



PAPER – 3: TAXATION

SECTION A: INCOME TAX LAW

The Income-tax law, as amended by the Finance (No. 2) Act, 2024, including significant notifications/ circulars issued upto 30th June, 2025, is applicable for January, 2026 examination. The relevant assessment year for January, 2026 examination is A.Y.2025-26. The October, 2024 edition of the Study Material is based on the provisions of Income-tax law as amended by the Finance (No. 2) Act, 2024 and significant notifications/circulars issued upto 30.09.2024. The said study material has to be read along with the Statutory Update containing notifications and circulars issued upto 30.06.2025 but not covered in the study material webhosted at <https://resource.cdn.icai.org/87604bos-aps2049-int-p3a-su-jan2026.pdf>.



QUESTIONS

Case Scenario

Mr. Vivek Malhotra, an Indian resident, has four residential properties in India. Two of them are in Delhi, of which one is self-occupied and second is let out for monthly rent of ₹ 1,40,000 to Mr. Sushil, a salaried individual. The other two properties are in Mumbai. To reduce his tax liability, he gifted one of the residential house properties in Mumbai to his wife, Mrs. Anika and second one to his minor daughter, Ms. Pooja, without adequate consideration in April 2024. Expected monthly rent of self-occupied property in Delhi is ₹ 50,000 and expected monthly rent of property in Mumbai is ₹ 75,000 each. He paid municipal taxes amounting to ₹ 1,20,000 for let out property.

In addition, Vivek sold a plot of land in Bengaluru on 19.12.2024 for ₹ 49 lakhs for which he has paid 1% as brokerage on sale consideration. The stamp duty value on the date of sale was ₹ 55 lakhs. This plot of land was purchased by him in 1992 for ₹ 3 lakhs. The fair market value and stamp duty value of this plot of land as on 1st April 2001 were ₹ 7.2 lakhs and ₹ 7 lakhs, respectively. Mr. Vivek invested ₹ 12 lakhs in RECL bonds on 15.07.2025.

Further, he has taken life insurance policy "A" on 15.05.2023 and policy "B" on 1.7.2023 for 10 years with a sum assured of ₹ 35 lakhs and ₹ 25 lakhs, respectively. The annual premium payable on this policy is ₹ 3.5 lakhs and ₹ 2.5 lakhs, respectively.

Mr. Vivek has opted out of the default tax regime under section 115BAC.

CII for F.Y. 2001-02: 100; F.Y. 2024-25: 363

Based on the facts of the case scenario given above, choose the most appropriate answer to the following multiple-choice questions:

1. Compute the income taxable under the head "Income from House Property" in the hands of Mr. Vivek?
 - (a) ₹ 10,92,000
 - (b) ₹ 15,12,000
 - (c) ₹ 17,22,000
 - (d) ₹ 17,20,500
2. Compute the income taxable under the head "Capital Gains" in the hands of Mr. Vivek?
 - (a) ₹ 29,04,000
 - (b) ₹ 29,10,000
 - (c) ₹ 35,51,000
 - (d) ₹ 47,51,000
3. Determine the amount of tax credit to be available to Mr. Vivek for F.Y. 2024-25 if tax has been deducted by the deductor(s)?
 - (a) ₹ 88,600
 - (b) ₹ 58,800

- (c) ₹ 55,000
 (d) Nil
4. In F.Y. 2033-34, Mr. Vivek received the maturity proceeds from both the policies of ₹ 40 lakhs and ₹ 27 lakhs, respectively. Considering the most beneficial to Mr. Vivek, which of the following statements is correct?
- (a) The maturity proceeds from both the policies "A" and "B" is exempt under section 10(10D).
 (b) The maturity proceeds from policy "A" is exempt but from policy "B" is taxable.
 (c) The maturity proceeds from policy "B" is exempt but from policy "A" is taxable
 (d) The maturity proceeds from both the policies "A" and "B" is taxable since the annual premium payable exceeds ₹ 5 lakhs.
5. Compute the tax liability of Mr. Vivek for A.Y. 2025-26?
- (a) ₹ 7,74,370
 (b) ₹ 9,32,330
 (c) ₹ 9,18,750
 (d) ₹ 8,35,220
6. Ms. Aanchal, an Indian Citizen, is a government employee working for the Indian Government. She submits the following information for the previous year ending on 31.03.2025:

		₹
1	Salary income received in Malaysia for services rendered there	2,00,000
2	Profits from business carried on in Chennai	80,000
3	Loss from business carried on in Vadodara	(20,000)
4	Loss from business carried on in USA (though profits are not received in India, business is controlled from Rishikesh)	(46,000)
5	Unabsorbed depreciation of business in USA	(16,000)

6	Profits from business in Bali (controlled from Delhi) and 60% of profit deposited in a bank in Bali and 40% received in India	70,000
7	Rent from house property situated in USA and received in USA	1,92,000

Determine the gross total income of Ms. Aanchal for the A.Y. 2025-26 assuming that she has opted out from the provisions of section 115BAC on the assumption that she is:

- (1) Resident but not ordinarily resident in India
 - (2) Non-resident in India
7. Ms. Ashima, aged 45 years, has been the HR manager for the past 15 years in Shipra Ltd. She gives you the following particulars for F.Y. 2024-25:

Basic Salary ₹ 70,000 p.m.

Dearness Allowance ₹ 24,000 p.m. (30% of which forms part of retirement benefits)

Bonus ₹ 21,000 p.m.

Ms. Ashima contributes 18% of basic salary as contribution to RPF. Her employer contributes the same amount to her RPF account.

The company pays medical insurance premium of ₹ 20,000 to effect insurance on the health of Ms. Ashima.

She received arrears of salary of ₹ 3,35,000. The details of arrears of salary are as follows:

Previous year	Total Income (₹)	Arrears now received (₹)
2021 – 2022	9,50,000	1,20,000
2022 – 2023	10,90,000	1,10,000
2023 – 2024	12,10,000	1,05,000

Compute the relief available under section 89 and the tax payable for the A.Y. 2025-26. Assume that Ms. Ashima exercises the option of

shifting out of the default tax regime provided under section 115BAC(1A) for A.Y. 2025-26.

For A.Y. 2022-23 and A.Y. 2024-25, Ms. Ashima has paid tax as per section 115BAC. However, for A.Y. 2023-24, she has paid tax under normal provisions of the Act.

Note: Rates of Tax

The rates of tax under normal provisions of the Act for A.Y. 2022-23, A.Y. 2023-24 and A.Y. 2024-25 are same as for A.Y. 2025-26. The rates of tax as per section 115BAC for different years are as follows:

Assessment Year	Slab rates of income-tax	
	Slabs	Rate
2022-23	Upto ₹ 2,50,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	5%
	₹ 5,00,001 - ₹ 7,50,000	10%
	₹ 7,50,001 - ₹ 10,00,000	15%
	₹ 10,00,001 - ₹ 12,50,000	20%
	₹ 12,50,001 - ₹ 15,00,000	25%
	Above ₹ 15,00,000	30%
2023-24	Upto ₹ 2,50,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	5%
	₹ 5,00,001 - ₹ 7,50,000	10%
	₹ 7,50,001 - ₹ 10,00,000	15%
	₹ 10,00,001 - ₹ 12,50,000	20%
	₹ 12,50,001 - ₹ 15,00,000	25%
	Above ₹ 15,00,000	30%
2024-25	Upto ₹ 3,00,000	Nil
	₹ 3,00,001 - ₹ 6,00,000	5%
	₹ 6,00,001 - ₹ 9,00,000	10%
	₹ 9,00,001 - ₹ 12,00,000	15%
	₹ 12,00,001 - ₹ 15,00,000	20%
	Above ₹ 15,00,000	30%

8. Mr. K is a 48-year-old resident individual. The details of income earned for the P.Y. 2024-25 from diversified businesses and investment portfolio are as under:
- (i) He runs two businesses:
 - A manufacturing business with profit of ₹ 10,00,000.
 - A speculative business with loss of ₹ 7,00,000.
 - (ii) He incurred a loss of ₹ 2,15,000 from a let-out property and also earned an income of ₹ 50,000 from the activity of owning and maintaining race horses. For earning this income, he incurred an expense of ₹ 5,000.
 - (iii) He has earned short-term capital gains of ₹ 50,000 from equity shares sold on 10.05.2024 on which STT was paid, and long-term capital loss of ₹ 75,000 from other assets sold on 15.10.2024.
 - (iv) Mr. K took divorce from his wife in April 2024 and the custody of their minor son is given to Mrs. K. Following the divorce, he transferred ownership of house property to his wife. During the financial year, the property generated rental income of ₹ 5,00,000.
 - (v) Mr. K deposits cash of ₹ 50,000 every month into the bank account of his minor son. During the P.Y. 2024-25, interest income of ₹ 25,000 is generated in his son's bank account.
 - (v) He has also contributed a sum of ₹ 2 lakh to an electoral trust and incurred expenditure of ₹ 30,000 on advertisement in a brochure of a political party.
 - (vi) He authored an investment portfolio book and received royalty income of ₹ 4,10,000 during the P.Y. 2024-25 from a publisher in Germany. The royalty is calculated at 16% of book sales value. He incurred ₹ 60,000 as expenditure for earning this income. Out of the total royalty, ₹ 2,90,000 was remitted to India by 31st August 2025, and the balance remained in abroad till 30.9.2025.

Compute the total income of Mr. K assuming that he exercises the option of shifting out of the default tax regime. Assume Mr. K's total income, excluding the minor's income, is higher than that of his wife.

9. Examine the applicability and determine the amount of tax deduction at source as per the Income-tax Act, 1961 for the A.Y. 2025-26 in the following situations:
- (i) ABC Ltd., having its registered office in Noida, organized its annual company function at its Gurgaon office. For this purpose, the company engaged Beta Pvt. Ltd. to arrange road transport for its employees from Noida to Gurgaon and back, for which a payment of ₹ 25,000 has to be made. Further, ABC Ltd. also entered into a separate contract with Beta Pvt. Ltd. for providing catering services at the function, for ₹ 90,000.
 - (ii) Vijay Health Solutions Ltd., a Third-Party Administrator (TPA), makes payments to various hospitals across India towards settling cashless medical insurance claims on behalf of insurance companies. During the financial year 2024-25, the total payment made by Vijay Health Solutions Ltd. to LifeCare Hospital for cashless claims is ₹ 12,00,000.
10. Mr. Vaibhav, a resident individual aged 46 years, engaged in the business of plywood and sculptures, maintains his books of account under section 44AB. He follows the mercantile system of accounting and regularly files his return of income. The profit and loss account for the year ended on 31.3.2025 shows a net profit of ₹ 51,42,000 after debiting/crediting the following:
- (i) During the year, Mr. Vaibhav had taken professional services from a lawyer in relation to a business dispute. The legal fees was amounted to ₹ 1,00,000. Tax has been deducted on time but did not deposit it with the government within the due date. The TDS was later on deposited on 15th November 2025.
 - (ii) Vaibhav had renovated his office by engaging in the services of his brother, as the existing office premises had become very old and required refurbishment. The total payment made for the renovation amounted to ₹ 2,50,000 which is reasonable to the extent of ₹ 1,50,000.
 - (iii) He purchased goods worth ₹ 30,000 from Vishnu & Co., a micro enterprise, on March 01, 2025. According to the written agreement

between them, the payment was to be made by 05th April 2025. However, he made payment to Vishnu & Co on 15th April 2025.

- (iv) Depreciation as per profit and loss account is ₹ 13,66,000.

Additional Information:

- (a) As per restructuring agreement with the bank, the bank has converted unpaid interest of ₹ 6,00,000 into a new loan account repayable in 20 equal annual installments. The first installment was paid in March 2025.

Vaibhav claimed the entire interest amount of ₹ 6,00,000 as an expense while computing his business income.

- (b) Depreciation as per Income-tax Rules, 1962 is ₹ 12,00,000.
- (c) He contributed ₹ 50,000 towards Tier I account of NPS during the year. Further, he has invested in five-year term deposit of ₹ 1.5 lakhs.
- (d) He employed 90 new employees during the P.Y. 2024-25, the details of whom are as follows:

No. of employees	Date of employment	Regular / Casual	Total monthly emoluments per employee (₹)
20	1.4.2024	Regular	24,000
25	1.5.2024	Casual	24,500
30	1.8.2024	Regular	26,000
15	1.9.2024	Casual	23,500

The regular employees participate in recognized provident fund while the casual employees do not.

- (e) Mr. Vaibhav had sculptures in the form of capital assets acquired in January 2015, for ₹ 1,80,000. Later on, in F.Y. 2023-24, he started sculpture business and converted these capital assets into stock-in-trade for his business. Fair market value at the time of conversion was ₹ 3,50,000. Subsequently, he sold the

stock-in-trade on June 10, 2024, for ₹ 5,00,000. No entry has been made in books for conversion and sale of converted sculptures.

You are required to compute the total income and tax liability of Mr. Vaibhav for the A.Y. 2025-26 if he opts out of the default tax regime.

CII for F.Y. 2014-15: 240; F.Y. 2023-24: 348; F.Y. 2024-25: 363



SUGGESTED ANSWERS

Question No.	Answer
1.	(b) ₹ 15,12,000
2.	(d) ₹ 47,51,000
3.	(a) ₹ 88,600
4.	(b) The maturity proceeds from policy "A" is exempt but from policy "B" is taxable.
5.	(c) ₹ 9,18,750

6. Computation of gross total Income of Ms. Aanchal for the A.Y. 2025-26 under normal provisions of the Act

Particulars of income		Resident but not ordinarily Resident (₹)	Non-Resident (₹)
1	Salary income received in Malaysia for services rendered there (Note 1)	2,00,000	2,00,000
	Less: Standard deduction under section 16(ia)	50,000	50,000
2	Profits from business carried on in Chennai [Since it accrues or arises in India]	1,50,000 80,000	1,50,000 80,000

3	Loss from business carried on in Vadodara [Since it accrues or arises in India]	(20,000)	(20,000)
4	Loss from business carried on in USA (business is controlled from Rishikesh)	(46,000)	Nil
5	Unabsorbed depreciation of business in USA	(16,000)	Nil
6	Profit from business in Bali (business is controlled from Delhi and only 40% is received in India)	70,000	28,000
7	Rent from property situated in USA and received in USA	Nil	Nil
Gross Total Income		2,18,000	2,38,000

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

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

Therefore, income referred to in S. No. 1, 2 and 3 are taxable in the hands of Ms. Aanchal in both cases if she is a resident but not ordinarily resident or if she is a non-resident.

Loss of business carried on in USA, unabsorbed depreciation of business in USA and Profit from business in Bali would be fully chargeable to tax in India if she is a resident but not ordinarily resident as it derived from a business controlled in India. However, Profit from business in Bali is taxable in case of non-resident to the extent of such profits received in India.

7. Computation of total income of Ms. Ashima for A.Y.2025-26 under normal provisions of the Act

Particulars	₹
Basic Salary [₹ 70,000 x 12]	8,40,000
Arrears of salary	3,35,000
Dearness allowance [₹ 24,000 x 12]	2,88,000
Bonus [₹ 21,000 x 12]	2,52,000
Employer's contribution to recognized provident fund in excess of 12% of salary = 18% x [₹ 70,000 x 12] – 12% x {[₹ 70,000 + ₹ 7,200 (being 30% of ₹ 24,000)] x 12} = ₹ 1,51,200 – ₹ 1,11,168 [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]	40,032
Medical insurance premium of ₹ 20,000 paid by the employer to effect insurance on the health of an employee is an exempt perquisite	-
Gross salary	17,55,032
Less: Standard deduction under section 16(ia)	<u>50,000</u>
Salary chargeable to tax/ Gross Total Income	17,05,032
Less: Deduction under section 80C	
Own contribution of ₹ 151,200 to RPF but restricted to ₹ 1,50,000	<u>1,50,000</u>
Total Income	15,55,032
Total Income (Rounded off)	15,55,030

Computation of tax payable by Ms. Ashima for the A.Y.2025-26 under normal provisions of the Act

Particulars	Incl. arrears of salary (₹)	Excl. arrears of salary (₹)
Total Income	15,55,030	15,55,030
Less: Arrears of salary	-	3,35,000
Total Income	15,55,030	12,20,030

Income-tax thereon	2,79,009	1,78,509
Add: Health and education cess @4%	11,160	7,140
Tax payable	2,90,169	1,85,649

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

Particulars	A.Y. 2022-23		A.Y. 2023-24		A.Y. 2024-25	
	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)
Taxable salary	9,50,000	9,50,000	10,90,000	10,90,000	12,10,000	12,10,000
Add: Arrears of salary	1,20,000	-	1,10,000	-	1,05,000	-
Taxable salary	10,70,000	9,50,000	12,00,000	10,90,000	13,15,000	12,10,000
Tax on the above	89,000	67,500	1,72,500	1,39,500	1,13,000	92,000
Add: HEC@ 4%	3,560	2,700	6,900	5,580	4,520	3,680
Tax payable	92,560	70,200	1,79,400	1,45,080	1,17,520	95,680

Computation of relief under section 89

	Particulars	₹	₹
i	Tax payable in A.Y.2025-26 on arrears:		
	Tax on income including arrears	2,90,169	
	Less: Tax on income excluding arrears	1,85,649	1,04,520
ii	Tax payable in respective years on arrears:		
	Tax on income including arrears (₹ 92,560 + ₹ 1,79,400 + ₹ 1,17,520)	3,89,480	
	Less: Tax on income excluding arrears (₹ 70,200 + ₹ 1,45,080 + ₹ 95,680)	3,10,960	78,520
	Relief under section 89 - difference between tax on arrears in A.Y. 2025-26 and tax on arrears in the respective years		26,000

Tax payable for A.Y.2025-26 after relief under section 89

Particulars	₹
Income-tax payable on total income including arrears of salary	2,90,169
Less: Relief under section 89 as computed above	26,000
Tax payable after claiming relief	2,64,169
Tax payable (Rounded off)	2,64,170

8. Computation of total income of Mr. K for the A.Y.2025-26 under normal provision of the Act

Particulars	₹	₹
I House Property		
Rental Income of ₹ 5 lakhs shall be taxable in the hands of Mrs. K since it is a case of transfer of house property to his spouse in connection with an agreement to live apart. In such case, the transferee shall be the owner of the house property and rental income will be taxed in the hands of transferee.		-
Set off of loss from house property to be restricted to ₹ 2 lakhs by virtue of section 71(3A). Balance loss of ₹ 15,000 has to be carried forward to A.Y. 2026-27		
II Income from business		
Income from manufacturing business	10,00,000	
Loss from speculation business		-
As per section 73(1), loss from speculation business can be set off only against profit from any other speculation business. Therefore,		

	loss from speculation business of ₹ 7,00,000 has to be carried forward to A.Y. 2026-27		
	<i>Less:</i> Set off of loss from house property to the extent of ₹ 2 lakhs	<u>2,00,000</u>	8,00,000
III	Capital Gains		
	Short-term capital gain u/s 111A	50,000	
	Long term capital loss	<u> -</u>	50,000
	As per section 74(1), long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 75,000 has to be carried forward to A.Y. 2026-27		
IV	Income from Other Sources		
	Royalty Income	3,50,000	
	[₹ 4,10,000 - ₹ 60,000]		
	Interest income from son's bank account [Income of the minor will be included in the income of Mrs. K as Mrs. K is maintaining the child.]	-	
	Income from the activity of owning and maintaining race horses	50,000	
	<i>Less:</i> Expenses incurred to earn this income	<u>5,000</u>	3,95,000
	Gross Total Income		12,45,000
	<i>Less:</i> Deduction under section 80GGC	2,00,000	
	Contribution to an electoral trust is allowed as deduction assuming it is paid otherwise than in cash. Expenditure of ₹ 30,000 incurred on advertisement in a		

brochure of political party is not eligible for deduction under section 80GGC		
Deduction under section 80QQB (Refer working note below)	<u>2,30,000</u>	4,30,000
Total Income		8,15,000

Working Note

Deduction allowable under section 80QQB for the A.Y.2025-26

Particulars	₹
Royalty ₹ 4,10,000 x 15/16 = ₹ 3,84,375	
Restricted to	
Amount brought into India in convertible foreign exchange within the prescribed time	2,90,000
Less: Expenses already allowed as deduction while computing royalty income	60,000
Deduction u/s 80QQB	2,30,000

9. (i) Any person responsible for paying any sum i.e. ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during a financial year to a resident contractor for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and the contractee, tax has to be deducted at source u/s 194C at the time of payment of such sum or at the time of credit of such sum to the account of the contractor, whichever is earlier.

In the present case, ABC Ltd. has entered into separate contracts with Beta Pvt. Ltd. for arranging road transport and providing catering services, for ₹ 25,000 and ₹ 90,000, respectively. Both 'carriage of passengers' and 'catering' are expressly covered as "work" under section 194C. Even though the services are different, the aggregate payment to the contractor during the financial year is considered for the threshold limit.

Hence, TDS@2% is applicable on ₹ 1,15,000, being the aggregate amount paid to Beta Pvt. Ltd. The amount of tax to be deducted by ABC Ltd. would be ₹ 2,300.

- (ii) The payment by TPAs was made on behalf of insurance companies to hospitals for settlement of medical/insurance claims etc. under cashless claims which was on account of services rendered by hospitals to various patients. These services are primarily medical services and are liable to deduct tax at source under section 194J on all such payments to hospitals etc. as clarified by CBDT through Circular No. 8/2009 dated 24.11.2009.

In the present case, Vijay Health Solutions Ltd. is required to deduct tax u/s 194J @10% on payment of ₹ 12 lakhs. The amount of tax to be deducted by Vijay Health Solutions Ltd. would be ₹ 1,20,000.

10. Computation of total income of Mr. Vaibhav for A.Y. 2025-26 under normal provisions of the Act

Particulars		₹	₹	₹
I	Income from business or profession			
	Net profit as per profit and loss account		51,42,000	
	Add: Items of expenditure not allowable while computing business income			
	- Depreciation as per books of accounts	13,66,000		
	- Payment for professional services [Since the tax was deducted on time, but such tax has not been paid on or before the due date specified in section 139(1),	30,000		
	₹ 30,000			

	<p>[₹ 1,00,000 x 30%] has to be disallowed in F.Y. 2024-25 under section 40(a)(ia) and has to be added back]</p> <ul style="list-style-type: none"> - Payment for renovation of office [Unreasonable payment made to brother for renovating his office has to be added back as per section 40A(2)] - Payment to M/s Vishnu & Co, a micro enterprise, for purchase of raw material [Not Allowable as per section 43B(h) since payment was made to a micro enterprise and the same was not within the time specified in the written agreement] - Conversion of interest into loan [Conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted into loan shall be allowed as deduction only in the year in which the converted loan is actually paid.] <p>Accordingly, only ₹ 30,000 shall be</p>	<p>1,00,000</p> <p>30,000</p> <p>5,70,000</p>		
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	allowed as deduction in P.Y. 2024-25 [₹ 6 lakhs/ 20 installments]			
	- Payment received from sale of stock-in-trade converted from capital assets [Sale consideration - FMV as on date of conversion]	1,50,000	22,46,000	
	<i>Less:</i> Depreciation as income-tax Rules, 1962		73,88,000 12,00,000	61,88,000
II	Capital Gains			
	Sale consideration		3,50,000	
	<i>Less:</i> Indexed cost of acquisition [₹ 1,80,000 x 348/ 240]		2,61,000	
	Long term capital gains [Indexation benefit is available since the property is transferred before 23.7.2024]			89,000
	Gross Total Income			62,77,000
	<i>Less:</i> Deduction under Chapter VI-A			
	Deduction under section 80C			
	- Investment in five-year deposit		1,50,000	
	Deduction under section 80CCD(1B)			
	- Contribution in NPS		50,000	
	Deduction under section 80JJAA (See working note below)		17,28,000	19,28,000
	Total Income			43,49,000

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

Particulars	₹	₹
Tax @20% on LTCG of ₹ 89,000 on sale of Sculptures [Since the property is transferred before 23.7.2024]		17,800
Tax at slab rate on balance income of ₹ 42,60,000		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001 - ₹ 42,60,000 [@ 30% of ₹ 32,60,000]	9,78,000	10,90,500
		11,08,300
<i>Add:</i> Health and education cess@4%		44,332
Tax liability		11,52,632
Tax liability (Rounded off)		11,52,630

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

Particulars	₹	₹
Total Income		43,49,000
Add: Deduction under section 80JJAA		17,28,000
Adjusted Total Income		60,77,000
Alternate Minimum Tax @18.5%		11,24,245
<i>Add:</i> Surcharge @10% since adjusted total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore		1,12,425
		12,36,670
<i>Add:</i> Health and education cess@4%		49,467
Tax liability		12,86,137
Tax liability (Rounded off)		12,86,140

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof *plus* surcharge@10% and cess@4%. Therefore, tax liability as per section 115JC is ₹ 12,86,140.

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	12,86,140
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	11,52,630
	1,33,510

Working Note

Computation of Deduction under section 80JAA

Particulars	₹
<p>Additional employee cost = ₹ 24,000 × 12 × 20 = ₹ 57,60,000</p> <p>Deduction under section 80JAA = 30% of ₹ 57,60,000</p> <p>Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 30 regular employees employed on 1.8.2024 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000.</p> <p>Therefore, only 20 employees employed on 1.4.2024 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2024-25 is deemed to be the additional employee cost.</p>	17,28,000

SECTION B: GOODS AND SERVICES TAX

- (1) All questions should be answered on the basis of the position of GST law as amended up to 30.06.2025.
- (2) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.



QUESTIONS

Case Scenario

ABC Associates, engaged in the hospitality sector in Rajasthan under the trade name "Paradize Resorts", commenced operations on 01-04-2025. Its aggregate turnover crossed ₹ 20 lakh on 01-06-2025. The application for registration was filed on 15-06-2025, and registration was granted with effect from 01-07-2025. Consequent to the grant of registration, Paradize Resorts issued revised tax invoices for the period beginning with 15-06-2025.

For its hotel interiors, Paradize Resorts availed interior designing services free of cost from DEF Interiors, Japan, whose proprietor is the son of one of the partners of Paradize Resorts.

Other relevant transactions of Paradize Resorts include the following:

- (i) Mr. Ajay, a GST-registered person in Madhya Pradesh, availed lodging accommodation services at the resort for two nights and three days.
- (ii) For the New Year celebrations, Paradize Resorts engaged "Darohar Group", a classical music troupe, for a performance at an agreed consideration of ₹ 2.5 lakh.
- (iii) A marriage function was hosted at the hotel premises on 01-06-2025. The invoice for the same was issued on 28-06-2025, and consideration was received on 29-06-2025.

Owing to extensive compliance requirements, the management is also exploring the possibility of transferring the hotel business as a going concern.

On the basis of the facts given above, you are required to answer the Questions 1 to 5.

Multiple choice Questions

1. Whether issuance of revised tax invoices by Paradize Resorts is valid as per the relevant provisions of the GST Law?
 - (a) Yes, revised tax invoices may be issued for the period 15-06-2025 to 01-07-2025, within one month from 01-07-2025.
 - (b) No, revised tax invoices may be issued for the period 01-06-2025 to 01-07-2025, within one month from 01-07-2025.
 - (c) Yes, revised tax invoices may be issued for the period 15-06-2025 to 01-07-2025, within 15 days from 01-07-2025.
 - (d) No, revised tax invoices can be issued only after registration is granted, i.e., post 01-07-2025.
2. What is the GST treatment of the performance by Darohar Group?
 - (a) Entire consideration of ₹ 2.5 lakh is taxable.
 - (b) Only ₹ 1 lakh is taxable, as ₹ 1.5 lakh is exempt.
 - (c) Entire ₹ 2.5 lakh is exempt from GST.
 - (d) Only ₹ 50,000 is taxable, as ₹ 2 lakh is exempt for classical performances.
3. Whether there will be any GST liability on interior designing services provided free of cost by DEF Interiors? Which of the following statement(s) is most appropriate in this regard?
 - (a) Yes, since import of services from a related person in the course or furtherance of business will be treated as supply even if made without consideration.
 - (b) No, since no consideration was paid, the same is not taxable.
 - (c) No, import of services from a related person is exempt.

- (d) Yes, fully taxable irrespective of whether used for business or personal purposes.
4. What will be the time of supply in respect of the marriage function hosted on 01-06-2025?
- (a) 01-06-2025
 (b) 28-06-2025
 (c) 29-06-2025
 (d) 30-06-2025
5. Which of the following statement(s) is/are correct?
- Statement 1: The place of supply of services provided to Mr. Ajay will be the location of the immovable property, i.e., Rajasthan.
- Statement 2: No GST is payable in case of transfer of business as a going concern.
- (a) Both statements are correct
 (b) Only Statement 1 is correct
 (c) Only Statement 2 is correct
 (d) Both statements are incorrect
6. Mr. Prithviraj, registered under GST, is engaged in supplying services (as discussed in the table below) in Maharashtra. He has furnished the following information with respect to the services provided/ received by him, during the month of February:

S. No.	Particulars	Amount (₹)
(i)	Carnatic music performance given by Mr. Prithviraj to promote a brand of readymade garments	1,40,000
(ii)	Outdoor catering services availed for a marketing event organised for his prospective customers	50,000
(iii)	Services of transportation of students provided to Subhaskar College providing education as part of a curriculum for obtaining a recognised qualification	1,00,000

(iv)	Legal services availed for official purpose from an advocate located in Gujarat	1,75,000
(v)	Services provided to Wealth Bank as a business correspondent with respect to accounts in a branch of the bank located in urban area	2,00,000
(vi)	Recovery agent's services provided to a car dealer	15,000
(vii)	General insurance taken on a car (seating capacity 5) used for official purposes	40,000

Note:

- (i) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively.
- (ii) All inward and outward supplies are exclusive of taxes, wherever applicable.
- (iii) All the conditions necessary for availing the ITC have been fulfilled.
- (iv) All the transactions mentioned above are Intra-State unless information for determination of place of supply is given.
- (v) The turnover of Mr. Prithviraj was ₹ 2.5 crore in the previous financial year.

Compute the net GST payable in cash, by Mr. Prithviraj for the month of February.

7. Determine the place of supply in respect of following independent cases. Brief reason should form part of your answer.
 - (i) Mr. U from Mount Abu, Rajasthan (an unregistered person) ordered one laptop, as a gift for his father, from e-commerce site 'Zilu' (registered in Mumbai, Maharashtra) to be delivered at his parent house located at Ahmedabad, Gujarat. Mount Abu, Rajasthan was mentioned as permanent address of Mr. U at e-commerce site 'Zilu'.
 - (ii) Mr. Oman, a tourist from Australia visited India in the month of September. He got repaired his camera during his visit to Udaipur,

Rajasthan by Mr. R who also visited Udaipur at the same time. Mr. R is registered at New Delhi. Mr. Oman provided address of his friend who resides at Mumbai Maharashtra to be mentioned in the bill issued by Mr. R for repairing of camera.

8. Examine the taxability of supplies in the following independent cases in terms of the relevant provisions of the CGST Act, 2017. Brief reason should form part of your answer:
- (i) Mr. Satya, a physiotherapist (registered with recognised paramedics authority), provided services to Mr. Dayal for restoring mobility after his spine surgery and charged ₹ 10,000 per month. Service comprises of regular home visit for physiotherapy session of 1 hour.
 - (ii) M/s Paushtik Aahaar provided services to Shishu Raksha, an anganwadi by way of serving of food (including mid-day meals) for ₹ 6,000 per month. Shishu Raksha served food to students in anganwadi under Mid-Day Meals scheme sponsored through donations from corporates.
 - (iii) Fees charged by Passport Seva Kendra to Dada Exports Limited for the issuance of passport to its employees to visit foreign countries for export business.
9. Mr. Bose took a health insurance policy for the coverage amount of ₹ 5,00,000 upon making payment of premium of ₹ 10,000 annually (exclusive of GST) from Swasthya Bima Insurance Co. on 01.10.2024. Mr Bose had no claim during 2024-25. On 01.10.2025 Swasthya Bima Insurance Co. offered a discount of 5% on the renewal premium amount to Mr Bose for having claim free year 2024-25 because the company has a policy of offering a discount of 5% on the renewal premium amount for every claim free year in form of no claim bonus. The Swasthya Bima Insurance Co. make the disclosure of the fact of availability of discount in form of NCB, subject to certain conditions, to Mr. Bose in the insurance policy document itself. Also, there is specific mention of the

discount in form of no claim bonus in the invoice issued by Swasthya Bima Insurance Co. to Mr. Bose.

As per Mr Bose's accountant, he has to pay GST on whole renewal premium amount without any deduction as no claim bonus is for agreeing to the obligation to refrain from the act of lodging insurance claim during 2024-25. Is the contention of the Accountant, correct? Reason for the same should form part of your answer.

10. Determine whether liability to obtain registration arises or not under GST law in the following independent cases:-
- (i) Mr. G from Delhi is dealing in the purchase and sale of securities in his own account from secondary market. He disclosed the transactions of purchase and sale of securities in Trading Account and treated the same as business income. Turnover from April to September is ₹ 75 lakh. Is he liable for registration?
 - (ii) KLJ Foundation from Jaipur, Rajasthan, a charitable trust registered under Section 12AB of the Income Tax Act, 1961 is engaged in the supply of various services by charitable trust. KLJ Foundation receipts for the preceding financial year was ₹ 30 lakh. Whether KLJ Foundation is required to take registration?



SUGGESTED ANSWERS/HINTS

MCQ No.	Most Appropriate Answer
1.	(b)
2.	(a)
3.	(a)
4.	(b)
5.	(a)

6. Computation of GST payable

Particulars	Value of supply (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
GST payable under forward charge				
Carnatic music performance given to promote a brand of readymade garments [Carnatic music performance by Mr. Prithviraj is not exempt from GST even though the consideration charged does not exceed ₹ 1,50,000 since said performance has been made by him as a brand ambassador.]	1,40,000	12,600	12,600	Nil
Services of transportation of students provided to Subhaskar College [Services of transportation of students provided to an educational institution other than an institution providing pre-school education or education up to higher secondary school, are not exempt.]	1,00,000	9,000	9,000	Nil
Services provided to Wealth Bank as a business correspondent [Services provided by a business correspondent to a banking company are not exempt when such services are provided with respect to accounts in its urban area branch.]	2,00,000	18,000	18,000	Nil

Services provided as a recovery agent [Tax is payable under forward charge since recovery agent's services are being provided to a person other than banking company/financial institution/non-banking financial company.]	15,000	1,350	1,350	Nil
Total GST payable under forward charge (A)		40,950	40,950	Nil
GST payable under reverse charge				
Legal services availed from an advocate [Legal services received by a business entity with aggregate turnover in the preceding financial year exceeding threshold limit for registration (₹ 20 lakh) are not exempt and tax on the same is payable under reverse charge. Further, since place of supply is Maharashtra, being the location of registered person, thus same is an Inter-State supply.]	1,75,000	Nil	Nil	31,500
Total GST payable under reverse charge (B)		Nil	Nil	31,500
Total GST payable [(A)+(B)]		40,950	40,950	31,500

Computation of total ITC available

Particulars	Value of supply (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Outdoor catering services availed [ITC on outdoor catering services is blocked except when such services are (i) used by the taxpayer who is in the same line of business or (ii) provided by the employer to its employees under a statutory obligation.]	50,000	Nil	Nil	Nil
Legal services availed [ITC is available as said services are used in course or furtherance of business.]	1,75,000	Nil	Nil	31,500
General insurance taken on a car (seating capacity 5) used for official purposes [ITC on motor vehicles for transportation of persons with seating capacity ≤ 13 persons (including the driver) is blocked except when the same are used for (i) making further taxable supply of such motor vehicles (ii) making taxable supply of transportation of passengers (iii) making taxable	40,000	Nil	Nil	Nil

supply of imparting training on driving such motor vehicles. Further, ITC is not allowed on services of general insurance relating to such ineligible motor vehicles.]				
Total ITC available		Nil	Nil	31,500

Computation of net GST payable in cash

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
GST payable under forward charge	40,950	40,950	Nil
Less: ITC of IGST ¹	(15,750)	(15,750)	-
	25,200	25,200	Nil
Add: GST payable under reverse charge in cash [Tax payable under reverse charge, being not an output tax, cannot be set off against ITC and thus, will have to be paid in cash.]	<u>Nil</u>	<u>Nil</u>	<u>31,500</u>
Net GST payable in cash	25,200	25,200	31,500

7. (i) The place of supply in case of goods (particularly being supplied through e-commerce platform) to unregistered persons where billing address is different from the address of delivery of goods shall be address of delivery of goods recorded on the invoice.

¹ ITC of IGST can be utilised towards payment of CGST and SGST in any proportion and in any order. Therefore, there can be multiple ways of setting off of IGST credit against CGST and SGST liability and accordingly, in the given case, amount of net GST payable in cash under the heads of CGST and SGST will vary. However, total amount of net GST payable in cash will be ₹ 81,900 in each case.

In the given case, billing address of Mr. U in the online platform of Zilu is at Mount Abu, Rajasthan but for delivery of laptop he had given different delivery address as Ahmedabad, Gujarat. So, place of supply will be address of delivery of goods recorded on the invoice i.e. Ahmedabad, Gujarat.

- (ii) The place of supply of services, except the specified services, made to any person other than a registered person shall be the location of the recipient where the address on record exists.

Thus, the place of supply of repair services made to Mr. Oman is Mumbai, Maharashtra.

8. (i) Health care services by a clinical establishment, an authorised medical practitioner or para-medics are exempt from GST. Further, Paramedics are trained health care professionals, for example, nursing staff, physiotherapists, technicians, lab assistants etc.

Services by them in a clinical establishment would be in the capacity of employee and not provided in independent capacity and will thus be considered as services by such clinical establishment. Similar services in independent capacity are also exempted.

Thus, services provided by Mr. Satya to Mr. Dayal is exempt from GST.

- (ii) An anganwadi, *inter alia*, provides pre-school non-formal education. Hence, anganwadi is covered by the definition of educational institution (as pre-school). Any catering service provided to an educational institution (pre-school and schools) is exempt from GST and it includes mid- day meal service also.

It is further clarified that services provided to an educational institution by way of serving of food (catering including mid- day meals) is exempt from levy of GST irrespective of its funding from government grants or corporate donations.

Hence, serving of food to Shishu Raksha, an anganwadi shall be exempt from GST even though sponsored through donation from corporates.

(iii) Services provided by the Central Government by way of issuance of passport are exempt from GST. Thus, fees charged by Passport Seva Kendra to Dada Exports Limited for the issuance of passport to its employees to visit foreign countries for export business is exempt from GST.

9. The value of supply does not include any discount which is given before or at the time of supply if such discount has been duly recorded in the invoice issued in respect of such supply.

It is, therefore, clarified that no claim bonus (NCB) is a permissible deduction for the purpose of calculation of value of supply of the insurance services provided by the insurance company to the insured subject to the pre-disclosure of NCB amount in the policy documents and specific mention of the discount in form of NCB in the invoice.

No, the contention of the Accountant is not correct in view of the above-mentioned provisions.

Since the deduction on account of NCB is provided in the invoice issued by the insurer to the insured, GST shall be leviable on actual insurance premium amount, payable by Mr. Bose to the Swasthya Bima Insurance Co., after deduction of NCB mentioned on the invoice.

10. (i) Any person engaged exclusively in the business of supplying goods or services or both that are not liable to tax or wholly exempt from tax under CGST Act/IGST Act shall not be liable to registration. Shares is excluded from the definition of goods as well as services under the GST law. Supply of anything other than goods or services like money, securities etc. does not attract GST.

Thus, in the given case, Mr. G is not liable to obtain registration for sales of shares since shares are neither goods nor services under GST law.

- (ii) A charitable trust registered under section 12AB of the Income Tax Act, 1961 and exclusively engaged in supply of services by way of charitable activities are exempt from GST, so here KLJ Foundation from Jaipur, Rajasthan is not liable for registration as it is exclusively engaged in supplying services exempt from tax.