF transferred the asset to Mr. Subhash Aggarwal, a member of HUF on total partition of the HUF. Hence, the transaction would not be regarded as transfer.

Tax implications in the hands of Mr. Subhash Aggarwal

If an immovable property is received by any person without consideration, the stamp duty value of such property would be taxed as the income of the recipient under section 56(2)(x), if it exceeds ₹ 50,000. However, it would not be taxable as income if the transfer is by way of a transfer, inter alia, on total or partial partition of a HUF. In the give case, since Mr. Subhash Aggarwal received the house property on total partition of the HUF, it would not be taxable in his hand.

Illustration 17 [MTP Nov 2023]

Mr. Dinesh who is 45 years old and his wife Mrs. Heena who is 42 years old furnished the following information:

S. No.	Particulars	Amount (₹)
(i)	Salary income (computed) of Mrs. Heena	9,60,000
(ii)	Income of minor son "Sameer" who suffers from disability specified in section 80U	3,08,000
(iii)	Income of minor daughter "Nisha" from script writing for Television Serials	1,86,000
(iv)	Income from garment trading business of Mr. Dinesh	17,50,000
(v)	Cash gift received by minor daughter "Nisha" on 02-10-2022 from friend of Mrs. Heena, on winning of a story writing competition	45,000

(vi)	Income of minor son "Harsh" from scholarship received from his school to meet the cost of education	1,00,000
(vii)	Income of minor son "Harsh" from fixed deposit with Punjab National Bank, made out of income earned from scholarship	5,000

Compute the total income of Mr. Dinesh and his wife Mrs. Heena for Assessment Year 2025 -26 assuming that they have not opted to be taxed under section 115BAC.

Solution

Computation of Total Income of Mr. Dinesh and Mrs. Heena for A.Y. 2025-26

Particulars		Mr. Dinesh	Mrs. Heena
		Amount (₹)	
Salary income (computed)			9,60,000
Income from garment trading business		17,50,000	
Total Income before including income of minor children		17,50,000	9,60,000
Income of minor son "Sameer"			
Income of ₹ 3,08,000 of minor son Sameer who suffers from disability specified in section 80U [Since minor child Sameer is suffering from disability specified under section 80U, hence, his income would not be included in the income of the parent but would be taxable in the hands of the minor child]		-	
Income of minor son "Harsh"			
Income of ₹ 1,00,000 from scholarship [Exempt u/s 10(16)]		-	
Income from fixed deposit with PNB [Since Mr. Dinesh's income is greater than that of Mrs. Heena, income of minor son Harsh from fixed deposit would be included in the hands of Mr. Dinesh. Interest from bank deposit has to be included in Mr. Dinesh's income, even if deposit is made out of income earned from scholarship]	5,000		
Less: Exemption under section 10(32)	1,500	3,500	
Income of minor daughter "Nisha"			
Income of ₹ 1,86,000 from script writing for television serials [Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of the parent] Hence, clubbing provisions will not apply in this case/no adjustment is required.		Nil	
Cash gifts of ₹ 45,000 received from friend of Mrs. Heena [Gift not exceeding ₹ 50,000 received from a non-relative is not taxable under section 56(2)(x)] Hence, clubbing provisions will not apply in this case / no adjustment is required.		Nil	
Gross Total Income/ Total Income		17,53,500	9,60,000

Illustration 18 [MTP May 2023]

Mr. Om has gifted a house property valued at ₹ 50 lakhs to his wife, Mrs. Uma, who in turn has gifted the same to Mrs. Pallavi, their daughter-in-law. The house was let out at ₹ 25,000 per month throughout the year. Compute the total income of Mr. Om and Mrs. Pallavi.

Will your answer be different if the said property was gifted to his son, husband of Mrs. Pallavi?

Solution

As per section 27(i), an individual who transfers otherwise than for adequate consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred.

Therefore, in this case, Mr. Om would be the deemed owner of the house property transferred to his wife Mrs. Uma without consideration.

As per section 64(1)(vi), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.

Income from let-out property is ₹ 2,10,000 [i.e., ₹ 3,00,000, being the actual rent calculated at ₹ 25,000 per month less ₹ 90,000, being deduction under section 24@30% of ₹ 3,00,000]

In this case, income of ₹ 2,10,000 from let-out property arising to Mrs. Pallavi, being Mr. Om's son's wife, would be included in the income of Mr. Om, applying the provisions of section 27(i) and section 64(1)(vi). Such income would, therefore, not be taxable in the hands of Mrs. Pallavi.

In case the property was gifted to Mr. Om's son, the clubbing provisions under section 64 would not apply, since the son is not a minor child. Therefore, the income of ₹ 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.

It may be noted that the provisions of section 56(2)(x) would not be attracted in the hands of the recipient of house property, since the receipt of property in each case was from a "relative" of such individual. Therefore, the stamp duty value of house property would not be chargeable to tax in the hands of the recipient of immovable property, even though the house property was received by her or him without consideration.

Note - The first part of the question can also be answered by applying the provisions of section 64(1)(vi) directly to include the income of ₹ 2,10,000 arising to Mrs. Pallavi in the hands of Mr. Om. [without first applying the provisions of section 27(i) to deem Mr. Om as the owner of the house property transferred to his wife Mrs. Uma without consideration], since section 64(1)(vi) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her husband's parent, without consideration. Gift of house property by Mr. Om to Mrs. Pallavi, via Mrs. Uma, can be viewed as an indirect transfer by Mr. Om to Mrs. Pallavi.

Illustration 19 [RTP May 2023]

Examine the tax implication of each transaction and compute the total income of Mr. Tushar and Mrs. Tushar and their minor son for the assessment year 2025-26, assuming they do not wish to opt for section 115BAC.

- (1) Mr. Tushar has a fixed deposit of ₹ 6,00,000 in State bank of India. He instructed the bank to credit the interest on the deposit @9% from 1st April, 2024 to 31st March, 2025 to the savings bank account of Mr. Raj, son of his brother, to help him in his education.
- (2) Mr. Tushar started a proprietary business on 1st May, 2024 with capital of ₹ 6,00,000. His wife, Mrs. Tushar, a software Engineer, gave cash of ₹ 5,00,000 on 1st May, 2024, which was immediately invested in the business by Mr. Tushar. He earned a profit of ₹ 4,00,000 during the previous year 2024-25.
- (3) Mr. Tushar's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.

Solution

Computation of total income of Mr. Tushar and Mrs. Tushar and minor son for the A.Y. 2025-26

Particulars	Amount (₹) Mr. Tushar	Amount (₹) Mrs. Tushar	Amount (₹) Minor Son
Interest on Mr. Tushar fixed Deposit with State bank of India (₹ 6,00,000 x 9%)	54,000		
As per section 60, in case there is a transfer of income without transfer of assets from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 54,000 transferred by Mr. Tushar to Mr. Raj shall be included in the total income of Mr. Tushar			
Profit for P.Y. 2024-25 to be apportioned on the basis of capital employed on the first day of previous year i.e. as on 1st May, 2024, since business started on 1.5.2024 (6:5)	2,18,182	1,81,818	
Share of income of Mr. Tushar [₹ 4,00,000 x 6/11] Share of Income of Mrs. Tushar [₹ 4,00,000 x 5/11] Section 64(1)(iv) of the Income-tax Act, 1961 provided for the clubbing of income in the hands of the individual, if the income earned is form the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.			

<p>Income of minor son through a business activity involving application his skill and talent.</p> <p>In case the income earned by minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.</p> <p>Therefore, the income of ₹ 20,000 derived by minor son through a business activity involving the application of his skill and talent shall not be clubbed in the hands of the parent. Such income will be taxable in the hands of the minor son.</p>			
Total Income	2,72,182	1,81,818	20,000

Set off and CF of losses

Illustration 01 [PYQ May 2014]

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the previous year 2024-25.

	₹
1. Income from Salary	15,000
2. Income from Business (before providing depreciation)	66,000
3. Long term capital gain on sale of Land	10,800
4. Loss on maintenance of Race Horses	15,000
5. Loss from Gambling	9,100
The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2025-26 are as follows:	

	₹
1. Unabsorbed depreciation	11,000
2. Loss from Speculative business	22,000
3. Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the Assessment Year 2025- 26 and the amount of loss, if any, that can be carried forward, or not.

Solution

Computation of Gross total Income of Mr Garg for the AY 2025-26

Particulars	₹	₹
Income from Salary (Assume computed)		15,000
Income from business	66,000	
Less: Unabsorbed depreciation	11,000	55,000
Long term capital gain on sale of land	10,800	
Less: b/f Short term capital loss	9,800	1,000
Gross Total Income		71,000

Notes:

1. Loss from speculative business of ₹ 22,000 relating to AY 2025 - 26 shall be c/f.
2. Loss from maintenance of race horses of ₹ 15,000 relating to AY 2025 - 26 shall be c/f.
3. Loss from gambling of ₹ 9,100 can neither be set off nor carried forward.

Illustration 02 [PYQ May 2016]

Mr. Aditya furnishes the following details for the year ended 31 -03-2025:

Particulars	Amount (₹)
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered under Section 35AD	20,000
Income from Salary	2,50,000
Loss from House Property	1,50,000
Income from trading business	45,000
Long-term Capital Gain from sale of urban land	2,00,000
Long-term Capital Loss on sale of shares (STT not paid)	75,000

Long-term Capital Loss on sale of listed shares in recognized stock exchange (STT Paid)	82,000
---	--------

Following are the brought forward losses:

1. Losses from owning and maintaining of race horses pertaining to A.Y. 2024-25 ₹ 2,000.
 2. Brought forward loss from trading business ₹ 5,000 relating to A.Y. 2021-22.
- Compute the total income of Mr. Aditya and show the items eligible for carry forward.

Solution

Assessee: Mr. Aditya Assessment year: 2025-2026

Previous year: 2024-2025

Computation of Total Income

Particulars	₹	₹	₹
Income from Salaries(Assume computed)			2,50,000
Income from House Property			(1,50,000)
Profit and Gains of Business or Profession Income from Speculative Business	5,000		
Less: Loss from Speculative Business	(5,000)	Nil	
Income from Trading Business	45,000		
Less: Brought forward loss from A.Y. 2021-22	(5,000)	40,000	40,000
Capital Gains:		2,00,000	
Long term Capital Gains on Sale of Land			
Long term Capital Loss on Sale of Shares (STT not paid)		(75,000)	1,25,000
Total Income			2,65,000

Note: Long Term Capital Loss on which STT is paid is not available for set off upto ₹ 1 Lacs from AY 2025-26.

Items Eligible for Carry Forward

Particulars	₹
1. Loss from owning Race Horses can be set off against Income from owning Race Horses till A.Y. 2028-29	2,000
2. Loss from Speculative Business shall be carried forward for 4 A.Y. and set off only against Income from Speculative Business. (25,000 - set off in the current year 5,000)	20,000
3. Loss from specified Business u/s 35AD can be carried forward for any number of years and set off only against Income from any specified Business	20,000
Total	42,000

Illustration 03 [PYQ May 2017]

Mr. Shyam, a resident of Chandigarh, provides the following information for the financial year 2024-25:

Particulars	₹
Income from Textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	12,000

Loss on maintenance of race horse	15,000
Eligible current year depreciation of textile business not adjusted in the income given above	5,000
Unabsorbed depreciation of Assessment year 2024-25 brought forward	10,000
Speculation business loss of Assessment year 2024-25	30,000

Compute the Gross Total Income of Mr. Shyam for the Assessment year 2025-26 and any other item of expense or loss eligible for carry forward.

Solution

Computation of Gross Total Income

Income under head PGBP		
Income from Textile Business	4,60,000	
(-) Current Year Depreciation	5,000	
(-) Unabsorbed Depreciation	10,000	4,45,000
Income from Speculation Business	25,000	
(-) Set off of loss	25,000	Nil
		4,45,000

Note:

1. Loss from Gambling cannot be set off.
2. Loss on maintenance of race horse shall be carried forward.
3. Brought forward speculation loss shall be adjusted from current year profit and balance carried forward.

Illustration 04 [PYQ Nov 2016]

Answer of the following.

Mr. Rakesh Gupta has derived the following income/loss, as computed below, for the previous year 2024-25:

Loss from let out house property	2,50,000
Loss from non-speculation business	3,20,000
Income from speculation business	12,45,000
Loss from specified business covered u/s 35 AD	4,10,000
Winnings from lotteries (Gross)	1,50,000
Winnings from beatings	90,000
Loss from card games	3,40,000

You are required to compute the total income of the assessee for the assessment year 2025-26, showing clearly the manner of set-off and the items eligible for carry forward. The return of income has been filed on 30-7-2025.

Solution

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

Particulars	₹	₹
Profits and gains of business or profession		
Income from speculation business	12,45,000	
Less: Set-off of loss from non-speculation business	3,20,000	
	9,25,000	

Less: Set-off of loss from house property, restricted to	2,00,000	7,25,000
Income from other sources		
Winnings from lotteries	1,50,000	
Winnings from bettings [See Note below]	90,000	2,40,000
Gross Total Income		9,65,000
Less: Deduction under Chapter VI-A		Nil
Total income		9,65,000

Losses to be carried forward to A.Y.2025-26

Particulars	₹
Loss from house property (₹ 2,50,000 - ₹ 2,00,000) As per section 71 (3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only. As per section 71 (BA), balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year	50,000
Loss from specified business covered by section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. As per section 73A(2), if loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. Since the return has been filed before the due date, such loss can be carried forward.	4,10,000
Loss from card games Loss from card games can neither be set off against any other income, nor can it be carried forward.	

Note: It has been assumed that the amount of ₹ 90,000 given in the question represents gross winnings from betting. Accordingly, the total income has been computed. However, in case ₹ 90,000 considered as net amount and grossed up the same, the gross winnings from betting would be ₹ 1,28,571 [₹ 90,000 x 100/70]. The total income would be ₹ 10,03,570 (rounded off).

Illustration 05 [PYQ Nov 2019]

Following are the details of incomes / losses of Mr. Rishi for the F.Y. 2024-25:

	₹
Taxable salary income (computed)	3,60,000
Taxable income from house property (computed)	
- from rented house property X	1,20,000
- from rented house property Y	(3,40,000)
Taxable profit from business (computed)	
- business P	2,30,000
- business Q	(12,000)
- business R (speculative business)	15,000
- business T (speculative business)	(25,000)
Taxable Income from other sources:	
- from card games	16,000
- from owning & maintenance of race horses	(7000)

- interest on securities	5,000
--------------------------	-------

You are required to determine the Gross total income of Mr. Rishi for Assessment Year 2025-26.

Solution

Computation of Gross total Income of Mr. Rishi for AY 2025-26

Particulars	Amount	Amount
Income from Salary (Computed)	3,60,000	
Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of Section 71 (3A)	2,00,000	1,60,000
Balance loss of ₹ 20,000 from house property to be carried forward to next assessment year		
Income from HP Computed		
Property X	1,20,000	
Property Y	(3,40,000)	
Loss from House Property	2,20,000	
Less: Set off from salary upto 2,00,000 And balance c/f to next AY	2,20,000	NIL
Income from Business (computed)		
Business P	2,30,000	
Business Q	(12,000)	
Income from business other than Speculation business		2,18,000
Speculation Business:		
Business R	15,000	
Business T	(25,000)	
Loss from speculation business	(10,000)	
Carry forward to next year since it can be set Off only from speculation income		
Income from other sources:		
Card Games	16,000	
Owning and maintaining horse race (7000) Owning and maintaining horse race loss set off only from income of Owning and maintaining horse race and hence carry forward		
Interest on securities	5,000	21,000
Gross Total Income		3,99,000

Illustration 06 [PYQ Nov 2020]

Ms. Pooja a resident individual provides the following information of her income/losses for the year ended on 31st March, 2025 :

S. No.	Particulars	(₹)
1	Income from salary (Computed)	2,20,000
2	Income from House Property (let out) (Net Annual Value)	1,50,000
3	Share of loss from firm in which she is partner	10,000
4	Loss from specified business covered under section 35 AD	20,000

5	Income from textile business before adjusting the following items:	3,00,000
	(i) Current year depreciation	60,000
	(ii) Unabsorbed depreciation of earlier year	2,25,000
	(iii) Brought forward loss of textile business of the A.Y. 2022-23	90,000
6	Long-term capital gain on sale of debentures	75,000
7	Long-term capital loss on sale of equity shares (STT not paid)	1,00,000
8	Long-term capital gain on sale of equity shares listed in recognized stock exchange (STT paid at the time of acquisition and sale)	1,50,000
9	Dividend from units of UTI	5,000

During the previous year 2024-25, Ms. Pooja has repaid ₹ 5,25,000 towards housing loan from a scheduled bank. Out of this ₹ 3,16,000 was towards payment of interest and rest towards principal.

Compute the gross total income of Ms. Pooja and ascertain the amount of loss that can be carried forward. Ms. Pooja has always filed her return within the due date specified under section 139(1) of the Income-tax Act, 1961.

Solution

Computation of income of Ms. Pooja for A.Y. 2025-26

Salary	2,20,000
Income from HP [1,50,000 (-) SD 45,000 (-) Interest 3,16,000]	(2,11,000)
Income from textile Business [3,00,000 (-) 60,000]	2,40,000
LTCG [75,000 (-) 1,00,000 +1,50,000]	1,25,000
Income from other Sources	5,000

	Salary	HP	Business Income	LTCG	Other Sources
Income	2,20,000	(2,11,000)	2,40,000	1,25,000	5,000
Less: House Property Loss	(2,00,000)	2,00,000	-	-	-
Balance	20,000	(11,000)	2,40,000	1,25,000	5,000
Less: B/F Business Loss	-	-	(90,000)	-	-
Balance	20,000	(11,000)	1,50,000	1,25,000	5,000
Less: B/F unadjusted depreciation (2,25,000)	-	-	(1,50,000)	(70,000)	(5,000)
Balance (total 75,000)	20,000	(11,000)	Nil	55,000	Nil

The following points should be noted:

- Share of loss from partnership firm cannot be set off and carried forward by partners. However, it can be carried forward by the partnership firm.
- Loss from specified business of ₹ 20,000 u/s 35AD cannot be adjusted against any other income. It can be carried forward by Ms. Pooja. In subsequent years, it can be adjusted only against income from specified business under specified 35AD. There is no time limit for this purpose.
- Loss of the current year under the head “Income from house property” can be set off against any other income of the current year only to the extent of ₹ 2,00,000. In

the given problem loss in excess of ₹ 2,00,000 i.e. ₹ 11,000 cannot be adjusted against any other income of the current year. However, it can be carried forward to the next year.

Illustration 07 [PYQ July 2021]

Mr. X a resident individual submits the following information, relevant to the previous year ending March 31, 2025:

	Particulars	Amount (₹)
(i)	Income from Salary (Computed)	2,22,000
(ii)	Income from House Property	
	- House in Delhi	22,000
	- House in Chennai	(-) 2,60,000
	- House in Mumbai (self occupied)	(-) 20,000
(iii)	Profit and gains from business or profession	
	- Textile business	18,000
	- Cosmetics business	(-) 22,000
	- Speculative business-1	(-) 74,000
	- Speculative business-2	46,000
(iv)	Capital gains	
	Short term capital loss from sale of property	(-) 16,000
	Long term capital gains from sale of property	15,400
(v)	Income from other sources (Computed)	
	- Income from betting	34,000
	- Income from Card games	46,000
	- Loss on maintenance of race horses	(-) 14,600

Determine the gross total income of Mr. X for the assessment year 2025-26 and the losses to be carried forward assuming that he does not opt to be taxed under section 115BAC.

Solution

Computation of Gross Total Income of Mr. X for A.Y. 2025-26:

Particulars	Amount	Amount
Salaries		
Income from salary (computed)	2,22,000	
Less: Set-off of loss from house property of ₹ 2,58,000 to the extent of ₹ 2 lakhs by virtue of section 71 (3A)	2,00,000	22,000
Income from house property		
— House in Delhi	22,000	
— House in Chennai	(2,60,000)	
— House in Mumbai (self-occupied)	(20,000)	
	(2,58,000)	
Loss upto ₹ 2 lakhs can be set off against income from salary.		
Balance loss of ₹ 58,000 from house property has to be carried forward to A.Y. 2026-27.		
Profits and gains from business or profession		

Profits from Speculative business - 2	46,000	
Less: Loss of ₹ 74,000 from speculation -1 set off to the extent of profits of ₹ 46,000 as per section 73(1) from another speculation business. Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business.	(46,000)	
Hence, the balance loss of ₹ 28,000 from speculative business has to be carried forward to A.Y. 2026-27.		
Profits from textile business	18,000	
Less: Loss from cosmetic business of ₹ 22,000 set off against profits from textile business to the extent of ₹ 18,000 as per section 70(1).	(18,000)	
Balance loss of ₹ 4,000 from cosmetic business has to be carried forward to A.Y.2025-26, since the same cannot be set-off against salary income.		
Capital Gains		
Long term capital gain from sale of property	15,400	
Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains. Short term capital loss of ₹ 16,000 set off against long term capital gains to the extent of ₹ 15,400 as per section 74(1).	(15,400)	
Balance short term capital loss of ₹ 600 has to be carry forward to A.Y.2026-27		
Income from Other Sources		
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	
Loss on activity of owning and maintenance of race horses [Loss incurred on activity of owning and maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Hence, such loss of ₹ 14,600 has to be carried forward to A.Y.2026-27]	NIL	80,000
Gross Total Income		1,02,000

Illustration 08 [PYQ May 2022]

Mr. Harsh furnishes the following details for the year ended on 31.03.2025:

Particulars	Amount ₹
Salary received from partnership firm (the same was allowed to the firm)	8,50,000
Loss on sale of shares listed in stock exchange held for 18 months and the STT paid on the sale and acquisition	6,00,000
Long term capital gain on sale of land	5,00,000
Brought forward business loss of assessment year 2017-18	6,00,000
Loss of the specified business covered in Section 35AD	3,50,000

Loss from house property	2,50,000
Income from betting (gross)	50,000
Loss from card games	35,000

Compute the total income and show the item eligible for carry forward of Mr. Harsh for the assessment year 2025-26.

Solution

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

Particulars	₹	₹
Profits and gains from business and profession		
Salary received from partnership firm (would be fully taxable in the hands of Mr. Harsh as business income, since the same was allowed to the firm as deduction)	8,50,000	
Less: Loss from house property ₹ 2,50,000 (can be set-off against income from any other head only to the extent of ₹ 2 lakh)	2,00,000	
	6,50,000	
Less: Set-off of brought forward business loss of A.Y. 2017-18 (since the eight year time period for set-off has not expired)	6,00,000	50,000
Capital Gains		
Long-term capital gain on sale of land	5,00,000	
Less: Set-off of long-term capital losses (since held for 18 months i.e., more than 12 months) on sale of STT paid listed shares [Such set-off is permissible since it is a loss from a source of income taxable u/s 112A]	5,00,000	
Income from Other Sources		
Income from betting (gross)		50,000
[No Loss can be set off against income from betting]		
Loss of ₹ 35,000 from card games can neither be set-off nor be carried forward		-
Total Income		1,00,000
Losses to be carried forward to A.Y. 2025-26		₹
Loss from house property (₹ 2,50,000 - 2,00,000)		50,000
Loss from specified business covered u/s 35AD [Entire loss is to be carried forward, since there is no income from any specified business for A.Y.2025-26. Such loss has to be carried forward for set-off against income from any specified business in A.Y.2026-27]		3,50,000
Long-term capital loss on sale of listed shares (STT paid) [₹ 6,00,000 - 5,00,000]		1,00,000

Illustration 09 [PYQ Nov 2022]

Compute the gross total income of Mr. Prakhar for A.Y. 2025-26 and the losses to be carried forward, from the information given below: it

(i)	Income from House Property (computed)	₹ 3,60,000
-----	---------------------------------------	------------

(ii)	Short term capital loss on shares of a company	₹ (-) 18,700
(iii)	Long term capital gain on sale of agricultural land	₹ 6,000
(iv)	Income from rubber business (plants grown by Mr. Prakhar)	₹ 80,000
(v)	Loss from garment business b/f - discontinued in F.Y. 2022-23	₹ (-) 70,000
(vi)	Loss from betting	₹ (-) 5,500
(vii)	Income from lotteries (net)	₹ 5,460

Solution**Computation of gross total income of Mr. Prakhar for the A.Y.2025 -26:**

Particulars	₹	₹
Income from house property (computed)		3,60,000
Profits and gains from business and profession		
Income from rubber business [35% of income from manufacture of rubber is business income [80,000 x 35%] and the balance 65% would be agricultural income	28,000	
Less: Brought forward loss of ₹ 70,000 from garment business set-off to the extent of ₹ 28,000, set-off is permissible even if the business is discontinued	28,000	Nil
Capital Gains		
Long-term capital gain on sale of agricultural land (Exempt, assuming that the same is rural agricultural land)		—
Income from Other Sources		
Income from lotteries (₹ 5,460 x 100/70)		7,800
Note: Tax @30% has to be deducted on winnings from lotteries u/s 194B only if the amount of payment exceeds ₹ 10,000. However, in the question, winnings from lotteries is only ₹ 5,460 and the word “net” is given in the bracket. Since, the word “net” is written in the bracket in question, main solution is given based on the view that tax has been deducted on income from lotteries @30% and accordingly, the lottery income is grossed up. However, since no tax is deductible u/s 194B where lottery income does not exceed ₹ 10,000, the question can be answered without grossing up the lottery income of ₹ 5,460. In such a case, gross total income would be ₹ 3,65,460.		
Gross Total Income		3,67,800
Losses to be carried forward to A.Y.2026-27		
Loss from garment business pertaining to P.Y. 2022-23 (₹ 70,000 - ₹ 28,000)		42,000
Short term capital loss on shares of a company of A.Y. 2025-26		18,700
Loss of ₹ 5,500 from betting can neither be set-off nor be - carried forward.		—

Note: In the question, long term capital gain on sale of agricultural land is given as ₹ 6,000. However, it is not mentioned as to whether the same is rural agricultural land or urban agricultural land. The main solution given above is based on the assumption that

it is rural agricultural land. An alternate solution has been given below based on the assumption that it is urban agricultural land.

Alternate Answer:

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

Particulars	₹	₹
Income from house property (computed)		3,60,000
Profits and gains from business and profession		
Income from rubber business [35% of income from manufacture of rubber is business income [80,000 x 35%] and the balance 65% would be agricultural income	28,000	
Less: Brought forward loss of ₹ 70,000 from garment business set-off to the extent of ₹ 28,000, set-off is permissible even if the business is discontinued	28,000	Nil
Capital Gains		
Long-term capital gain on sale of agricultural land, assuming that the same is urban agricultural land)	6,000	—
Less: Set-off of Short-term capital loss of ₹ 18,700 against long-term capital gains to the extent of ₹ 6,000 by virtue of section 74(1)	6,000	Nil
Income from Other Sources		
Income from lotteries (₹ 5,460 x 100/70)		7,800
Note: Tax @30% has to be deducted on winnings from lotteries u/s 194B only if the amount of payment exceeds ₹ 10,000. However, in the question, winnings from lotteries is only ₹ 5,460 and the word “net” is given in the bracket. Since, the word “net” is written in the bracket in question, main solution is given based on the view that tax has been deducted on income from lotteries @30% and accordingly, the lottery income is grossed up. However, since no tax is deductible u/s 194B where lottery income does not exceed ₹ 10,000, the question can be answered without grossing up the lottery income of ₹ 5,460. In such a case, gross total income would be ₹ 3,65,460.		
Gross Total Income		3,67,800
Losses to be carried forward to A.Y.2025-26		₹
Loss from garment business pertaining to P.Y. 2022 -23(₹ 70,000 - ₹ 28,000)		42,000
Short term capital loss on shares of a company of A.Y. 2025-26 (₹ 18,700 - ₹ 6,000)		12,700
Loss of ₹ 5,500 from betting can neither be set-off nor be - carried forward.		—

Illustration 10 [RTP Jan 2025]

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

Particulars	Amount (₹)
-------------	------------

Income from Salary (Computed)	27,40,000
Long term capital loss on sale of shares of Reliance Ltd. STT has been paid both at the time of acquisition and sale	(1,25,000)
Income from let out property in Kanpur	5,50,000
Loss from let out property in Delhi	(3,75,000)
Interest on self-acquired property in Mumbai	(1,50,000)
Net winnings from online games (Net of TDS)	35,000
Profit and gains from manufacturing business (after deducting normal depreciation of ₹ 2,00,000 and additional depreciation of ₹ 50,000)	36,86,000

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

Particulars	Amount
Business loss from manufacturing business	(5,35,000)
Unabsorbed normal depreciation	(2,10,000)
Loss from the activity of owning and maintaining the race horses	(1,50,000)
Loss from let out property in Delhi	(2,10,000)

Mr. Mayank filed his return of income for A.Y. 2024-25 on 28.7.2024 and opted for section 115BAC. Compute the Gross total income of Mr. Mayank for the A.Y. 2025-26 and the amount of loss, if any, that can be carried forward if he wants to continue with the provisions under section 115BAC.

Solution

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

Particulars	Amount (₹)	Amount (₹)
Income from Salary (Computed)		27,40,000
Income from house property		
Income from let out property in Kanpur	5,50,000	
Less: Set off of loss from let out property in Delhi	(3,75,000)	
Less: Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Mayank is paying tax under section 115BAC]	-	

Less: Loss from let out property in Delhi of A.Y. 2024-25 cannot be set off against income from house property of A.Y. 2025-26 since Mr. Mayank has paid tax under section 115BAC during the A.Y. 2024-25 and no deduction in respect of loss of house property of that year will be allowed in any subsequent year.	-	
PGBP		1,75,000
Profits from manufacturing business	36,86,000	
Add: Additional depreciation not allowable in case of section 115BAC	50,000	
	37,36,000	

Less: Brought forward business loss of A.Y. 2024-25	(5,35,000)	
Less: Unabsorbed normal depreciation	(2,10,000)	29,91,000
Capital Gains		
Long term capital loss on sale of shares of Reliance Ltd. on which STT has been paid can be set off only against long term capital gains. Hence, it has to be carried forward	(1,25,000)	-
Income from Other Sources		
Net winnings from online games [₹ 35,000/70%]		50,000
Gross Total Income		59,56,000

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

Particulars	Amount
Brought forward loss from the activity of owning and maintaining the race horses of A.Y. 2024-25 can be set off only against the income from the activity of owning and maintaining race horses. Hence, it has to be carried forward.	1,50,000
Long term capital loss on sale of shares of Reliance Ltd. on which STT has been paid	1,25,000

Illustration 11 [RTP Sep 2024]

Karan, a resident aged 50 years, furnishes the following information for the year ended on 31-03-2025:

Particulars	Amount (₹)
Salary (Gross)	2,75,000
Income from let out house property	(2,85,000)
Interest on loan paid for self-occupied house property	1,20,000
Income from sale of rubber products from rubber plants	2,00,000
Business income - Retail business	1,20,000
Business income - wholesale business	(1,00,000)
Brought forward business loss (A.Y. 2024-25)	(1,35,000)
Dividend received from ABC Ltd., an Indian company carrying on agricultural operations	13,500
Long term capital gain from sale of listed equity shares (STT paid on sale and purchase of shares)	2,00,000
Short-term capital gains on sale of shares	(1,10,000)
Lottery winnings (gross)	45,000
Contribution to provident fund and NSC	1,50,000
Income of minor son Raju from special talent	1,50,000
Interest from Bank received by Raju on deposit made out of his special talent	10,000

Compute Karan's total income under the default tax regime under section 115BAC for the A.Y. 2025-26 assuming his wife does not earn any income.

Solution

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

Particulars	₹	₹
Salary		2,25,000
Gross salary	2,75,000	
Less: Standard deduction under section 16(ia)	50,000	

Income from house property		
Interest on loan paid for self occupied property [Not allowable under section 115BAC]	-	
Loss from let out house property	2,85,000	
[Loss from house property is not allowed to be set off against income under any other head while computing income under section 115BAC.]	2,85,000	
PGBP		
Income from sale of rubber products from rubber plants [₹ 70,000 (35% of ₹ 2,00,000) is business income and ₹ 1,30,000 (65% of ₹ 2,00,000) is agricultural income which is exempt from tax]	70,000	
Business Income- Retail business	1,20,000	
	1,90,000	
Less: Set-off of wholesale business loss of ₹ 1,00,000	1,00,000	
	90,000	
Less: Set-off of brought forward business loss of ₹ 1,35,000 of A.Y.2024-25 allowable to the extent of ₹ 90,000 by virtue of section 72(1)	90,000	Nil
[Balance brought forward business loss of ₹45,000 (i.e., ₹ 1,35,000 – ₹ 90,000) to be carry forward to A.Y. 2026-27 for set-off against business income of that year]		
Capital Gains		
Long-term capital gain on sale of listed equity shares on which STT is paid	2,00,000	
Less: Set-off of short term capital loss of ₹ 1,10,000	1,10,000	90,000

Income from Other Sources		70,000
Dividend from Indian companies [13,500/90 x 100]	15,000	
Lottery winnings	45,000	
Income of minor son from special talent [Not included in Karan's income since it is earned from special talent]	-	
Interest from bank received by minor son on deposit made out of his income from special talent [Includible in the income of Mr. Karan, since Mrs. Karan does not earn any income]	10,000	
Less: Exemption under section 10(32) [Not allowable under section 115BAC]	-	
Gross Total Income		3,85,000
Less: Deduction under section 80C [Not allowable under section 115BAC]		-

Total Income		3,85,000
--------------	--	----------

Illustration 12 [PYQ May 2024]

Mr. Joshi, resident Indian, aged about 58 years, furnished the following details of his income for the previous year 2024-25:

- (i) Income from House property (computed) ₹ 2,00,000.
- (ii) Income from Proprietary Business ₹ 3,00,000.
- (iii) Short Term Capital Gain on sale of Land ₹ 2,00,000.
- (iv) Short Term Capital loss on sale of equity shares listed in recognized stock exchange (STT paid) ₹ 75,000.
- (v) Interest on Bank fixed deposit ₹ 50,000 received by his son, aged 21 years, out of money gifted by Mr. Joshi in 2023.
- (vi) Loss from Speculation Business ₹ 40,000.
- (vii) Loss from Owning and Maintenance of Race Horses ₹ 50,000. Following are the brought forward losses:
 - a) Brought forward House property loss of assessment year 2022 -23 ₹ 2,50,000.
 - b) Brought forward business loss of Proprietary business from assessment year 2014-15 ₹ 50,000.
 - c) Unabsorbed Depreciation relating to assessment year 2015 -16 ₹ 1,00,000.
 - d) Brought forward Long Term Capital Loss from assessment year 2019-20 ₹ 90,000. Return of income for that year was filed on 31.01.2020, after due date of filing the return.

Compute the total income of Mr. Joshi for the assessment year 2025 -26 and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under Section 115BAC(1A)

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

Particulars	₹	
Income from house property	2,00,000	
Less: Set-off of brought forward loss from house property of A.Y. 2022-23 is allowed, since 8 years period not yet lapsed	2,00,000	Nil
Profits and gains from business or profession		
Income from proprietary business	3,00,000	
Less: Set off of brought forward business loss of A.Y. 2014-15 not allowable as 8 years' time has already lapsed in the A.Y. 2022-23	Nil	
Less: Set off of unabsorbed depreciation of A.Y. 2015-16	1,00,000	2,00,000

[Note – Alternatively, unabsorbed depreciation can be set-off against short-term capital gains]		
Capital Gains		
Short-term capital gain on sale of land	2,00,000	
Less: Set-off of short-term capital loss on sale of listed equity shares	75,000	1,25,000

Brought forward long-term capital loss is not allowed to be carried forward and set-off, since return of income for the A.Y. 2019-20 was filed after the due date of filing return of income.		
Income from Other Sources		
Interest on fixed deposit not includible in the hands of Mr. Joshi since his son is major		Nil
Gross Total Income		3,25,000
Less: Deduction under Chapter VI-A		Nil
Total Income		3,25,000

Items eligible for carried forward	
(i)	Loss from speculation business of ₹ 40,000 can be set-off against income from speculation business only. Hence, such loss would be carried forward to subsequent assessment year.
(ii)	Loss from owning and maintenance of race horses ₹ 50,000, can be set-off against income from income from owning and maintenance of race horses only. Thus, such loss would be carried forward to subsequent assessment year.
(iii)	Brought forward loss from house property can be set off only against income of house property. Hence, remaining loss of ₹ 50,000 has to be carried forward to subsequent assessment year.

Illustration 13 [RTP May 2023]

Mr. Ram, a resident Individual aged 65 years, submits the following details of his income for the assessment year 2025-26:

Particulars	₹
Loss from speculative business A	30,000
Income from speculative business B	1,50,000
Loss from specified business covered under section 35AD	20,000
Income from Salary (computed)	2,00,000
Loss from let out house property	1,90,000
Loss from cloth business	80,000
Long-term capital gain from sale of urban land	3,00,000
Long-term capital loss on sale of shares (STT not paid)	1,00,000
Long-term capital loss on sale of listed shares in recognized stock	1,50,000
exchange (STT paid at the time of acquisition and sale of shares)	
Income from betting (Gross)	80,000
Loss from gambling	8,000
Interest on saving bank deposits	12,000
Interest on fixed deposits with banks	40,000

Compute the total income of Mr. Ram and show the items eligible for carry forward, assuming that he does not opt for the provisions of section 115BAC.

Solution

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

Particulars	Amount (₹)	Amount (₹)
Salaries		
Income from Salary	2,00,000	
Less: Loss from house property set-off against salary	1,90,000	
		10,000
Profits and gains from business or profession		
Income from speculative business B	1,50,000	
Less: Loss of ₹ 30,000 from speculative business A	30,000	
Less: Loss from cloth business [Loss from non-speculative business can be set off against profits from speculative business]	80,000	
		40,000
Capital Gains		
Long-term capital gain from sale of urban land	3,00,000	
Less: Long-term capital loss on sale of shares (STT not paid)	1,00,000	
Less: Long-term capital loss on sale of listed shares in recognizes stock exchange (STT paid at the time of acquisition and sale of shares)	1,50,000	
		50,000

Income from Other Sources		
Income from betting	80,000	
Interest on savings bank deposits	12,000	
Interest on fixed deposits with banks	40,000	1,32,000
Gross Total Income		2,32,000
Less: Deduction under section 80TTB (Maximum being ₹ 50,000, since Mr. Ram is a senior citizen)		50,000
Total Income		1,82,000

Notes:

- a) Loss from specified business covered under section 35AD can be set off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss of ₹ 20,000 has to be carried forward for set-off against profits and gains of any specified business in the following year.
- b) Loss from gambling can neither be set off against any other income, nor can be carried forward

Illustration 14 [RTP Nov 2022]

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

Particulars	Amount (₹)
Income from tea business	5,00,000
Losses from sugar business	4,00,000

Dividend from Indian company carrying on agricultural operations (gross)	1,00,000
Agricultural income	55,000
Salary received as a partner from a partnership firm. The same was allowed to the firm.	4,50,000
Net annual value of house property	4,20,000
Loss from gambling	1,00,000
Short term capital gains on sale of land	75,000
Loss on sale of shares listed in BSE. Shares were held for 15 months and STT paid on sale and acquisition	3,00,000
Life insurance premium paid (10% of the capital sum assured)	80,000
Bank interest on Fixed deposit (gross)	55,000
Interest on saving bank account	13,000

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

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

Compute the total income of Mr. Kabir for the Assessment Year 2025-26 and the amount of loss, if any, that can be carried forward, if he does not opt for section 115BAC.

Solution

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

Particulars	Amount (₹)	Amount (₹)
Income from house property		
Net annual value	4,20,000	
Less: Deduction under section 24 (30% of ₹ 4,20,000)	1,26,000	
Less: Brought forward loss of ₹ 3 lakhs from house property set off to the extent of ₹ 2,94,000	2,94,000	
	2,94,000	-
Profit and gains from business or profession		
Income from tea business (40% is business income)	2,00,000	
Salary received as partner from a partnership firm is taxable under the head "Profits and gains from business or profession"	4,50,000	
	6,50,000	
Less: Losses from sugar business	4,00,000	
	2,50,000	
Less: Brought forward business loss from sugar business	1,00,000	1,50,000
Capital Gains		
Short term capital gains on sale of land	75,000	
Less: Brought forward short term capital loss	45,000	30,000
Income from Other Sources		
Dividend from Indian company	1,00,000	
Agricultural income (exempt)	-	

Bank interest on Fixed deposit	55,000	
Interest on saving bank account	13,000	1,68,000
Gross Total Income		3,48,000
Less: Deduction under section 80C (life insurance premium paid)	80,000	
Less: Interest on saving bank account under section 80TTA, to the extent of	10,000	90,000
Total Income		2,58,000

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

Particulars	Amount (₹)
Loss from house property of A.Y. 2021-22	6,000
Loss from maintenance of race horses of A.Y. 2021-22	60,000
Long term capital loss on sale of STT paid listed shares	3,00,000

Notes –

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

Illustration 15 [RTP May 2022]

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

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

The other details of brought forward losses and unabsorbed depreciation pertaining to

A.Y. 2024-25 are as follow:

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

Compute the Gross total income of Mr. Rajesh for the Assessment Year 2025-26 and the amount of loss, if any, that can be carried forward if he wants to opt for the provisions of section 115BAC for the first time.

Solution

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

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

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

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

Notes -

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

Illustration 16 [RTP Nov 2021]

Ms. Aarti, a resident individual, provides the following information of her income/losses for the year ended on 31st March, 2025:

S. No.	Particulars	(₹)
1.	Income from salary (Computed)	8,20,000
2.	Income from house property (let out) (Net Annual Value)	1,20,000
3.	Share of profit from firm in which she is partner	48,000
4.	Loss from specified business covered under section 35AD	67,000
5.	Income from textile business before adjusting the following items:	3,30,000
	a) Current year depreciation	53,000
	b) Unabsorbed depreciation of earlier year	1,85,000
	c) Brought forward loss of textile business of the A.Y. 2022-23	1,90,000
6.	Long-term capital gain on sale of debentures (unlisted)	1,50,000
7.	Long-term capital loss on sale of equity shares (STT not paid)	1,50,000
8.	Long-term capital gain on sale of equity shares listed in recognized stock exchange (STT paid at the time of acquisition and sale)	2,50,000
9.	Dividend from units of UTI	1,15,000
10.	Repayment towards housing loan taken from a scheduled bank. Out of this ₹ 3,28,000 was towards payment of interest and rest towards principal.	4,85,000

Compute the Gross Total Income of Ms. Aarti and ascertain the amount of loss that can be carried forward. Ms. Aarti has always filed her return within the due date specified under section 139(1) of the Income-tax Act, 1961. She does not want to opt for 115BAC.

Solution**Computation of gross total income of Ms. Aarti for the A.Y.2025-26**

Particulars	₹	₹
Salary Income (computed)	8,20,000	6,20,000
Less: As per section 71(3A), loss from house property of ₹ 2,44,000 can be set-off, to the extent of	2,00,000	
Income from House Property		
Net Annual Value of House Property	1,20,000	
Less: Deduction u/s 24		
(a) 30% of NAV	36,000	
(b) Interest on housing loan	3,28,000	
	3,64,000	
Loss from house property	(2,44,000)	

Less: Loss eligible for set-off against salary income restricted to	2,00,000	
Loss to be carried forward to A.Y. 2026-27 for set-off against income from house property, if any, in that year.	(44,000)	
Profits and gains of business or profession		
Share of profit from firm [Exempt u/s 10(2A)]	-	
Loss from specified business u/s 35AD ₹ 67,000 [can be set-off only against income from any specified business. Hence, it has to be carried forward to A.Y.2026-27]	-	
Income from textile business	3,30,000	
Less: Current year depreciation	53,000	
	2,77,000	
Less: Brought forward loss of textile business	1,90,000	
Less: Set-off of unabsorbed depreciation to the extent of ₹ 87,000 against business income	87,000	
	87,000	Nil
Capital Gains		
Long-term capital gains on sale of listed equity shares (STT paid)	2,50,000	
Less: Balance unabsorbed depreciation of ₹ 98,000 set-off	98,000	
Long-term capital gains on sale of listed equity shares [No tax is payable u/s 112A, since the amount does not exceed ₹ 1,00,000]	1,52,000	1,52,000
Long-term capital gains on sale of debentures	1,50,000	
Less: Set-off of Long-term capital loss on sale of equity shares (STT not paid)	1,50,000	Nil
Income from Other Sources		
Dividend from units of UTI [Taxable in the hands of the unitholders]		1,15,000
Gross Total Income		8,87,000

Losses to be carried forward to A.Y.2026-27		₹
(i)	Losses from specified business [can be carried forward indefinitely for set-off against income from any specified business]	67,000
(ii)	Loss from house property [can be carried forward upto 8 successive assessment years for set-off against income from house property]	44,000

Illustration 17 [RTP May 2021]

Mr. Prakash furnishes the following information for the financial year 2024-25.

Particulars	₹
Loss from speculation business-X	85,000
Profit from speculation business-Y	45,000
Interest on borrowings in respect of self-occupied house property	3,18,000
Income from let out house property	1,20,000
Presumptive Income from trading and manufacturing business under section 44AD	1,00,000
Salary from XYZ (P) Ltd.	5,25,000

Interest on PPF deposit	65,000
Long term capital gain on sale of Vacant site	1,25,000
Short term capital loss on sale of Jewellery	65,000
Investment in tax saver deposit on 31-03-25	60,000
Brought forward loss of business of assessment year 2019-20	1,00,000
Donation to a charitable trust recognized under section 12AA and approved under section 80G (payment made via credit card)	60,000

Compute total income of Mr. Prakash for the assessment year 2025-26 also show the loss, eligible to be carried forward. Assume that he does not opt for section 115BAC.

Solution

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

Particulars	₹	₹
Salary from XYZ (P) Ltd.	5,25,000	
Less: Standard Deduction u/s 16(ia)	50,000	
	4,75,000	
Less: Loss from house property of ₹ 20,000 [₹ 80,000 - ₹ 60,000, being the loss set-off against long-term capital gains]	20,000	4,55,000
Income from house property		
Income from let out house property	1,20,000	
Less: Loss from self-occupied house property to the extent of ₹ 2 lakhs, allowable as deduction u/s 24(b) in respect of interest on borrowings	2,00,000	
	(80,000)	
Less: Amount set-off against other heads of income	(80,000)	
Profits and gains from business or profession		
Profit from speculation business Y	45,000	
Less: Loss of ₹ 85,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(45,000)	
Presumptive Income from trading and manufacturing business	1,00,000	Nil

Less: Brought forward business loss of A.Y. 2019-20 set-off since the period of eight assessment years has not expired	(1,00,000)	Nil
Capital Gains		
Long term capital gain on sale of vacant site	1,25,000	
Less: Short term capital loss on sale of jewellery	65,000	
Less: Loss from house property to be set-off to the extent of LTCG	60,000	
	60,000	Nil
Income from Other Sources		
Interest on PPF deposit	65,000	
Less: Exempt	65,000	Nil
Gross Total Income		4,55,000
Less: Deduction under Chapter VI-A		

Deduction under section 80C		
Investment in tax saver deposit on 31.3.2025	60,000	
Deduction under section 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 60,000 to be first restricted to ₹ 39,500, being 10% of adjusted total income of ₹ 3,95,000 (₹ 4,55,000 – ₹ 60,000). Thereafter, deduction would be computed at 50% of ₹ 39,500.]	19,750	79,750
Total Income		3,75,250

Losses to be carried forward to A.Y.2025-26	
Particulars	₹
Loss from speculation business X (₹ 85,000 - ₹ 45,000) Loss from speculation business can be set-off only against profits of any other speculation business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from speculation business, if any, in that year.	40,000

Illustration 18 [RTP Nov 2020]

Mr. Krishan, residing in Indore, provides the following information for the financial year 2024-25:

Particulars	₹
Income from textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	12,000
Loss on maintenance of race horse	15,000
Current year depreciation of textile business not adjusted in the income given above.	5,000
Unabsorbed depreciation of assessment year 2023-24	10,000
Speculation business loss of assessment year 2024-25	30,000

Compute the Gross Total Income of Mr. Krishan for the Assessment year 2025-26 and also state the losses eligible for carry forward and period upto which such losses can be carried forward.

Solution

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

Particulars	₹	₹
Profits and gains of business or profession		
Income from Textile business	4,60,000	
Less: Current year depreciation allowable under section 32(1)	5,000	
	4,55,000	

Less: Unabsorbed depreciation brought forward from A.Y.2023-24 as per section 32(2)	10,000	4,45,000
Income from speculation business		

Current year income from speculation business	25,000	
Less: Speculation business loss for A.Y. 2024-25 set-off as per the provisions of section 73(2)	30,000	
Speculation business loss to be carried forward	(5,000)	Nil
Gross Total Income		4,45,000

Losses eligible for carry forward to A.Y.2026-27

	Particulars	₹
(1)	<p>Loss from speculation business to be carried forward as per section 73</p> <p>Loss from speculation business can be set off only against income from another speculation business. The remaining loss from speculation business can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y.2028-29</p>	5,000
(2)	<p>Loss on maintenance of race horses to be carried forward as per section 74A(3)</p> <p>Loss on maintenance of race horses can be set-off only against income from the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y. 2029-30</p>	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	