

TAX LAWS & PRACTICE

CS EXE – DEC 24

**EDITION – 1
Volume – 1 Income Tax
(Question Bank)**

BY

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PREFACE

“Intelligence plus Character – that is the goal of true education”

– Martin Luther King Jr.

I am highly delighted to introduce this book which is a complete guide for CS Executive students and can be a great friend of you in achieving your success.

I dedicate this book to each student who is aspiring to be a Company Secretary and contribute in the growth and development of the country.

I would like to give a special thanks to each and every person for his/her contribution and efforts in this book.

This book covers the content as per ICSI Study Material as well as ICAI Study Material applicable for Dec 2024 attempt of CS Executive Examinations.

Wishing you all the best for your career,

Regards,

CA CS Karan Kumar

*“ Keep Working Very Hard
Someone Somewhere Is Waiting For Your Success”*

– CA CS Karan Kumar

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Disclaimer -

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Chapter – 1 & 2

DIRECT TAX AT A GLANCE & BASIC CONCEPTS

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

Ans. Computation of Business Income and Agriculture Income of Mr. B

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

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

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

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

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

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

3. State whether the following are capital or revenue receipts/expenses and give your reasons:

1. ABC & Co. received Rs. 5,00,000 as compensation from XYZ & Co. for premature termination of contract of agency.
2. Sales-tax collected from the buyer of goods.
3. PQR Company Ltd. instead of receiving royalty year by year, received it in advance in lump sum.
4. An amount of Rs. 1,50,000 was spent by a company for sending its production manager abroad to study new methods of production.
5. Payment of Rs. 50,000 as compensation for cancellation of a contract for the purchase of machinery with a view to avoid an unnecessary expenditure.
6. An employee director of a company was paid Rs. 3,50,000 as a lump sum consideration for not resigning from the directorship.

- Ans.
1. Receipt in substitution of a source of income is a capital receipt. Therefore, the amount received by ABC & Co. from XYZ & Co. for premature termination of an agency contract is a capital receipt though the same is taxable under Section 28(ii)(c).
 2. Sales-tax is the liability of a seller to pay to the Government on the sale of goods made by him, which is allowed as deduction as revenue expenditure. If any part of Sales-tax is collected from the buyer of goods that may be treated as a revenue receipt. Thus the sales-tax collected from the buyer of goods is a revenue receipt.
 3. Receipt of lump sum royalty in lieu of future royalties is a revenue receipt, as it is an income from royalty.
 4. Amount spent by a company for sending its production manager abroad to study new methods of production is revenue expenditure to be allowed as a deduction. Because the new knowledge and exposure of that manager will assist the company in improving its

existing methods of production etc.

5. This is a capital expenditure, as any expenditure incurred by a person to free himself from a capital liability is a capital expenditure. In the given case, the payment of Rs. 50,000 for cancelling the order for purchase of the machinery has helped the assessee to become free from an unnecessary capital liability.
6. The amount of Rs. 3,50,000 received for not resigning from the directorship is a reward received from the employer. Therefore it is a revenue receipt.

4. Which of the following is not a revenue receipt?

- (i) Compensation received for the loss of a capital asset
- (ii) Compensation received for damage to or loss of a trading asset.
- (iii) Profits on purchase and sale of shares by a share broker on his own account
- (iv) Income from letting out buildings owned by a company to its employees etc

Options:

- a) i only
- b) i and ii both
- c) i, ii, and iii
- d) ALL of the above

Ans. : (a)

5. Mr. A, an Indian Citizen, is Living in Mumbai since 1950, he Left for China on July 1, 2018 and comes back on August 7, 2023. Determine his residential status for the assessment year 2024-25.

Ans. Stay in India for a minimum period of 182 days in the previous year : Mr. A has stayed in India for 238 (viz. 25 + 30 + 31 + 30 + 31 + 31 + 29 + 31) days in the previous year 2023-24.

So, this test is satisfied.

So, Mr. A shall be a resident in India during the previous year 2023-24. (Assessment Year 2024-25). Keeping in view the facts of the given case, Mr. A satisfies the two additional conditions also namely: He is resident in two out of ten previous years preceding the relevant previous year.

PY	Stay in PY (days)	Stay during PY (days)	Basic Condition Satisfied	Resident/Non-Resident
2022-23	Nil	-	None	Non-Resident
2021-22	Nil	-	None	Non-Resident
2020-21	Nil	-	None	Non-Resident
2019-20	Nil	-	None	Non-Resident
2018-19	30+31+30+1= 92	365 days	Second	Resident
2017-18	365	365	First	Resident

His stay in India is also more than 730 days in 7 previous years preceding the relevant previous year. As he left for China on 1st July 2018.

PY	Stay (days)
2022-23	Nil
2021-22	Nil
2020-21	Nil
2019-20	Nil
2018-19	92
2017-18	365
2016-17	366
Total Stay in 7 Previous Years	823

Hence, Mr. A is resident and ordinary resident In India for the assessment year 2024

6. Mr. Steve Waugh, the Australian cricketer comes to India for 100 days every year. Find out his residential status for AY 2024-25.

Ans. Step 1 : The total stay of Mr. Steve Waugh in the last 4 preceding years is 400 days and his stay in India during the previous year is 100 days. Since, he satisfied the second condition in section 6(1), he is resident.

Step 2 : Since his total stay in India in the last 7 years preceding the previous years is 700 days, he does not satisfy the minimum requirement of 730 days in 7 years.

Therefore the residential status of Mr. Steve Waugh for the assessment year 2024-25 is Resident but not ordinarily resident in India.

7. Dr. A, an Indian Citizen and a Professor in IIM, Lucknow, left India on September 15, 2023 for USA to take up a Professor's job in MIT, USA. Determine his residential status for the assessment year 2024-25.

Ans. Dr. A being a citizen of India and who has gone out of the country for employment, will be governed by 182 days test only and therefore the second condition under section 6(1), i.e. 60 days during relevant previous year shall not be applicable.

Dr. A stayed in India for 168 (viz. 30 + 31 + 30 + 31 + 31 + 15) days only in the relevant previous year.

Hence, Dr. A shall be a non-resident in India for the assessment year 2024-25 as condition by stay of 182 days in relevant previous year is not satisfied.

8. Mr. Anil, an Indian citizen, leaves India on 22nd September, 2023 for the first time to work as an Engineer in France. Determine his residential status for AY 2024-25.

Ans. During the previous year 2023-24, Mr. Anil, an Indian citizen, was in India for 175 days (i.e. 30+31+30+31+31+22). He does not satisfy the minimum criteria of 182 days. Also since he is an Indian citizen leaving India for the purpose of employment outside India, the second condition u/s 6(1) is not applicable to him.

Therefore Mr. Anil is non-resident for the AY 2024-25.

9. An HUF, whose affairs of business are completely controlled from India. Determine its Residential status for AY 2024-25 (a) if Karta is ROR in India for that year (b) If Karta is NR in India but he satisfies both the additional conditions (c) If Karta is RNOR in India.

Ans. HUF would be Resident in India as Control and Management is wholly situated in India. Determination of whether HUF is ROR or RNOR:

- a) HUF is ROR in India as Karta would be satisfying both the additional conditions (because he is ROR).
- b) HUF is ROR in India as Karta is satisfying both the additional conditions. Karta's Residential status during relevant previous year (i.e. resident/non-resident) is irrelevant.
- c) HUF is RNOR as Karta does not satisfy both the additional conditions.

10. Karta of an Hindu Undivided Family comes to India every year for a minimum period of 60 days and maximum 91 days. Determine residential status of the HUF for the assessment year 2024-25.

Ans. Hindu Undivided Family is resident since the karta has come to India for at least 60 days but the stay of karta during seven years can be maximum 637 days. Hence HUF can be considered as resident but not ordinarily resident.

11. Hindu Undivided Family is being managed partly from Mumbai and partly from Japan. The Karta of HUF is a foreign citizen and comes to visit in India every year since 1980 in the month of April for 105 days.

Determine residential status of HUF for AY 2024-25.

Ans. Since the control and management of the affairs of HUF is partly managed from Mumbai and therefore HUF is resident in India. Further, the Karta of HUF is also satisfying both of additional conditions of section 6 (6)(b) and therefore HUF is resident and ordinarily resident in India during the AY 2024-25.

12. AB & Co. is a partnership firm whose operations are carried out in India. However, all meetings of partners take place outside India as all the partners are settled abroad. Determine Residential status of firm for AY 2024-25.

Ans. AB & Co. is Non-Resident in India during relevant previous year as Control and Management (place where policy decisions are taken, here it is the place where meetings are held) is wholly situated outside India.

Once the residential status of an individual is identified, the rule of taxation could be applied to determine whether an income is to be taxed or not.

13. Mr. X earns the following income during the previous year ended 31st March, 2024. Determine the income liable to tax for the assessment year 2024-25 if Mr. X is (a) resident and ordinarily resident in India, (b) resident and not ordinarily resident in India, and (c) non-resident in India during the previous year ended 31st March, 2024.

- Profits on sale of a building in India but received in Holland - ₹20,000
- Pension from former employer in India received in Holland - ₹14,000
- Interest on U.K. Development Bonds (1/4 being received in India) - ₹20,000

- Income from property in Australia and received in U.S.A. - ₹5,000
- Income earned from a business in Abyssinia which is controlled from Zambia (₹30,000 received in India) - ₹70,000
- Dividend on shares of an Indian company but received in Holland - ₹10,000
- Profits not taxed previously brought into India - ₹40,000
- Profits from a business in Nagpur which is controlled from Holland - ₹27,000

Ans. Computation of income Liabile to tax :

Particular	Resident & Ordinarily Resident (₹)	Resident but not Ordinarily Resident (₹)	Non Resident (₹)
Profits on sale of a building in India but received in Holland (accrued in India received outside India)	20,000	20,000	20,000
Pension from former employer in India received in Holland (accrued in India, received out of India)	14,000	14,000	14,000
Interest on U.K. Development Bonds (Accrued out of India, 1/4th received in India)	5,000	5,000	5,000
Interest on U.K. Development Bonds (Accrued out of India, 3/4th received out of India)	15,000	Nil	Nil
Income from property in Australia and received in U.S.A. (Accrued and received out of India)	15,000	Nil	Nil
Income earned from a business in Abyssinia which is controlled from Zambia (Business controlled outside India)	70,000	30,000	30,000
Dividend on shares of an Indian company but received in Holland (Accrued in India)	10,000	10,000	10,000
Profits not taxed previously brought into India (Not an income so not taxable)	Nil	Nil	Nil
Profits from a business in Nagpur which is controlled from Holland (Accrued in India)	27,000	27,000	27,000
Total	1,76,000	1,06,000	1,06,000

14. A had the following income during the previous year ended 31st March, 2024:

- Salary Received in India for three Months - ₹9,000
- Income from house property in India - ₹13,470
- Interest on Saving Bank Deposit in State Bank of India - ₹1,000
- Amount brought into India out of the past untaxed profits earned in Germany - 20,000
- Income from agriculture in Indonesia being invested there - ₹12,350
- Income from business in Bangladesh, being controlled from India - ₹10,150
- Dividends received in Belgium from French companies, out of which ₹2,500 were remitted to India ₹23,000

You are required to compute his total income for the assessment year 2024-25 if he is :

(i) a resident; (ii) a not ordinarily resident, and (iii) a Non-resident.

Ans. Computation of total income of A is given below:

Particular	Resident & Ordinarily Resident (Rs.)	Resident but not Ordinarily Resident (Rs.)	Non-Resident (Rs.)
Salary Received in India for three Months (Income received in India)	9,000	9,000	9,000
Income from house property in India (Income accrue or arise in India)	13,470	13,470	13,470
Interest on Saving Bank Deposit in State Bank of India (Income accrue or arise in India)	1,000	1,000	1,000
Amount brought into India out of the past untaxed profits earned in Germany (not an income, hence not taxable)	Nil	Nil	Nil
Income from agriculture in Indonesia being invested there (Income accrue or arise outside India)	12,350	Nil	Nil

Income from business in Bangladesh, being controlled from India (it is supposed that the money is not received in India) (Income accrued outside India from a business controlled from India)	10,150	10,150	Nil
Dividends received in Belgium from French companies (Income accrue outside India. Remittance to India is irrelevant)	23,000	Nil	Nil
Total	68,970	33,620	23,470

15. Mr. Y earns the following income during the previous year ended on 31st March, 2024.

Determine the income liable to tax for the assessment year 2024-25 if Mr. Y is (a) resident and ordinary resident (b) resident and not ordinary resident, and (c) non-resident in India during the previous year ended on 31st March, 2024.

(b) Honorarium received from Government of India (Travelling and other incidental expenses of Rs. 7,000 were incurred in this connection)- Rs. 20,000

(ii) Profits earned from a business in Tamil nadu controlled from Pakistan - Rs. 50,000

(iii) Profits earned from a business in U.K. controlled from Delhi - Rs. 30,000

(iv) Profits earned from a business in U.S.A. controlled from Pakistan and amount deposited in a bank there - Rs. 40,000

(v) Income from a house property in France, received in India - Rs. 10,000

(vi) Past untaxed foreign income brought into India during the year - Rs. 25,000

(vii) Dividends from a German company credited to his account in Pakistan - Rs. 35,000

(viii) Agricultural income from Burma not remitted to India - Rs. 40,000

(ix) Pension for services rendered in India, but received in Pakistan - Rs. 30,000 Solution:

Ans. Computation of Income liable to tax of Mr. Y is given below:

Particular	Resident & Ordinarily Resident (Rs.)	Resident but not Ordinarily Resident (Rs.)	Non-Resident (Rs.)
Honorarium received from Govt. of India	20,000	20,000	20,000

Profits earned from a business in Tamilnadu controlled from Pakistan (Income accrue or arise in India)	50,000	50,000	50,000
Profit earned from a business in U.K. controlled from Delhi (Income accrue or arise outside India from a business controlled from India)	30,000	30,000	-
Profits earned from a business in USA controlled from Pakistan and amount deposited in a Bank there (Income accrue outside India)	40,000	-	-
Income from a house property in France, received in India (Income received in India)	10,000	10,000	10,000
Past untaxed foreign income brought into India during the year (Not taxable as profit of past years, also remittance is irrelevant)	-	-	-
Dividends from a foreign company credited to his account in Pakistan (Income accrue outside India)	35,000	-	-
Agricultural income from Burma not remitted to India (Income accrue outside India)	40,000	-	-
Pension for Services rendered in India, but received in Pakistan (Income deemed to accrue or arise in India)	30,000	30,000	30,000
Total	2,55,000	1,40,000	1,10,000

Computation of Tax Liability includes following steps:

1. Determine the category of person
2. Determine the residential status of the person as per section 6
3. Calculate the Total income as per the provisions
4. Calculate the tax on income.

16. Mr. X has a total income of `16,00,000 for P.Y.2023-24, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2024-25 under the default tax regime under section 115BAC.

Ans. Computation of Tax liability of Mr. X for A.Y. 2024-25

Tax liability:

First ₹3,00,000 - Nil

Next ₹3,00,001 - ₹6,00,000 - @5% of ₹3,00,000 = ₹15,000

Next ₹6,00,001 - ₹9,00,000 - @10% of ₹3,00,000 = ₹30,000

Next ₹9,00,001 - ₹12,00,000 - @15% of ₹3,00,000 = ₹45,000

Next ₹12,00,001 - ₹15,00,000 - @20% of ₹3,00,000 = ₹60,000

Balance i.e., ₹16,00,000 minus ₹15,00,000 - @30% of ₹1,00,000 = ₹30,000

= ₹1,80,000

Add: Health and Education cess@4% = ₹7,200

= ₹1,87,200

17. Mr. X has a total income of ₹16,00,000 for P.Y.2023-24, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2024-25 assuming his age is -

(a) 45 years

(b) 63 years

(c) 82 years

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

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

Tax liability:

First ₹2,50,000 - Nil

Next ₹2,50,001 - ₹5,00,000 - @5% of ₹2,50,000 = ₹12,500

Next ₹5,00,001 - ₹10,00,000 - @20% of ₹5,00,000 = ₹1,00,000

Balance i.e., ₹16,00,000 minus ₹10,00,000 - @30% of ₹6,00,000 = ₹1,80,000

= ₹2,92,500

Add: Health and Education cess@4% = ₹11,700

= ₹3,04,200

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

Tax liability:

First ₹3,00,000 - Nil

Next ₹3,00,001 - ₹5,00,000 - @5% of ₹2,00,000 = ₹10,000

Next ₹5,00,001 - ₹10,00,000 - @20% of ₹5,00,000 = ₹1,00,000

Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000 - @30% of ₹ 6,00,000 = ₹ 1,80,000
= ₹ 2,90,000
Add: Health and Education cess@4% = ₹ 11,600
= ₹ 3,01,600

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

Tax liability:
First ₹ 5,00,000 - Nil
Next ₹ 5,00,001 - ₹ 10,00,000 - @ 20% of ₹ 5,00,000 = ₹ 1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000 - @ 30% of ₹ 6,00,000 = ₹ 1,80,000
= ₹ 2,80,000
Add: Health and Education cess@4% = ₹ 11,200 = ₹ 2,91,200

18. Compute the tax liability of Mr. A (aged 42), having total income of ₹ 51 lakhs for the Assessment Year 2024-25. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A has exercised the option to shift out of section 115BAC.

Ans. **Computation of tax liability of Mr. A for the A.Y.2024-25**

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

Alternative method -

(A) Income-tax (including surcharge) computed on total income of ₹ 51,00,000

₹ 2,50,000 - ₹ 5,00,000@5% ₹ 12,500

₹ 5,00,001 - ₹ 10,00,000@20% ₹ 1,00,000

₹ 10,00,001 - ₹ 51,00,000@30% ₹ 12,30,000

Total ₹ 13,42,500

Add: Surcharge@10% ₹ 1,34,250 ₹ 14,76,750

(B) Income-tax computed on total income of ₹ 50 lakhs

(₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000) ₹ 13,12,500

(C) Excess tax payable (A)-(B) ₹ 1,64,250

(D) Marginal Relief (₹ 1,64,250 - ₹ 1,00,000, being the amount

of income in excess of ₹ 50,00,000) ₹ 64,250

(E) Tax liability (A)-(D) ₹ 14,12,500

Add: Health and education cess @4% ₹ 56,500

Tax liability (including cess) ₹ 14,69,000

19. Compute the tax liability of Mr. B (aged 51) under the default tax regime, having total income of ₹ 1,01,00,000 for the Assessment Year 2024-25. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit.

Ans.

Computation of tax liability of Mr. B for the A.Y. 2024-25

(A) Income-tax (including surcharge) computed on total income of ₹ 1,01,00,000

₹ 3,00,000 - ₹ 6,00,000@5% ₹ 15,000

₹ 6,00,001 - ₹ 9,00,000@10% ₹ 30,000

₹ 9,00,001 - ₹ 12,00,000@15% ₹ 45,000

₹ 12,00,001 - ₹ 15,00,000@20% ₹ 60,000

₹ 15,00,001 - ₹ 1,01,00,000@30% ₹ 25,80,000

Total ₹ 27,30,000

Add: Surcharge@15% ₹ 4,09,500

Tax liability without marginal relief ₹ 31,39,500

(B) Income-tax computed on total income of ₹ 1 crore

(₹ 1,50,000 plus ₹ 25,50,000) ₹ 27,00,000

Add: Surcharge@10% ₹ 2,70,000

₹ 29,70,000

(C) Total Income Less ` 1 crore	` 1,00,000
(D) Income-tax computed on total income of ` 1 crore plus the excess of total income over ` 1 crore (B +C)	` 30,70,000
(E) Tax liability: lower of (A) & (D)	` 30,70,000
Add: Health and education cess @4%	` 1,22,800
Tax liability (including cess)	` 31,92,800
(F) Marginal relief (A-D)	` 69,500

Alternative method:

(A) Income-tax (including surcharge) computed on total income of ` 1,01,00,000	
` 3,00,000 - ` 6,00,000@5%	` 15,000
` 6,00,001 - ` 9,00,000@10%	` 30,000
` 9,00,001 - ` 12,00,000@15%	` 45,000
` 12,00,001 - ` 15,00,000@20%	` 60,000
` 15,00,001 - ` 1,01,00,000@30%	<u>` 25,80,000</u>
Total	` 27,30,000
Add: Surcharge @ 15%	` 4,09,500
	` 31,39,500
(B) Income-tax computed on total income of ` 1 crore	
[(` 1,50,000 plus ` 25,50,000) plus surcharge@10%]	<u>` 29,70,000</u>
(C) Excess tax payable (A)-(B)	` 1,69,500
(D) Marginal Relief (` 1,69,500 - ` 1,00,000, being the amount of income in excess of ` 1,00,00,000)	` 69,500
(E) Tax liability (A) - (D)	` 30,70,000
Add: Health and education cess @4%	` 1,22,800
Tax liability (including cess)	` 31,92,800

20. Compute the tax liability of Mr. C (aged 58), having total income of ` 2,01,00,000 for the Assessment Year 2024-25. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. C has exercised the option to shift out of section 115BAC.

Ans. **Computation of tax liability of Mr. C for the A.Y. 2024-25**

(A) Income-tax (including surcharge) computed on total income of ` 2,01,00,000	
` 2,50,000 - ` 5,00,000 @ 5%	` 12,500
` 5,00,001 - ` 10,00,000 @ 20%	` 1,00,000

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

Alternative method

(A) Income-tax (including surcharge) computed on total income of 2,01,00,000		
2,50,000 - 5,00,000 @ 5%	12,500	
5,00,001 - 10,00,000 @ 20%	1,00,000	
10,00,001 - 2,01,00,000@30%	<u>57,30,000</u>	
Total	58,42,500	
Add: Surcharge@25%	<u>14,60,625</u>	73,03,125
(B) Income-tax computed on total income of 2 crore		
[(12,500 plus 1,00,000 plus 57,00,000) plus surcharge@15%]		<u>66,84,375</u>
(C) Excess tax payable (A)-(B)		6,18,750
(D) Marginal Relief (6,18,750 - 1,00,000, being the amount of income in excess of 2,00,00,000)		
		<u>5,18,750</u>
(E) Tax liability (A) - (D)		67,84,375
Add: Health and education cess@4%		2,71,375
Tax liability (including cess)		33 70,55,750

21. Compute the tax liability of Mr. D (aged 65) in a most beneficial manner. He is having total income of 5,01,00,000 for the Assessment Year 2024-25. Assume that his total income

comprises of salary income, Income from house property and interest on fixed deposit and is the same under both tax regimes.

**Ans. Computation of tax liability of Mr. D under default tax regime
for the A.Y. 2024-25**

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

₹ 3,00,000 - ₹ 6,00,000@5%	₹ 15,000	
₹ 6,00,001 - ₹ 9,00,000@10%	₹ 30,000	
₹ 9,00,001 - ₹ 12,00,000@15%	₹ 45,000	
₹ 12,00,001 - ₹ 15,00,000@20%	₹ 60,000	
₹ 15,00,001 - ₹ 5,01,00,000@30%	₹ 1,45,80,000	
Total	₹ 1,47,30,000	
Add: Surcharge@25%	₹ 36,82,500	₹ 1,84,12,500
Add: Health and education cess @4%		<u>₹ 7,36,500</u>
Tax liability		<u>₹ 1,91,49,000</u>

Computation of tax liability of Mr. D under optional tax regime for the A.Y. 2024-25

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

₹ 3,00,000 - ₹ 5,00,000 @ 5%	₹ 10,000	
₹ 5,00,001 - ₹ 10,00,000 @ 20%	₹ 1,00,000	
₹ 10,00,001 - ₹ 5,01,00,000@30%	<u>₹ 1,47,30,000</u>	
Total	₹ 1,48,40,000	
Add: Surcharge @ 37%	₹ 54,90,800	₹ 2,03,30,800

(B) Income-tax computed on total income of ₹ 5 crore

(₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000)	₹ 1,48,10,000
Add: Surcharge@25%	<u>₹ 37,02,500</u>
	₹ 1,85,12,500

(C) Total Income Less ₹ 5 crore ₹ 1,00,000

(D) Income-tax computed on total income of ₹ 5 crore plus the excess of total income over ₹ 5 crore (B +C) ₹ 1,86,12,500

(E) Tax liability (A) or (D), whichever is lower ₹ 1,86,12,500

Add: Health and education cess@4% ₹ 7,44,500

Tax liability (including cess) ₹ 1,93,57,000

(F) Marginal Relief (A - D)

₹ 17,18,300

Alternative method

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

₹ 3,00,000 - ₹ 5,00,000@5%	₹ 10,000	
₹ 5,00,001 - ₹ 10,00,000@20%	₹ 1,00,000	
₹ 10,00,001 - ₹ 5,01,00,000@30%	₹ 1,47,30,000	
Total	₹ 1,48,40,000	
Add: Surcharge @ 37%	₹ 54,90,800	₹ 2,03,30,800

(B) Income-tax computed on total income of ₹ 5 crore

[(₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000) plus surcharge@25%] ₹ 1,85,12,500

(C) Excess tax payable (A)-(B) ₹ 18,18,300

(D) Marginal Relief (₹ 18,18,300 - ₹ 1,00,000, being the amount

of income in excess of ₹ 5,00,00,000) ₹ 17,18,300

(E) Tax liability (A) - (D) ₹ 1,86,12,500

Add: Health and education cess @4% ₹ 7,44,500

Tax liability (including cess) ₹ 1,93,57,000

It is beneficial for Mr. D to pay tax under default tax regime under section 115BAC, since his tax liability would be lower by ₹ 2,08,000 (₹ 1,93,57,000 - ₹ 1,91,49,000).

22. Mr. Raghav aged 26 years and a resident in India, has a total income of ₹ 6,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y. 2024-25 under default tax regime under section 115BAC.

Ans. Computation of tax liability of Mr. Raghav for A.Y. 2024-25

Particulars	
Tax on total income of ₹ 6,50,000	
Tax@10% of ₹ 50,000 + ₹ 15,000	20,000
Less: Rebate u/s 87A (Lower of tax payable or 25,000)	20,000

Tax Liability

Nil

23. Who is an "Assessee"? Explain

Ans. As per section 2(7), assessee means a person by whom any tax or any other sum of money is payable under the Income-tax Act, 1961.

In addition, the term includes -

- Every person in respect of whom any proceeding under the Act has been taken for the assessment of -
 - his income; or
 - the income of any other person in respect of which he is assessable; or
 - the loss sustained by him or by such other person; or
 - the amount of refund due to him or to such other person.
- Every person who is deemed to be an assessee under any provision of the Act;
- Every person who is deemed to be an assessee in default under any provision of the Act.

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

Ans. The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few cases, the income is taxed in the previous year in which it is earned. These exceptions have been made to protect the interests of revenue. The exceptions are as follows:

- (i) Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.
- (ii) Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year.

- (iii) If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/BOI is likely to be dissolved in the same year or in the next year, he can make assessment of the income up to the date of dissolution as income of the relevant assessment year.
- (iv) During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year.
- (v) Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year.

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

Ans. As per Explanation 3 to section 2(1A), income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income and exempt from tax, whether or not the basic operations were carried out on land.

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

Ans. The two schools of Hindu law are Dayabaga school, prevalent in West Bengal and Assam, and Mitakshara school, prevalent in rest of India.

Under the Dayabaga school of Hindu Law, nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property. Hence, the father and his brothers would be the coparceners of the HUF.

Under the Mitakshara school of Hindu Law, one acquires the right to the family property by his birth and not by succession irrespective of the fact that his elders are living. Thus, every child born in the family acquires a right/share in the family property.

27. What is the difference between an Association of Persons and Body of Individuals?

Ans. In order to constitute an Association of Persons (AOP), persons must join for a common purpose or action and their object must be to produce income; it is not enough that the persons receive the income jointly.

Body of Individuals denotes the status of persons like executors or trustees who merely receive the income jointly and who may be assessable in like manner and to the same extent as the beneficiaries individually. Thus, co-executors or co-trustees are assessable as a BOI as their title and interest are indivisible.

The difference between an AOP and BOI is that in case of a BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like company, firm etc. can be the member of AOP but not of BOI.

In case of an AOP, members voluntarily come together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.

28. Mr. Sumit, a resident Indian, earns income of `15 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in India and `20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia during the A.Y.2024-25. What would be his business income, assuming he has no other business?

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

Business income = 35% of ` 15 lakhs + ` 20 lakhs = ` 25.25 lakhs

29. Mr. Raja, a resident Indian, earns income of ` 10 lakhs from sale of coffee grown and cured in India during the A.Y.2024-25. His friend, Mr. Shyam, a resident Indian, earns income of ` 20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the A.Y.2024-25. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam?

Ans. In case of income derived from the sale of coffee grown and cured by the seller in India, 25% income on such sale is taxable as business income. In case of income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, 40% income on such sale is taxable as business income.

Business income of Mr. Raja = 25% of ₹10 lakhs = ₹2.5 lakhs

Business income of Mr. Shyam = 40% of ₹20 lakhs = ₹8 lakhs

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

Ans. Dayabaga school of Hindu law is prevalent in Assam. In Dayabaga school of Hindu law, nobody acquires the right, share in the property by birth as long as the head of family is living.

Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property.

Hence, Mr. Suresh Jain and his brother, Mr. Pritam Jain would be the coparceners of the Jain HUF and are eligible for coparcenary rights.

31. Compute the tax liability under default tax regime of Mr. Kashyap (aged 35), having total income of ₹51,75,000 for the Assessment Year 2024-25. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.

Ans. **Computation of tax liability of Mr. Kashyap for the A.Y.2024-25 under default tax regime**

(A) Tax payable including surcharge on total income of ₹51,75,000

₹3,00,000 - ₹6,00,000 @5%	₹15,000	
₹6,00,001 - ₹9,00,000 @10%	₹30,000	
₹9,00,001 - ₹12,00,000 @15%	₹45,000	
₹12,00,001 - ₹15,00,000 @20%	₹60,000	
₹15,00,001 - ₹51,75,000 @30%	₹11,02,500	
Total	₹12,52,500	
Add: Surcharge @ 10%	₹1,25,250	₹13,77,750

(B) Tax Payable on total income of ₹50 lakhs (₹1,50,000 plus

₹10,50,000) ₹12,00,000

(C) Total Income Less ` 50 lakhs	` 1,75,000
(D) Tax payable on total income of ` 50 lakhs plus the excess of total income over ` 50 lakhs (B +C)	` 13,75,000
(E) Tax payable: lower of (A) and (D)	` 13,75,000
Add: Health and education cess @4%	` 55,000
Tax liability	` 14,30,000
(F) Marginal Relief (A - D)	` 2,750
Alternative method -	
(A) Tax payable including surcharge on total income of ` 51,75,000	
` 3,00,000 - ` 6,00,000 @5%	` 15,000
` 6,00,001 - ` 9,00,000 @10%	` 30,000
` 9,00,001 - ` 12,00,000 @15%	` 45,000
` 12,00,001 - ` 15,00,000 @20%	` 60,000
` 15,00,001 - ` 51,75,000 @30%	` 11,02,500
Total	` 12,52,500
Add: Surcharge@10% ` 1,25,250	` 13,77,750
(B) Tax Payable on total income of ` 50 lakhs (` 1,50,000 plus ` 10,50,000)	` 12,00,000
(C) Excess tax payable (A)-(B)	` 1,77,750
(D) Marginal Relief (` 1,77,750 - ` 1,75,000, being the amount of income in excess of ` 50,00,000)	` 2,750
(E) Tax payable (A)-(D)	` 13,75,000
Add: Health and education cess @4%	` 55,000
Tax liability	` 14,30,000

32. Mr. Agarwal, aged 40 years and a resident in India, has a total income of ` 6,50,00,000, comprising long term capital gain taxable under section 112 of `55,00,000, short term capital gain taxable under section 111A of ` 65,00,000 and other income of ` 5,30,00,000. Compute his tax liability for A.Y.2024-25 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are

the same in both tax regimes.

Ans. **Computation of tax liability of Mr. Agarwal for the A.Y.2024-25**
under default tax regime

Particulars		
Tax on total income of ₹ 6,50,00,000		
Tax@20% of ₹ 55,00,000	11,00,000	
Tax@15% of ₹ 65,00,000	9,75,000	
Tax on other income of ₹ 5,30,00,000		
₹ 3,00,000 - ₹ 6,00,000 @5%	15,000	
₹ 6,00,000 - ₹ 9,00,000 @10%	30,000	
₹ 9,00,000 - ₹ 12,00,000 @15%	45,000	
₹ 12,00,000 - ₹ 15,00,000 @20%	60,000	
₹ 15,00,000 - ₹ 5,30,00,000 @30%	1,54,50,000	1,56,00,000
		1,76,75,000
Add: Surcharge @15% on ₹ 20,75,000	3,11,250	
@25% on ₹ 1,56,00,000	39,00,000	42,11,250
		2,18,86,250
Add: Health and education cess @4%	8,75,450	
Tax Liability	2,27,61,700	

Computation of tax liability of Mr. Agarwal for the A.Y.2024-25
under normal provisions of the Act

Particulars		
Tax on total income of ₹ 6,50,00,000		
Tax@20% of ₹ 55,00,000		11,00,000
Tax@15% of ₹ 65,00,000		9,75,000
Tax on other income of ₹ 5,30,00,000		
₹ 2,50,000 - ₹ 5,00,000 @5%	12,500	
₹ 5,00,000 - ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 - ₹ 5,30,00,000 @30%	1,56,00,000	1,57,12,500

33. Mr. Sharma aged 62 years and a resident in India, has a total income of ₹ 2,30,00,000,

comprising long term capital gain taxable under section 112 of ₹ 52,00,000, short term capital gain taxable under section 111A of ₹ 64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for A.Y.2024-25 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

Ans. **Computation of tax liability of Mr. Sharma for the A.Y.2024-25**
under default tax regime

Particulars

Tax on total income of ₹ 2,30,00,000	
Tax@20% of ₹ 52,00,000	10,40,000
Tax@15% of ₹ 64,00,000	9,60,000
Tax on other income of ₹ 1,14,00,000	
₹ 3,00,000 - ₹ 6,00,000 @5%	15,000
₹ 6,00,000 - ₹ 9,00,000 @10%	30,000
₹ 9,00,000 - ₹ 12,00,000 @15%	45,000
₹ 12,00,000 - ₹ 15,00,000 @20%	60,000
₹ 15,00,000 - ₹ 1,14,00,000 @30%	29,70,000
	31,20,000
	51,20,000
Add: Surcharge @15%	7,68,000
	58,88,000
Add: Health and education cess @4%	235,520
Tax Liability	61,23,520

34. Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2023. From the following details for the P.Y. 2023-24, determine the residential status of Mr. Anand for A.Y. 2024-25, assuming that his stay in India in the last 4 previous years (preceding P.Y. 2023-24) is 400 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6 th June 2023
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Ananad	9 th December, 2023

Ans. In this case, since Mr. Anand is an Indian citizen and leaving India during P.Y. 2023-24 as a member of the crew of the Indian ship, he would be resident in India if he stayed in India for 182 days or more. The voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).

Therefore, the period commencing from 6th June, 2023 and ending on 9th December, 2023, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the P.Y. 2023-24 would be 179 days [i.e., 366 days - 187 days]. Since his period of stay in India during the P.Y. 2023-24 is less than 182 days, he is a nonresident for A.Y. 2024-25.

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

- Find out his residential status for the assessment year 2024-25.
- Would your answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia and represents the Australian cricket team?
- What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including P.Y. 2023-24?

Ans. (a) Determination of Residential Status of Mr. Brett Lee for the A.Y. 2024-25:-

Period of stay during previous year 2023-24 = 100 days

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

2022-23	100 days
2021-22	100 days
2020-21	100 days
2019-20	100 days
Total	400 days

Mr. Brett Lee has been in India for a period more than 60 days during previous year 2023-24 and for a period of more than 365 days during the 4 immediately preceding previous years. Therefore, since he satisfies one of the basic conditions under section 6(1), he is a resident for the A.Y. 2024-25.

Computation of period of stay during 7 preceding previous years = $100 \times 7 = 700$ days

2022-23	100 days
2021-22	100 days
2020-21	100 days
2019-20	100 days
2018-19	100 days
2017-18	100 days
2016-17	100 days
Total	700 days

Since his period of stay in India during the past 7 previous years is less than 730 days, he is a not-ordinarily resident during the A.Y. 2024-25 (**See Note below**).

Therefore, Mr. Brett Lee is a resident but not ordinarily resident during the previous year 2023-24 relevant to the assessment year 2024-25.

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

- (i) If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or
- (ii) If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less.

In this case, since Mr. Brett Lee satisfies condition (ii), he is a not-ordinarily resident for the A.Y. 2024-25.

- (b) If the above facts relate to Mr. Srinath, an Indian citizen, who residing in Australia, comes on a visit to India, he would be treated as non-resident in India, irrespective of his total income

(excluding income from foreign sources), since his stay in India in the current financial year is, in any case, less than 120 days.

(c) In this case, if Srinath's total income (excluding income from foreign sources) exceeds ₹ 15 lakh, he would be treated as resident but not ordinarily resident in India for P.Y.2023-24, since his stay in India is 120 days in the P.Y.2023-24 and 480 days (i.e., 120 days × 4 years) in the immediately four preceding previous years.

If his total income (excluding income from foreign sources) does not exceed ₹ 15 lakh, he would be treated as non-resident in India for the P.Y.2023-24, since his stay in India is less than 182 days in the P.Y.2023-24.

36. Mr. B, a Canadian citizen, comes to India for the first time during the P.Y. 2019-20. During the financial years 2019-20, 2020-21, 2021-22, 2022-23 and 2023-24, he was in India for 55 days, 60 days, 90 days, 150 days and 70 days, respectively.

Determine his residential status for the A.Y. 2024-25.

Ans. During the P.Y. 2023-24, Mr. B was in India for 70 days and during the 4 years preceding the P.Y. 2023-24, he was in India for 355 days (i.e. 55+ 60+ 90+ 150 days).

Thus, he does not satisfy the basic condition under section 6(1). Therefore, he is a non-resident for the P.Y. 2023-24.

37. The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the Karta of the HUF, who was born in Kolkata, visits India during the P.Y. 2023-24 after 15 years. He comes to India on 1.4.2023 and leaves for Australia on 1.12.2023. Determine the residential status of Mr. E and the HUF for A.Y. 2024-25.

Ans. (a) During the P.Y. 2023-24, Mr. E has stayed in India for 245 days (i.e. 30+31+30+31+31+30+31+30+1 days). Therefore, he is a resident. However, since he has come to India after 15 years, he does not satisfy the condition for being ordinarily resident. Therefore, the residential status of Mr. E for the P.Y. 2023-24 is resident but not ordinarily resident.

(b) Since the business of the HUF is transacted from Australia and policy decisions are taken there, it is assumed that the control and management is in Australia i.e., the control and management is wholly outside India.

Therefore, the HUF is a non-resident for the P.Y. 2023-24.

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

38. From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2024, compute the total income for the A.Y. 2024-25, if he is:

- (i) Resident and ordinary resident;
- (ii) Resident but not ordinarily resident;
- (iii) Non-resident

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

Ans. **Computation of total income of Mr. Anirudh for the A.Y. 2024-25**

Particulars	Resident & ordinarily resident	Resident but not ordinarily resident	Non-Resident
1) Short term capital gains on sale of shares of an Indian company, received in Germany	15,000	15,000	15,000
2) Dividend from a Japanese company, received in Japan	10,000	-	-
3) Rent from property in London deposited in a bank	52,500	-	-

in London [See Note (i) below]			
4) Dividend from RP Ltd., an Indian Company	6,000	6,000	6,000
5) Agricultural income from land in Gujarat [See Note (ii) below]	-	-	-
Total Income	21,000	21,000	21,000

Notes:

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

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

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

39. Mr. David, an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2023 due to his transfer to High Commission of Canada. He did not visit India any time during the P.Y. 2023-24. He has received the following income for the F.Y. 2023-24:

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

Compute his Gross Total Income for A.Y. 2024-25.

Ans. As per section 6(1), Mr. David is a non-resident for the A.Y. 2024-25, since he was not present in India at any time during the P.Y. 2023-24.

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

- (i) Income received or deemed to be received in India; and
- (ii) Income accruing or arising or deemed to accrue or arise in India.

In view of the above provisions, income from agriculture in Nepal and income from house property in Nepal would not be chargeable to tax in the hands of David, assuming that the same were received in Nepal. Income from 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Hence, such income is taxable in the hands of Mr. David, even though he is a non-resident.

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

Gross Total Income of Mr. David for A.Y. 2024-25

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

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

Ans. A non-resident is chargeable to tax in respect of income received outside India only if such income accrues or arises or is deemed to accrue or arise to him in India.

The income deemed to accrue or arise in India under section 9 comprises, *inter alia*, income by way of fees for technical services, which includes any consideration for rendering of any managerial, technical or consultancy services.

Therefore, payment to a management consultant relating to project financing is covered within the scope of "fees for technical services".

The Explanation below section 9(2) clarifies that income by way of, *inter alia*, fees for technical services, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in

India or whether or not the nonresident has a residence or place of business or business connection in India.

In the instant case, since the services were utilized in India, the payment received by Mr. Kulasekhara, a non-resident, in Colombo is chargeable to tax in his hands in India, as it is deemed to accrue or arise in India.

41. Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and nonresident for the A.Y. 2024-25, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)-

Particulars	Amount (₹)
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Short term capital gains on sale of shares of an Indian company, received in London	20,000
Dividend from British company received in London	5,000
Long term capital gains on sale of plant at Germany, 50% of gains are received in India	40,000
Income earned from business in Germany which is controlled in Delhi (₹ 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Income from house property in London deposited in a Bank at London, brought to India (Computed)	50,000
Interest on debentures in an Indian company, received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Mumbai, managed from London	26,000
Income from property situated in Nepal received there (Computed)	16,000
Past foreign untaxed income brought to India during the previous year	5,000
Income from agricultural land in Nepal, received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but	5,000

spent in India	
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	12,000
Income from a business in Russia, controlled in Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

Ans.

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

Particulars	Resident and ordinarily resident	Resident but not ordinarily resident	Non resident
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Short term capital gains on sale of shares of an Indian company, received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Long term Capital gains on sale of plant at Germany, 50% of gains are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled in Delhi, out of which 40,000 is received in India	70,000	70,000	40,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from house property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
Interest on debentures in an Indian company, received in London	12,000	12,000	12,000

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

42. Mr. Ram, an Indian citizen, left India on 22.09.2023 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the A.Y. 2024-25.

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

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

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

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in (ii) above.

During the previous year 2023-24, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the A.Y. 2024-25.

43. Mr. Dey, residing in US since 1990, visits India for 30 days every year. He came back to India on 1.4.2022 for permanent settlement. What will be his residential status for A.Y. 2024-25?

Ans. Mr. Dey is a resident in A.Y. 2024-25 since he has stayed in India for a period of 366 days (more than 182 days) during the P.Y. 2023-24.

As per section 6(6), a person will be “Not ordinarily Resident” in India in any previous year, if such person, inter alia,:

(a) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or

(b) has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less.

If he does not satisfy either of these conditions, he would be a resident and ordinarily resident.

For the previous year 2023-24 (A.Y. 2024-25), his status would be “Resident but not ordinarily resident” since he was non-resident in 9 out of 10 previous years immediately preceding the P.Y. 2023-24. He was resident only in the P.Y. 2022-23. Prior to that, he was non-resident in all the years since his stay in India was only for 30 days each year.

He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 545 days [365 days in P.Y. 2022-23 + (30 days x 6 years)] in 7 previous years immediately preceding the P.Y. 2023-24, which is less than 730 days.

44. Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the F.Y. 2023-24. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the A.Y. 2024-25 assuming that both have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

S.No.	Particulars	Mr. Ramesh (₹)	Mr. Suresh (₹)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000
2.	Dividend from British company, received in London	28,000	20,000
3.	Profits from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company, received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Rent received in respect of house property at Bhopal	1,00,000	60,000
10.	Life insurance premium paid	---	30,000

Ans.

**Computation of total income of Mr. Ramesh & Mr. Suresh
for the A.Y. 2024-25**

S.No.	Particulars	Mr. Ramesh (Non - Resident) (₹)	Mr. Suresh (Resident) (₹)
1.	Interest on Canada Development Bonds (See Note 2)	17,000	40,000
2.	Dividend from British company, received in London (See Note 3)	-	20,000
3.	Profits from a business in Nagpur, but managed directly from London (See Note 2)	1,00,000	1,40,000

4.	Short term capital gain on sale of shares of an Indian company, received in India (See Note 2)	60,000	90,000
5.	Income from a business in Chennai (See Note 2)	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada (See Note 2)	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi (See Note 2)	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh (See Note 4)	-	-
9.	Income from house property at Bhopal (See Note 4)	7,00,000	42,000
	Gross Total income	4,34,500	4,14,000
	Less: Deduction under Chapter VI-A		
	Section 80C - Life insurance premium	-	30,000
	Section 80TTA (See Note 6)	7,000	10,000
	Total Income	4,27,500	3,74,000

Notes:

1. Mr. Ramesh is a non-resident since he has been living in Canada since 1996. Mr. Suresh, is settled in Delhi, and thus, assumed as a resident and ordinarily resident.
2. In case of a resident and ordinarily resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:
 - (i) Income received or deemed to be received in India; and
 - (ii) Income accruing or arising or deemed to accrue or arise in India.

Therefore, fees for technical services rendered in India would be taxable in the hands of Mr. Ramesh, even though he is a non-resident.

The income referred to in Sl. No. 3,4,5 and 7 are taxable in the hands of both Mr. Ramesh and Mr. Suresh since they accrue or arise/ deemed to accrue or arise in India.

Interest on Canada Development Bond would be fully taxable in the hands of M r. Suresh, whereas only 50%, which is received in I ndia, is taxable in the hands of Mr. Ramesh.
3. Dividend received from British company in London by Mr. Ramesh, a non-resident, is not taxable

since it is accrued and received outside India. However, such dividend received by Mr. Suresh is taxable, since he is a resident and ordinarily resident.

4. Agricultural income from a land situated in India is exempt under section 10(1) in the case of both non-residents and residents.

5. Income from house property -

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

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

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

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

Ans. This statement is correct.

As per Explanation to section 9, income by way of interest, royalty or fees for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1), shall be included in the total income of the non-resident, whether or not -

- (i) non-resident has a residence or place of business or business connection in India; or
- (ii) the non-resident has rendered services in India.

In effect, the income by way of fees for technical services, interest or royalty from services utilised in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India and irrespective of whether the nonresident has a residence or place of business or business connection in India.

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

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

Ans. Taxability of receipts

S.No.	Taxable/Not Taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	6,50,000	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India. He would be entitled to standard deduction of ₹50,000 under section 16(ia).
(ii)	Taxable	5,00,000	As per section 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.
(iii)	Partly Taxable	5,500	The interest on Post office savings bank a/c would be exempt u/s 10(15)(i) only to the extent of ₹3,500 in case of an individual a/c. Further, interest upto

			₹10,000, would be allowed as deduction u/s 80TTA from Gross Total Income. Balance ₹5,500 i.e., ₹19,000 - ₹3,500 - ₹10,000 would be taxable in the hands of Mr. Ram, a resident.
(iv)	Not Taxable		Royalty paid by a resident to a nonresident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).
(iv)	Taxable	5,00,000	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a non-resident lawyer of UK, who visited India to represent a case at the Delhi High Court would be taxable in India.

Chapter – 3

INCOME WHICH DO NOT FROM PART OF TOTAL INCOME

1. Kundan Lal grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 40% of the sugarcane produce is sold for ₹ 15,00,000 and the cost of cultivation of this part is ₹ 8,00,000. 60% of the sugarcane produce is further subjected to manufacturing sugar and the Market Value (MV) of the same was ₹ 33,00,000 and the cost of cultivation of this part was ₹ 21,00,000. Post incurring ₹ 3,00,000 in the manufacturing process for sugar, that the sugarcane was subjected to, the sugar was sold for ₹ 40,00,000. You are required to advise on his Agricultural and Business Income.

Ans.

Particulars	Figure in Lakhs	Figure in Lakhs
Item	Sugarcane	Sugar
Sale	48.0	40.0
Cost of cultivation	29.0	33.0
Further Mfg.	0.0	3.0
Agriculture Income	19.0	
Business Income		4.0

Notes:

- a) 40% of the sugarcane produce was sold raw @ ₹ 15,00,000 and 60% of the sugarcane produce was subjected to further manufacturing, MV was ₹ 33,00,000. Therefore, for the purposes of agricultural income, the entire produce was disposed at a consideration of ₹ 48,00,000
- b) The cost of 100% produce is ₹ 8,00,000 and ₹ 21,00,000 for the 40% and 60% respectively, which is ₹ 29,00,000
- c) For sugar, the MV of the 60% produce would be taken as the cost hence, and therefore the cost of cultivation would be ₹ 33,00,000
2. Nikhil manufactures latex from rubber plants grown by him in India. These are subsequently sold in the market at ₹ 50,00,000. The costs incurred are as under:

- Manufacturing Latex: ₹ 12,00,000
- Growing Rubber Plants: ₹ 18,00,000

The treatment is explained as under:

Ans.

Particulars	₹
Total Income	50,00,000
Total Costs	30,00,000
Profits	20,00,000
Business Income	7,00,000
Agricultural Income	13,00,000

Note: the business income chargeable to tax under the head "Profits and Gains from Business / Profession" is taken @ 35% of the profits and the agricultural income is taken @ 65%, which is subsequently exempt from tax.

3. Mr. A manufactures Latex from the rubber plants grown by him in India. These are then sold in the market for ₹ 50 lacs. The cost of growing rubber plants is ₹ 20 lacs and that of manufacturing latex is ₹ 10 lacs. Compute his total income.

Ans. The total income of Mr. A comprises of agricultural income and business income. Total profits from the sale of latex= ₹ 50 lacs - ₹ 20 lacs - ₹ 10 lacs = ₹ 20 lacs. Agricultural income = 65% of ₹ 20 lac = ₹ 13 lacs Business income = 35% of ₹ 20 lacs = ₹ 7 lacs

4. Income of Mr. A for the previous year 2023-24 is as follows: Compute Tax Liability for the Assessment year 2024-25.

Particulars	₹
Income from salary (computed)	2,50,000
Income from house property (computed)	1,25,000
Net Agricultural Income	1,00,000

Ans.

Particulars	₹
Income from salary (computed)	2,50,000
Income from house property (computed)	1,25,000
Net Agricultural Income	1,00,000
Total (A)	4,75,000
Tax Liability	11,250
Total (B)	3,50,000
Tax Liability	5,000
(A)-(B)	6,250
Less: Rebate 87A [12500 or tax payable i.e. 6,250 whichever is lower]	6,250
Total tax payable	Nil

Note:

- 1) The (A) would be the combined income and the tax Liability is computed per the current slabs and rates
- 2) The (B) would be the net agricultural income as increased by the minimum exemption amount and the tax liability is computed per the current slabs and rates
- 3) The (A)-(B) would be the tax liability on which rebate 87A is allowed to determine the final total tax Liability.
- 4) It is assumed that the assessee has not opted for Section 115BAC of the Income tax Act, 1961.

5. Mr. P, a member of a HUF, received ₹ 5,000 as his share from the income of the HUF. Is such income includible in his chargeable income?

Ans. No. Such income is not includible in Mr. P's chargeable income since section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family.

6. HUF earned ₹ 5,00,000 during the previous year and paid tax on its income. Mr. A, a co-parcener is an employee and earns a salary of ₹ 20,000 p.m. During the previous year Mr. A also received ₹ 1,00,000 from HUF. What will be the tax treatment on the above receipt?

Ans. Mr. A will pay tax on his salary income but any sum of money received from his HUF is not chargeable to tax in Mr. A's hands.

7. HUF earned ₹ 90,000 during the previous year 2023-24 and it is not chargeable to tax. Mr. A, a coparcener is earning individual income of ₹ 20,000 p.m. Besides his individual income, Mr. A receives ₹ 30,000 from his HUF. What will be the tax treatment on the above receipt?

Ans. Mr. A will pay tax on his individual income but any sum of money received by him from his HUF is not chargeable to tax in the hands of co-parcener whether the HUF has paid tax or not on that income.

8. Rajveer Turbines has 2 undertakings, one in a SEZ and one in a normal zone. The summarised results are as under:

Item	SEZ	Normal
Domestic turnover	50	125
Export turnover	200	0
Gross Profit	75	25
Expenses & Depreciation	15	10
Net profit	60	15

Compute the business income of the assessee.

Ans. The treatment is as under:

Total profit	75
Less: Exempt u/s 10AA	48
Taxable profits	27

Note:

- Total profits is the sum of the respective net profits for both the units
- The exemption is in the proportion of the export turnover to total turnover
- It is assumed that the current FY falls within the First 5 years commencing from the year

of manufacture of goods / provision of services by the SEZ Unit, as the quantum of deduction available is 100% of export profits for the first 5 years and 50% for the next 5 years and 50% of the next 5 years as is credited to a special reserve a/c.

9. Whether the payment of Compensation on agreed terms in respect of Land acquired would be entitled for exemption under section 10(37) of the Income tax Act, 1961?

Ans. Even if the amount of compensation is paid on agreed terms it would not change the character of the acquisition from that of compulsory acquisition to the voluntary sale and the exemption provided under the Income tax Act, 1961 would be available and such negotiations would be confined to the quantum of compensation only. [Supreme Court decision in case of Balakrishnan v. Union of India]

Chapter – 4

INCOME UNDER THE HEAD SALARY

1. Vir is employed with happiness Solutions Ltd. and during the FY 2023-24. He had a Basic Pay of ₹ 75000 per month. Owing to his good performance at workplace, he was given an annual increment in his Salary of 20% effective Feb 2024. He also received during the year, a Dearness Allowance of 100% of Basic (however only 50% of which was included as per his terms of employment). The Company also gave him HRA of ₹ 30000 per month, which was increased to ₹ 35000 per month effective Jan 2024. He stayed at his parental home in Ahmedabad for Apr and May 2023, post which he took up a Rented Accommodation at Surat at a monthly rental of ₹ 26000. Effective Nov 2023, he was moved to Mumbai to the Corporate office, and he took up an accommodation at Mumbai at a monthly rental of ₹ 36000. You are required to compute the HRA exempt from Tax and the gross Salary.

Ans. The computation of HRA exempt from tax would have to be done on a monthly basis as the salary and rental figures changed during the year, in the manner provided below.

Item	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Basic	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	90,000	90,000	9,30,000
D.A.	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	45,000	45,000	-
Salary for HRA	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,35,000	1,35,000	-
Accommodation	Own	Own	Surat	Surat	Surat	Surat	Surat	Mumbai	Mumbai	Mumbai	Mumbai	Mumbai	-
40% or 50% of Salary	-	-	45,000	45,000	45,000	45,000	45,000	56,250	56,250	56,250	67,500	67,500	-
HRA Actually Recd	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	35,000	35,000	35,000	3,75,000
Rent - 10% Salary	-	-	14,750	14,750	14,750	14,750	14,750	24,750	24,750	24,750	22,500	22,500	-
Min	-	-	14,750	14,750	14,750	14,750	14,750	24,750	24,750	24,750	22,500	22,500	1,93,000

Note:

- (1) For the stay at Surat, 40% of Salary and for stay at Mumbai, 50% of Salary is considered for one of the parameters for exemption.
- (2) DA, only to the extent of it being included per terms of employment, is included in Salary for the purposes of HRA.

Please note the gross Salary Computation below:

Particulars	(₹)	(₹)
Basic Salary (75000 × 10 + 90000 × 2)		9,30,000
Dearness Allowance (100% of Basic)		9,30,000
HRA	3,75,000	
Less: exempt	1,93,000	1,82,000
Gross Salary		20,42,000

Note: It is assumed that assessee has not opted u/s 115BAC, otherwise exemption u/s 10(13A) of ₹1,93,000 will not be available. In that case, gross Salary would be ₹22,35,000

2. Arjun retired on 15-4-2023 from X Company Ltd. He was entitled to a pension of Rs. 20,000 p.m. At the time of retirement, he got 75% of the pension commuted and received Rs. 4,50,000 as commuted pension. Compute the taxable portion of the commuted pension if:
 1. He is also entitled to gratuity.
 2. He is not entitled to gratuity.

- Ans. 1. 75% of commuted pension is equal to Rs. 4,50,000. Hence commuted value of 1/3 of the pension would amount to Rs. $4,50,000 \times 100 / 75 \times 1/3 = \text{Rs. } 2,00,000$; Rs. 2,00,000 would, therefore be exempt and balance Rs. 2,50,000 would be taxable.
2. 75% of commuted pension is equal to Rs. 4,50,000 hence commuted value of 50% of pension amount to $4,50,000 \times 100 / 75 \times 1/2 = \text{Rs. } 3,00,000$. Therefore, Rs. 3,00,000 would be exempt and Rs. 1,50,000 would be taxable.
3. A pensioner from Maharashtra State government retired in December 2015 receiving an amount of Rs. 10,00,000 as gratuity. But thereafter, he received a further amount of Rs. 1.20 lakhs in April 2018 consequent on revision of pay. At the time of his retirement the exemption limit was Rs. 10 lakh. Is he eligible for the higher exemption limit under Section 10(10) available at the time of receipt. The higher limit of Rs. 20 lakhs is raised by dated 29.03.2018 S.o. 1420(e) notification.

Ans. Every time the limit has been raised, such limit has only referred to the retirement on or after the date on which it was raised. Hence the limit on the date of retirement time would alone have to be considered, so exemption with reference to the enhanced limit will not apply in this case. Since the assessee is a government pensioner. There is no ceiling for Central or State pensioners. If assessee is a retiree from the civil service of a State or held a civil post under a State or had even been an employee of a local authority, the gratuity amount, that is received, is totally exempt vide Section 10(10)(i) of the Income-tax Act irrespective of the date of retirement or the notification. Further for government pensioners maximum gratuity amount was increased to Rs. 20 Lakh with effect from 01/01/2016 under 7th Pay Recommendations as one of the employees Welfare Measures to compensate rising inflation over the period. Please note that this is Maximum amount which they can receive as gratuity but there is no ceiling on Tax exemption for gratuity for Central or State pensioners.

4. Mr. X received voluntary retirement compensation of Rs. 7,00,000 after 30 years 4 months of service.

He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary Rs. 20,000 p.m.; Dearness allowance (which forms part of pay) Rs. 5,000 p.m. Compute his taxable voluntary retirement compensation.

Ans. Voluntary retirement compensation received Rs. 7,00,000

Less: Exemption under section 10(10C) [note 1] Rs. (5,00,000) Taxable voluntary retirement compensation Rs. 2,00,000

Note 1: Exemption is to the extent of least of the following:

(i) Compensation actually received = Rs. 7,00,000

(ii) Statutory Limit = Rs. 5,00,000

(iii) Last drawn salary * 3 * completed years of service = $(20,000 + 5,000) * 3 * 30 \text{ years} = \text{Rs. } 22,50,000$

(iv) Last drawn salary * remaining months of service = $(20,000 + 5,000) * 6 * 12 \text{ months} = \text{Rs. } 18,00,000$

5. ABC Ltd. provided the following perquisites to its employee Srinivasan, for the FY 2023-24.

- 1) Leased accommodation provided to the employee. hire Charges INR 50000 pm; recovered from employee INR 20000 pm
- 2) Accommodation was furnished and the actual hire charges paid by the employer was INR 4050 pm

3) He was also provided a Hyundai Santro with Chauffer and a gift Voucher worth INR 9000.

Salary for the purposes of valuation of perquisites is INR 25,00,000. Compute the taxable value of the perquisites assuming assesses had not opted for section 115BAC of the Income Tax Act, 1961.

Ans.

Accommodation on lease	Amount (Rs.)	Amount (Rs.)
Salary for the purposes of Valuation of Perquisites	25,00,000	
Actual lease Charges	6,00,000	
15% of the above (Cap)	3,75,000	
Hence, Gross Taxable Value of the Perquisite		3,75,000
Less: Amount recovered from the employee		(2,40,000)
Taxable value of unfurnished leased accommodation		1,35,000
Add: Actual hire charges of furniture hired		48,600
Taxable value of Furnished Accommodation		1,83,600
VCar used partly for Official & partly for Personal		
Engine Capacity is within 1.6 (Santro)		
Taxable Value of Perquisite @ 1800 pm		21,600
Chauffer @ 900 pm		10,800
Taxable value of Motor Car provided		32,400
Gift Voucher		9,000
Total Value of perquisites		2,25,000

Note:

1. Refer to the valuation rules for perquisites - taxable value of perquisite for a hired accommodation is the actual hire charges incurred by the employer subject to max. 25% of salary reduced by the amount recovered from the employee.
2. Since the accommodation is furnished, the actual hire charges are added to the above.
3. Gift Vouchers are taxable as perquisites too if received by the employer and more than 5000.

6. Mr. X, working in MNO Ltd., draws the following amount of emoluments from the company:

Particulars	Amount (in lakhs)
Basic Pay	50
Commission	15
Employer's contribution to recognized provident fund	10
Employer's contribution to NPS	7
Employer's contribution to the superannuation fund	5
Total	87

Ans. Amount (in lakhs)

Particulars	Before	After
	Amendment	Amendment
Basic Pay	50	50
Commission	15	15
Employer's contribution to recognized provident fund (in excess of 12% of basic pay) [Rs. 10 lakh (less) Rs.6 lakh (Rs. 50 lakh * 12%)] [Section 17(1)]	4	4
Employer's contribution to NPS	7	7
Employer's contribution to the superannuation fund in excess of Rs. 1.5 lakhs [old Section 17(2)(vii)]	3.50	-
Perquisite arising from employer's contribution to the superannuation fund, RPF and NPS in excess of Rs. 7.5 lakhs [new Section 17(2)(vii)]	-	14.50
Income chargeable to tax under the head "Salary"	79.50	90.50

7. Nitin is an employee of XYZ Ltd. he was appointed on 1st Mar 2023 at a scale of 50000 - 50000 - 70000. He is paid DA (which forms part of retirement benefits) @ 15% of Basic Pay and Bonus equivalent to 2 month's salary at end of FY. He contributes 18% of his Basic + DA

to a recognised provident fund, and the contribution is matched by the employer.

He is provided rent free accommodation, hired by the employer, @ 25000 pm. He is also provided the following benefits / amenities:

- a) Medical Treatment of his dependant spouse INR 40000.
- b) Monthly salary to housekeeper INR 4000.
- c) Telephone Allowance INR 1200 pm.
- d) Gift Voucher of INR 4500 on account of his marriage anniversary.
- e) Medical Insurance Premium for Nitin, paid by his employer INR 15000.
- f) Motor Car owned and driven by Nitin, and engine capacity within 1.6 liters; used partly for official and partly for personal purposes. Running & maintenance expenses borne by the employer INR 36,600.
- g) Lunch during office hours valued at INR 2200.

He was also allotted 2000 sweat equity shares in September 2023. The shares were allotted @ INR 227 per share against the FMV of INR 377 per share as on the date of exercise of the option.

Compute the Salary income chargeable to tax.

Option 1 : Assessee paying tax under normal Tax Regime

Option 2 : Assessee paying tax under section 115BAC

Ans. **Option 1 : Assessee paying tax under normal Tax Regime**

Particulars	Amount INR
Basic	6,05,000
DA	90,750
Bonus	1,10,000
Employers' Contribution to Pf > 12%	41,745
Taxable Allowances	
Telephone	14,400
Taxable Perquisites	
Medical Reimbursement (fully Taxable)	40,000
Housekeeper	48,000
Motor Car	15,000

Rent free Accommodation	1,23,023
Sweat equity	3,00,000
Gross Salary	13,87,918
Less: Standard Deduction under section 16(ia)	(50,000)
Taxable Salary	13,37,918

Note:

- Employer's Contribution to Provident fund in excess of 12% is chargeable to Income Tax.
- Rent free Accommodation is valued as under:
 - Since the accommodation is hired, the actual hire charges subject to a cap of 10% of "salary" is considered;
 - "Salary" for this purpose is Basic + DA + Bonus + all Taxable Allowances = INR 8,20,150.
- Medical Treatment is chargeable to Tax, as no more tax free perquisite.
- Since the value of the gift voucher is below INR 5000, it is not taxable as perquisite.
- Lunch during office hours is also not taxable as perquisite assuming cost of meal upto Rs.50 per meal.
- Medical Insurance Premium paid by the employer on behalf of Nitin is also not taxable as perquisite.
- The motor car is chargeable as under:

If the Car is owned / hired by the employee; expenses met by the employer & is used by the employee partly for official and partly for Personal purposes, the taxable value of the perquisite would be the actual expenditure incurred by the employer as reduced by the taxable value of the perquisite determined basis the engine capacity, i.e., INR 36600 - INR (1800*12) = INR 15000.

Option 2 : Assessee paying tax under section 115BAC

Particulars	Amount (INR)
Basic	6,05,000
DA	90,750
Bonus	1,10,000
Employers' Contribution to Pf > 12%	41,745
Taxable Allowances Telephone	14,400
Taxable Perquisites Medical Reimbursement (fully Taxable)	40,000

Housekeeper	48,000
Motor Car	15,000
Rent free Accommodation	1,23,023
Sweat equity	3,00,000
Meals	(15,000)
Gross Salary	13,90,118
Less: Standard Deduction under section 16(ia)	(50,000)
Taxable Salary	13,40,118

Note:

- Employer's Contribution to Provident fund in excess of 12% is chargeable to Income Tax.
- Rent free Accommodation is valued as under:
 - a) Since the accommodation is hired, the actual hire charges subject to a cap of 10% of "salary" is considered;
 - b) "Salary" for this purpose is Basic + DA + Bonus + all Taxable Allowances = INR 8,20,150.
- Medical Treatment is chargeable to Tax, as no more tax free perquisite.
- Since the value of the gift voucher is below INR 5000, it is not taxable as perquisite.
- Lunch during office hours is taxable as perquisite.
- Medical Insurance Premium paid by the employer on behalf of Nitin is also not taxable as perquisite.
- The motor car is chargeable as under:

If the Car is owned / hired by the employee; expenses met by the employer & is used by the employee partly for official and partly for Personal purposes, the taxable value of the perquisite would be the actual expenditure incurred by the employer as reduced by the taxable value of the perquisites determined basis the engine capacity i.e. $\text{INR } 36600 - \text{INR } (1800 \times 12) = \text{INR } 15000$.

8. Mr. Ram is employed at Bombay. His basic Salary is Rs. 5,000 per month. He receives Rs. 5,000 p.a. as house rent allowance. Rent paid by him is Rs. 12,000 p.a. find out the amount of taxable house rent allowance. Assuming assessee has not opted u/s 115BAC.

Ans. As per Rule 2A, the least of the following is exempt from tax:

- (i) the actual house rent allowance;
- (ii) excess of rent paid over 10% of salary;

(iii) where the accommodation is situated at Bombay, Delhi, Calcutta or Madras, one-half of the amount of salary due to the assessee for the relevant period;

Where the accommodation is situated at any other place, two-fifth of the salary due to the assessee for the relevant period.

Accordingly, Mr. Ram would be entitled to the least of:

- (i) Rs. 5,000; or
- (ii) Rs. 6,000 being excess of rent over 1/10th of salary; or
- (iii) Rs. 30,000 (being one-half of the salary of the assessee).

Rs. 5,000, being the least, would not be included in the total income of Mr. Ram. So the entire amount of HRA would be exempt from tax.

Salary for this purpose includes basic salary as well as dearness allowance if the terms of employment so provide. It also includes commission based on a fixed percentage of turnover achieved by an employee as per terms of contract of employment but excludes all other allowances and perquisites and these are determined on due basis for the period during which rental accommodation is occupied by the employee in the previous year.

9. Mr. Shyam, employed at Mumbai, receives the following from his employer during the previous year:

Particulars	Rs.
Basic Salary	60,000
Bonus	1,800
Entertainment allowance (taxable)	6,000
Electricity expenses	2,000
Professional tax paid by the employer	2,000
Rent free house (owned by Employer):	
Fair rent	48,000
Salary of gardener	2,400
Garden Maintenance	1,200
Salary of watchman	1,800

Determine the value of taxable perquisites in respect of rent free house assuming (a)

Mr. Shyam is a government officer and the fair rent as arrived at by the government is Rs. 6,000 p.a. (b) Mr. Shyam is a semi-government employee, and (c) Mr. Shyam is employed by a private company.

Ans. (a) If Mr. Shyam is a Government Officer: As per Rule 3(1) of Income-tax Rules, Rs. 6,000 p.a. being the rent of the house as per government rules, will be the taxable value of the perquisite.

(b) If Mr. Shyam is a semi-Government employee: As per Rule 3(1) of the Income-tax Rules, the value of the perquisite in respect of rent free accommodation is taken at 10% of salary of the employee (as the house is owned by the employer and provided in Mumbai).

Salary = Rs. 67,800 (Rs. 60,000 + 1,800 + 6,000)

10% of salary = Rs. 6,780 and

Therefore, Rs. 6,780 is taxable value of the perquisite.

Further, the value of electricity expenses and Professional Tax paid by the employer, being perquisites, are not included in the salary for valuation of Rent free house Accommodation.

(c) If Mr. Shyam is employed in Private Company: The value of perquisite in this case shall also be Rs. 6,780. Under the new rules there is no difference between the semi-govt. and other employees.

Note: The Solution is provided assuming assessee has not opted for section 115BAC. However, even if he would have opted for section 115BAC, the solution would be same.

10. Mr. Ramamoorthy, an employee of M/s. Gopal Krishnan & Co. of Chennai receives during the previous year ended March 31, 2024 the following payments:

Particulars	(Rs.)
Basic Salary	40,000
Dearness allowance	3,000
Leave Salary	5,400
Professional tax paid by employer	1,000
Fair rent of the flat provided by employer	6,000
Rent paid for furniture	1,000
Rent recovered by employer	3,000

Contribution to Statutory Provident fund	4,000
Employer's contribution to Statutory Provident fund	4,000

Compute his taxable income for the Assessment Year 2024-25. Option 1: Assessee paying tax under normal Tax Regime Option 2 : Assessee paying tax under section

Ans. **Option 1: Assessee paying tax under normal Tax Regime**

Computation of taxable income of Mr. Ramamoorthy for the Assessment Year 2024-25

Particulars	Amount (Rs.)
Basic Pay	40,000
Dearness allowance	3,000
Leave salary	5,400
Professional tax paid by employer	1,000
Perquisite for house :	
10% of salary (Rs. 40,000 + 3,000 + 5,400) 4,840	2,840
Add: furniture rent 1,000	
Less: Rent recovered (-) 3,000	
	52,240
Less: Standard Deduction under section 16(ia)	(50,000)
Less: Professional tax u/s 16	1,000
Gross Total Income	1,240
Less: Deduction under Section 80C	(1,240)
Total income	Nil
Total tax payable	Nil

Note: Assumed that dearness allowance forms part of the salary for the purpose of computation of superannuation or retirement benefits.

Option 2: Assessee paying tax under section 115BAC

Computation of taxable income of Mr. Ramamoorthy for the Assessment Year 2024-25

Particulars	Amount (Rs.)
Basic Pay	40,000
Dearness allowance	3,000
Leave salary	5,400
Professional tax paid by employer	1,000
Perquisite for house :	
10% of salary (Rs. 40,000 + 3,000 + 5,400) 4,840	
Add: furniture rent 1,000 less: Rent recovered (-) 3,000	2,840
	52,240
Less: Standard Deduction under section 16(ia)	(50,000)
Less: Professional tax u/s 16	(NA)
Gross Total Income	2,240
Less: Deduction under Section 80C	(NA)
Total income	2,240
Total tax payable	Nil

Note:

- (i) Assumed that dearness allowance forms part of the salary for the purpose of computation of superannuation or retirement benefits.
- (ii) Deduction u/s 16 & 80C is not allowed as the assessee has opted for section 115BAC

11. Raman, an employee of the Gas Supply Ltd., Agra, receives the following emoluments during the previous year 2023-24.

Particulars	(Rs.)
Basic pay	10,000
Project allowance	1,800
Arrears of project allowance of May, 2018	150
Professional tax paid by the employer	200
Rent free furnished house	

- Fair rent of the house	2,000
- Rent of furniture	500
Free gas supply	400
Service of sweeper	600
Services of gardener	1,000
Service of cook	800
Free lunch	2,400

Free use of chauffeur driven fiat car which is used partly for official and partly for private purposes.

He is a member of recognized provident fund to which he contributes Rs.1,500. His employer also contributes an equal amount. He deposits Rs. 600 per month in 10 year account under the Post office Savings Bank (CTD) Rules.

Determine his taxable income and tax payable thereon for the assessment year 2024-25.

(a) If Raman is a director in the employer company and the rent-free house is owned by it,

(b) If Raman is neither a director nor a shareholder in the employer company and the rent-free house is not owned by it.

Ans. **Option 1: Assessee paying tax under normal Tax Regime Option 2 : Assessee paying tax under section 115BAC Solution:**

Option 1: Assessee paying tax under normal Tax Regime

His taxable income will be computed as under:

Particulars	if Raman is a director and rent-free house is owned by the company 'A'	if Raman is neither a director nor a shareholder and rent-free house is not owned by the company 'B'
(1)	(2)	(3)
	Rs.	Rs.
Basic Pay	10,000	10,000
Project allowance	1,800	1,800

Arrears of project allowance of May, 2018	150	150
Professional tax paid by the employer	200	200
Rent free furnished house:		
- 10% of Salary	1,180	1,180
- Rent of furniture	500	500
Free gas supply	400	Nil
Service of sweeper	600	Nil
Service of gardener	1,000	Nil
Service of cook	800	Nil
Free lunch	Nil	Nil
Excess of employer's contribution towards provident fund over 12% of salary (1,500 - 12% of Rs. 10,000)	300	300
Gross salary	16,930	14,130
Deduction : Standard Deduction (Maximum Rs. 50,000)	(16,930)	(14,130)
Net Salary Income	Nil	Nil
Tax on total income	Nil	Nil

Notes:

- (1) It is assumed that the arrears of project allowance are taxable on receipt basis.
- (2) Perquisite in respect of Rent free house is taxable in the hands of all the assesseees. In this case fair market value has no relevancy and assumed that the house is owned by the employer. Since the house is provided in Agra, population is assumed as exceeding 40 lakhs. Salary for valuation of perquisite is (10,000 + 1,800).
- (3) The free sweeper, gardener, cook, lunch, car etc. are not taxable in the second case, because Raman does not fall in the category of specified employee under Section 17(2)(iii) of the Act i.e., he is neither a director nor his salary is Rs. 50,000 p.a. or more.
- (4) Free lunch provided is not taxable to the extent of Rs. 50 per day.
- (5) Since Raman is employed in a gas supply company, the value of gas supplied is taxable as cost to the employer. And it is assumed that the cost of supply is same as Rs. 400 as given.

Option 2: Assessee paying tax under section 115BAC, his taxable income will be computed as under:

Particulars	if Raman is a director and rent-free house is owned by the company 'A'	if Raman is neither a director nor a shareholder and rent-free house is not owned by the company 'B'
(1)	(2)	(3)
	Rs.	Rs.
Basic Pay	10,000	10,000
Project allowance	1,800	1,800
Arrears of project allowance of May, 2018	150	150
Professional tax paid by the employer	200	200
VRent free furnished house:		
- 10% of Salary	1,180	1,180
- Rent of furniture	500	500
Free gas supply	400	Nil
Service of sweeper	600	Nil
Service of gardener	1,000	Nil
Service of cook	800	Nil
Free lunch	2400	2400
Excess of employer's contribution towards provident fund over 12% of salary (1,500 - 12% of Rs. 10,000)	300	300
Gross salary	19,330	16,530
Deduction : Standard Deduction (Maximum Rs.50,000)	(19,330)	(16,530)

Net Salary Income	Nil	Nil
Tax on total income	Nil	Nil

Notes:

- (1) It is assumed that the arrears of project allowance are taxable on receipt basis.
- (2) Perquisite in respect of Rent free house is taxable in the hands of all the assessees. In this case fair market value has no relevancy and it is assumed that the house is owned by the employer. Since the house is provided in Agra, population is assumed as exceeding 40 lakhs. Salary for valuation of perquisite is (10,000 + 1,800).
- (3) The free sweeper, gardener, cook, lunch, car etc. are not taxable in the second case, because Raman does not fall in the category of specified employee under Section 17(2)(iii) of the Act i.e., he is neither a director nor his salary is Rs. 50,000 p.a. or more.
- (4) Free lunch provided is taxable as the assessee is opted for Section 115BAC.
- (5) Since Raman is employed in a gas supply company, the value of gas supplied is taxable as cost to the employer. And it is assumed that the cost of supply is same as Rs. 400 as given.

12. For the financial year 2023-24, A, a Central government officer receives salary of Rs. 77,000 (including dearness allowance of Rs. 42,000) and entertainment allowance of Rs.18,000. his contribution to provident fund during this period is Rs. 7,200. In addition, he has purchased national Savings Certificates (VIII Issue) for Rs. 6,000. he has been provided with accommodation by the government for which the rent determined is Rs. 375 per month and this is recovered from A's salary. Compute A's tax liability for the assessment year 2024-25

Ans. assuming that he has no other income.

Option 1: Assessee paying tax under normal Tax Regime Option 2 : Assessee paying tax under section 115BAC Solution:

Option 1: Assessee paying tax under normal Tax Regime Mr. A

Assessment Year: 2024-25 Status: Resident Individual

Statement of Assessable Income

Particulars	(Rs.)	(Rs.)

Salary from Central government		77,000
Entertainment allowance	18,000	
Less: Entertainment Allowance u/s 16(ii) Rs. 5,000 or [1/5th of salary exclusive of any allowance, benefit or perquisite]	(5,000)	13,000
Less: Standard Deduction u/s 16(ia)		(50,000)
Gross Total Income		40,000
Less: Deduction u/s 80C (7,200 + 6,000)		(13,200)
Total Income		26,800
Tax liability		Nil
Net tax payable		Nil

Option 2: Assessee Assessee paying tax under section 115BAC

Name of Assessee: Mr. A Assessment Year : 2024-25 Status: Resident Individual Statement of assessable income

Particulars	(Rs.)
Salary from Central government	77,000
Entertainment allowance	18,000
Less: Deduction u/s 16	(50,000)
Gross Total Income	45,000
Less: Deduction u/s 80C	Nil
Total Income	45,000
Tax liability	Nil
Net tax payable	Nil

13. Mr. X is employed in ABC Ltd. getting basic pay Rs. 60,000 p.m. and dearness allowance Rs. 10,000 p.m. (forming part of salary). Employer has paid bonus Rs. 20,000 during the year. Commission was allowed @ 2% of sales turnover of Rs. 50,00,000. The employer and employee both are contributing Rs. 11,000 (each) to the recognised provident fund. During the year interest of Rs. 1,00,000 was credited to the RPF @ 10% p.a.
Compute tax liability of Mr. X for A.Y. 2024-25.

Ans. Option 1: Assessee paying tax under normal Tax Regime Option 2 : Assessee paying tax under section 115BAC Solution:

Option 1: Assessee paying tax under normal Tax Regime

Particulars	Amount (INR)
Basic Pay (60,000 × 12)	7,20,000
Dearness allowance (10,000 × 12)	1,20,000
Bonus	20,000
Commission (50,00,000 × 2%)	1,00,000
Employer's contribution to RPF >12% Salary	19,200
Interest credited in excess of 9.5% p.a. (1,00,000 / 10% × 0.5%)	500
Gross Salary	9,79,700
Less: Standard Deduction u/s 16 (ia)	(50,000)
Income under the head Salary	9,29,700
Gross Total Income	9,29,700
Less: Deduction u/s 80C	(1,32,000)
Total Income	7,97,700
Computation of Tax liability	
Tax on Rs. 7,97,700 at slab rate	72,040
Add: HEC @ 4%	2,882
Tax liability Rs. 74,922 (R/o)	74,920

Option 2 : Assessee paying tax under section 115BAC

Particulars	Amount (INR)
Basic Pay (60,000 × 12)	7,20,000
Dearness allowance (10,000 × 12)	1,20,000
Bonus	20,000
Commission (50,00,000 × 2%)	1,00,000
Employer's contribution to RPF >12% Salary	19,200
Interest credited in excess of 9.5% p.a. (1,00,000 / 10% × 0.5%)	500

Gross Salary	9,79,700
Less: Standard Deduction u/s 16 (ia)	(50,000)
Income under the head Salary	9,29,700
Gross Total Income	9,29,700
Less: Deduction u/s 80C	(Nil)
Total Income	9,29,700
Computation of Tax liability	
Tax on Rs. 9,29,700 at slab rate [Section 115BAC note 1]	49,455
Add: HEC @ 4%	1,978
Tax liability Rs. 74,833 (R/o)	51,433

Note:

1. Computation of Tax Liability Tax on Rs. 9,29,700 at new slab rate [Section 115BAC] 0 to 30,00,000 : Nil
 $>3,00,000$ to $6,00,000$ @5%: 15,000 $>6,00,000$ to $9,00,000$ @10% : 30,000 $>9,00,000$ to 9,29,700 @15% : 4,455 Total = 49455
2. Salary for RPF= $7,20,000 + 1,20,000 + 1,00,000 = 9,40,000$ @12% = 1,12,800 Employer's contribution = $11,000 \times 12 = 1,32,000$
 $1,32,000 - 1,12,800 = 19,200$

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

(1) Basic pay	₹ 40,000 p.m.
(2) Dearness allowance (D.A.)	₹ 6,000 p.m.
(3) Commission	₹ 50,000 p.a.
(4) Motor car for personal use (expenses met by the employer)	₹ 1,500 p.m.
(5) House rent allowance	₹ 15,000 p.m.

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

Ans. HRA received	₹ 1,80,000
Less: Exempt under section 10(13A) [Note]	₹ 1,36,800

Taxable HRA ₹ 43,200

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

(a) the actual amount received ($₹ 15,000 \times 12$) = ₹ 1,80,000

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

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

= ($₹ 16,000 \times 12$) (-) 10% of [$₹ 40,000 + ₹ 6,000$] $\times 12$]

= ₹ 1,92,000 - ₹ 55,200 = ₹ 1,36,800

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

= 40% of [$₹ 40,000 + ₹ 6,000$] $\times 12$] = ₹ 2,20,800

Note: For the purpose of exemption under section 10(13A), salary includes dearness allowance only when the terms of employment so provide, but excludes all other allowances and perquisites.

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

Transport allowance : ₹ 1,800 p.m.

Tribal area allowance : ₹ 500 p.m.

Compute his taxable allowances

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

If Mr. Srikant exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)

Children Education Allowance:

Elder son [$(₹ 150 - ₹ 100)$ p.m. $\times 12$ months] = ₹ 600

Younger son [$(₹ 70 - ₹ 70)$ p.m. $\times 12$ months] = Nil ₹ 600

Transport allowance ($₹ 1,800$ p.m. $\times 12$ months) ₹ 21,600

Tribal area allowance [$(₹ 500 - ₹ 200)$ p.m. $\times 12$ months] ₹ 3,600

Taxable allowances ₹ 25,800

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

Children Education Allowance [$(₹ 150 + ₹ 70)$ p.m. $\times 12$ months] ₹ 2,640

Transport allowance ($₹ 1,800$ p.m. $\times 12$ months) ₹ 21,600

Tribal area allowance ($₹ 500$ p.m. $\times 12$ months) ₹ 6,000

Taxable allowances ₹ 30,240

16. Mr. Sagar who retired on 1.10.2023 is receiving ₹ 5,000 p.m. as pension. On 1.2.2024, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

- He is a government employee.
- He is a private sector employee and received gratuity of ₹ 5,00,000 at the time of retirement.
- He is a private sector employee and did not receive any gratuity at the time of retirement.

Ans. (a) He is a government employee

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

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

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

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

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

17. Mr. Ravi retired on 15.6.2023 after completion of 26 years 8 months of service and received gratuity of ₹ 15,00,000. At the time of retirement, his salary was:

Basic Salary	: ₹ 50,000 p.m.
Dearness Allowance	: ₹ 10,000 p.m. (60% of which is for retirement benefits)

Commission : 1% of turnover (turnover in the last 12 months was ₹ 1,20,00,000)

Bonus : ₹ 25,000 p.a.

Compute his taxable gratuity assuming:

- He is private sector employee and covered by the Payment of Gratuity Act, 1972.
- He is private sector employee and not covered by Payment of Gratuity Act, 1972.
- He is a Government employee.

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

Gratuity received at the time of retirement ₹ 15,00,000

Less: Exemption under section 10(10)

Least of the following:

i. Gratuity received ₹ 15,00,000

ii. Statutory limit ₹ 20,00,000

iii. 15 days' salary based on last drawn

salary for each completed year of service

or part thereof in excess of 6 months

$\frac{15}{26} \times \text{last drawn salary} \times \text{years of service}$

$\frac{15}{26} \times (50,000 + 10,000) \times 27 = ₹ 9,34,615$ ₹ 9,34,615

Taxable Gratuity ₹ 5,65,385

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

Gratuity received at the time of retirement ₹ 15,00,000

Less: Exemption under section 10(10) (Note) ₹ 8,58,000

Taxable Gratuity ₹ 6,42,000

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

(i) Gratuity received ₹ 15,00,000

(ii) Statutory limit ₹ 20,00,000

(iii) Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service.

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

$= \frac{1}{2} \times \frac{[(50,000 \times 10) + (10,000 \times 60\% \times 10) + (1\% \times 1,20,00,000 \times \frac{10}{12})]}{10} \times 26 = ₹ 8,58,000$

(c) He is a government employee

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

18. Mr. Gupta retired on 1.12.2023 after 20 years of service and received leave salary of ₹ 5,00,000. Other details of his salary income are:

Basic Salary	: ₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 1.4.2023)
Dearness Allowance	: ₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission	: ₹ 500 p.m.
Bonus	: ₹ 1,000 p.m.
Leave availed during service	: 480 days

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

- (a) He is a government employee.
- (b) He is a non-government employee.

Ans. (a) He is a government employee

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

(b) He is a non-government employee

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

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

(i) Leave salary received	₹ 5,00,000
(ii) Statutory limit	₹ 25,00,000

(iii) 10 months' salary based on average salary of last 10 months

$$\begin{aligned}
 & \text{i.e. } \left[10 \times \frac{\text{Salary of last 10 months i.e. Feb-Nov}}{10 \text{ months}} \right] \\
 & = \left[10 \times \frac{(5000 \times 8) + (4000 \times 2) + (60\% \times 3000 \times 10)}{10 \text{ months}} \right] \quad \text{₹ 66,000}
 \end{aligned}$$

(iv) Cash equivalent of leave standing at the credit of

the employee based on the average salary of last

10 months' (max. 30 days per year of service)

Leave Due = Leave allowed - Leave taken

= (30 days per year × 20 years) - 480 days = 120 days

i.e. $\left[\frac{\text{Leave due (in days)}}{30 \text{ days}} \times \text{Average salary p. m.} \right]$

= $\frac{120 \text{ days}}{30 \text{ days}} \times \frac{\text{Rs.66,000}}{10}$

₹ 26,400

19. Mr. A retires from service on December 31, 2023, after 25 years of service. Following are the particulars of his income/investments for the previous year 2023-24:

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

Out of the amount received from the unrecognised provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2024-25?

Ans. Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2024-25 is computed hereunder:

Particulars	₹
Amount taxable under the head "Salaries":	
Employer's share in the payment received from the URPF	2,20,000
Interest on the employer's share	<u>50,000</u>
Total	<u>2,70,000</u>
Amount taxable under the head "Income from Other Sources":	
Interest on the employee's share	<u>60,000</u>
Total amount taxable from the amount received from the fund	<u>3,30,000</u>

Note: Since the employee is not eligible for deduction under section 80C for contribution to URPF at the time of such contribution, the employee's share received from the URPF is not taxable at

the time of withdrawal as this amount has already been taxed as his salary income.

20. Will your answer be any different if the fund mentioned above was a recognised provident fund?

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

21. Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. 2023-24. You are required to compute his gross salary from the details given below:

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

Ans. Computation of Gross Salary of Mr. B for the A.Y. 2024-25

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

Notes:

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

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

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

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

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

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

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

23. Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2021. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2022, 31.3.2023 and 31.3.2024 is ₹ 9,81,137, ₹ 27,43,048 and ₹ 46,48,555, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. X u/s 17(2)(vii) and 17(2)(viii) for the A.Y. 2023-24 and A.Y. 2024-25. Prior to 1.9.2021, he was a consultant, whose professional fees was taxable under the head "Profits and gains of business or profession".

Ans. **Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viii) for A.Y. 2023-24**

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2022-23 - ₹ 7,50,000 = ₹ 27,600

$$\begin{aligned} 2. \text{ Perquisite value taxable u/s 17(2)(viia)} &= \text{Annual accretion on perquisite taxable u/s 17(2)(vii)} = \\ &= (PC/2) \times R + (PC1 + TP1) \times R \\ &= (27,600/2) \times 0.111 + 0 \\ &= ₹ 1,532 \end{aligned}$$

PC ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2022-23 = ₹ 27,600

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

TP1 Nil

R $I/\text{Favg} = 2,06,711/18,62,093 = 0.111$

I RPF balance as on 31.3.2023 - employee's and employer's contribution during the year - RPF balance as on 1.4.2022 = ₹ 2,06,711 (₹ 27,43,048 - ₹ 7,77,600 - ₹ 7,77,600 - ₹ 9,81,137)

Favg Balance to the credit of recognized provident fund as on 1st April, 2022 + Balance to the credit of recognized provident fund as on 31st March, 2023)/2 = (₹ 9,81,137 + ₹ 27,43,048)/2 = ₹ 18,62,093

Note - Interest on the aggregate of following will also be chargeable to tax during A.Y. 2023-24 -

(i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2021-22]

(ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]

(iii) interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2021-22

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

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 - ₹ 7,50,000 = ₹ 27,600

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

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

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

TP1 Taxable perquisite under section 17(2)(viia) for the P.Y. 2022-23 = ₹ 1,532

R $I/\text{Favg} = 3,50,307/36,95,802 = 0.09479$

I RPF balance as on 31.3.2024 - employee's and employer's contribution during the year -
RPF balance as on 1.4.2023 = ₹ 3,50,307 (₹ 46,48,555 - ₹ 7,77,600 - ₹ 7,77,600 - ₹ 27,43,048)

Favg Balance to the credit of recognized provident fund as on 1st April, 2023 + Balance to the credit of recognized provident fund as on 31st March, 2024)/2 = (₹ 27,43,048 + ₹ 46,48,555)/2 = ₹ 36,95,802

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

(i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2021-22]

(ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]

(iii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]

(iv) interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2021-22

(v) interest accrued on ₹ 5,27,600 being excess employee's contribution of P.Y. 2022-23

24. Mr. D went on a holiday on 25.12.2023 to Delhi with his wife and three children (one son - age 5 years; twin daughters - age 3 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount of LTC exempt if Mr. D exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

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

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

Taxable LTC = $\frac{1}{3}$ = ₹ 5,000.

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

26. Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. 2023-24:

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

Ans. **Computation of taxable value of perquisite in the hands of Mr. G**

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

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

Basic salary ₹ 6,000 p.m.

Dearness Allowance ₹ 2,000 p.m. (30% is for retirement benefits)

Bonus ₹ 1,500 p.m.

Even though the company allotted the house to him on 1.4.2023, he occupied the same only from 1.11.2023. Calculate the taxable value of the perquisite for A.Y.2024-25.

Ans. Value of the rent free unfurnished accommodation

= 15% of salary for the relevant period

= 15% of [(₹ 6000 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)] [See Note below]

= 15% of ₹ 40,500 = ₹ 6,075.

Note: Since, Mr. C occupies the house only from 1.11.2023, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2023 to 31.03.2024) will be considered.

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

Ans. First of all, we have to see whether the accommodation is provided at a concessional rate. If the value of accommodation computed in prescribed manner exceeds the rent recoverable, or payable by, the assessee, the accommodation would be deemed to have been provided at a concessional rate.

In this case, 15% of salary would be ₹ 6,075 (i.e. 15% of ₹ 40,500). The rent paid by the employee is ₹ 5,000 (i.e., ₹ 1,000 × 5). Since 15% of salary exceeds the rent recovered from the employee, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation = ₹ 6,075

Less: Rent paid by the employee (₹ 1,000 × 5) = ₹ 5,000

Perquisite value of accommodation given at a concessional rent = ₹ 1,075

29. Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of ₹ 1,200 p.m. and Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.

Ans. Here again, we have to see whether the accommodation is provided at a concessional rate. In the case of accommodation taken on lease by the employer, the accommodation would be deemed to have been provided at a concessional rate if the rent paid by the employer or 15% of salary, whichever is lower, exceeds rent recoverable from the employee.

In this case, 15% of salary is ₹ 6,075 (i.e. 15% of ₹ 40,500). Rent paid by the employer is ₹ 6,000

(i.e. ₹ 1,200 × 5). The lower of the two is ₹ 6,000, which exceeds the rent paid by the employee i.e., ₹ 5,000 (₹ 1,000 × 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation [Note]	= ₹ 6,000
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
Value of accommodation given at a concessional rent	= ₹ 1,000

Note: Value of the accommodation is lower of

(i) Lease rent paid by the company for relevant period = ₹ 1,200 × 5	= ₹ 6,000
(ii) 15% of salary for the relevant period (computed earlier)	= ₹ 6,075

30. Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has provided a television (WDV ₹ 10,000; Cost ₹ 25,000) and two air conditioners. The rent paid by the company for the air conditioners is ₹ 400 p.m. each. The television was provided on 1.1.2024. However, Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this furnished accommodation.

Ans. Here again, we have to see whether the accommodation is provided at a concessional rate. In the case of accommodation owned by the employer in a city having a population exceeding 25 lakh, the accommodation would be deemed to have been provided at a concessional rate, if 15% of salary exceeds rent recoverable from the employee. In case of furnished accommodation, the excess of hire charges paid or 10% p.a. of the cost of furniture, as the case may be, over and above the charges paid or payable by the employee has to be added to the value arrived at above to determine whether the accommodation is provided at a concessional rate.

In this case, 15% of salary is ₹ 6,075 (i.e. 15% of ₹ 40,500). The value of furniture of ₹ 4,625 (**See Note below**) is to be added to 15% of salary. The rent paid by the employee is ₹ 5,000 (i.e. ₹ 1,000 × 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation (computed earlier)	= ₹ 6,075
Add: Value of furniture provided by the employer [Note]	= ₹ 4,625
Value of furnished accommodation	= ₹ 10,700
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
Value of furnished accommodation given at a concessional rent	= ₹ 5,700

Note: Value of the furniture provided = (₹ 400 p.m. × 2 × 5 months) + (₹ 25,000 × 10% p.a. for 3 months) = ₹ 4,000 + ₹ 625 = ₹ 4,625

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

Ans. In the case of Government employees, the accommodation would be deemed to have been provided at a concessional rate, if the licence fees determined by the employer as increased by the value of furniture and fixture exceeds the rent recovered/ recoverable from the employee.

In this case, ₹ 3,500 (licence fees: ₹ 700 × 5) + ₹ 4,625 (Value of furniture) is the value of furnished accommodation. The rent paid by the employee is ₹ 5,000 (i.e. ₹ 1,000 × 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

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

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

- (i) For Mr. X, who engaged a domestic servant for ₹ 500 per month, his employer reimbursed the entire salary paid to the domestic servant i.e. ₹ 500 per month.
- (ii) For Mr. Y, he was provided with a domestic servant @ ₹ 500 per month as part of remuneration package.

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

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

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

33. Mr. X retired from the services of M/s Y Ltd. on 31.01.2024, after completing service of 30 years and one month. He had joined the company on 1.1.1994 at the age of 30 years and received the following on his retirement:

- Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.
- Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
- As per the scheme of the company, he was offered a car which was purchased on 30.01.2021 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
- An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- Company presented him a gift voucher worth ₹ 6,000 on his retirement.
- His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars:

- He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance per month for the period from 01.04.2023 to 31.01.2024.
- Received pension of ₹ 5,000 per month for the period 01.02.2024 to 31.03.2024 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2024-25 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Computation of Gross Total Income of Mr. X for A.Y. 2024-25

Particulars	₹
Basic Salary = ₹ 20,000 × 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher (See Note - 1)	6,000
Transfer of car (See Note - 2)	56,000
Gratuity (See Note - 3)	80,769
Leave encashment (See Note - 4)	1,30,000
Uncommuted pension (₹ 5000 × 2)	10,000

Commuted pension (See Note - 5)	1,50,000
Gross Salary	7,32,769
Less: Standard deduction u/s 16(ia)	50,000
Taxable Salary /Gross Total Income	6,82,769

Notes:

(1) As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of ₹ 5,000.

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

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

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

Particulars	₹
Purchase price (30.1.2021)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2022	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 29.1.2023	3,20,000
Less: Depreciation @ 20%	64,000
WDV on 29.1.2024	2,56,000
Less: Amount recovered	2,00,000
Value of perquisite	56,000

The rate of 15% as well as the straight line method adopted by the company for depreciation of

vehicle is **not** relevant for calculation of perquisite value of car in the hands of Mr. X.

(3) Taxable gratuity

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

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

(4) Taxable leave encashment

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

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

(5) Commuted Pension

Since Mr. X is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of 1/3rd of the amount of the pension which he would have received had he commuted the whole of the pension.

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

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

34. Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2023-24:

- (i) Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).
- (ii) In case the company has employed the domestic servant, what is the value of perquisite?
- (iii) Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 900 per month and for Ashok at ₹ 1,200 per month. No amount was recovered by the company for such education facility from Bala.
- (iv) The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000.
- (v) A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- (vi) Telephone provided at the residence of Shri Bala and the bill aggregating to ₹ 25,000 paid by the employer.
- (vii) Housing loan @ 6% per annum. Amount outstanding on 1.4.2023 is ₹ 6,00,000. Shri Bala pays ₹ 12,000 per month towards principal, on 5th of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2024-25.

The lending rate of State Bank of India as on 1.4.2023 for housing loan may be taken as 10%.

Ans. Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala

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

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

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

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

Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed ₹ 1,000 per month.

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

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

- (iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is ₹ 1,10,000.

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

- (iv) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.

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

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

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

tax free perquisite.

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

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

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

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
April, 2023	5,88,000	1960
May, 2023	5,76,000	1920
June, 2023	5,64,000	1880
July, 2023	5,52,000	1840
August, 2023	5,40,000	1800
September, 2023	5,28,000	1760
October, 2023	5,16,000	1720
November, 2023	5,04,000	1680
December, 2023	4,92,000	1640
January, 2024	4,80,000	1600
February, 2024	4,68,000	1560
March, 2024	4,56,000	1520
Total value of this perquisite		20,880

Total value of taxable perquisite

= ₹ 74,280 [i.e. ₹ 18,000 + ₹ 14,400 + ₹ 11,000 + ₹ 10,000 + ₹ 20,880].

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

35. AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2023. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

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

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

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

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

(ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi). (The provisions of section 49 are discussed in Unit 4: Capital Gains of this chapter)

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

36. X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2023-24 -

1. Accommodation taken on lease by X Ltd. for ₹ 15,000 p.m. ₹ 5,000 p.m. is recovered from the salary of Mr. Y.
2. Furniture, for which the hire charges paid by X Ltd. is ₹ 3,000 p.m. No amount is recovered from the employee in respect of the same.
3. A car of 1,200 cc which is owned by X Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the

employer. He is also provided with a chauffeur.

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

Compute the value of perquisites chargeable to tax for the A.Y.2024-25, assuming his salary for perquisite valuation to be ₹ 10 lakh.

Ans. **Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y.2024-25**

	Particulars	Amount in ₹		
(1)	Value of accommodation at concessional rate			
	Actual amount of lease rental paid by X Ltd.	1,80,000		
	15% of salary i.e., 15% of ₹10,00,000	1,50,000		
	Lower of the above		1,50,000	
	Less: Rent paid by Mr. Y (₹5,000 × 12)		60,000	
			90,000	
	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (₹3,000 × 12)		36,000	1,26,000
(2)	Perquisite value of Santro car owned by X Ltd. and provided to Mr. Y for his personal and official use [₹1,800 + ₹900 × 12]			32,400
(3)	Value of gift voucher*			10,000
	Value of perquisites chargeable to tax			1,68,400

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

37. Mr. Goyal receives the following emoluments during the previous year ending 31.03.2024.

Basic pay	₹ 4,00,000
Dearness Allowance	₹ 1,50,000
Commission	₹ 1,00,000

Entertainment allowance	₹ 40,000
Medical expenses reimbursed	₹ 25,000
Professional tax paid	₹ 2,000 (₹ 1,000 was paid by his employer)

Mr. Goyal contributes ₹ 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y. 2024-25, if Mr. Goyal is a State Government employee.

Computation of salary of Mr. Goyal for the A.Y.2024-25 under default tax regime under section 115BAC

Particulars	₹
Basic Salary	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment Allowance received	40,000
Employee's contribution to RPF [Note]	-
Medical expenses reimbursed	25,000
Professional tax paid by the employer	1,000
Gross Salary	7,16,000
Less: Deductions under section 16(ia) - Standard deduction of upto ₹ 50,000	50,000
Income from Salary	6,66,000

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

Ans. **Computation of salary of Mr. Goyal for the A.Y.2024-25 under the optional tax regime (normal provisions of the Act)**

Particulars	₹	₹
Basic Salary		4,00,000
Dearness Allowance		1,50,000
Commission		1,00,000
Entertainment Allowance received		40,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000

Gross Salary		7,16,000
Less: Deductions under section 16		
under section 16(ia) - Standard deduction of upto ₹ 50,000		50,000
under section 16(ii) - Entertainment allowance being lowest of :		
(a) Allowance received	40,000	
(b) One fifth of basic salary [$1/5 \times ₹ 4,00,000$]	80,000	
(c) Statutory amount	5,000	5,000
under section 16(iii) - Professional tax paid		2,000
Income from Salary		6,59,000

38. In the case of Mr. Hari, who turned 71 years on 28.3.2024, you are informed that the salary (computed) for the previous year 2023-24 is ₹ 10,20,000 and arrears of salary received is ₹ 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Previous year	Taxable Salary (₹)	Arrears now received (₹)
2010 - 2011	7,10,000	1,03,000
2011 - 2012	8,25,000	1,17,000
2012 - 2013	9,50,000	1,25,000

Compute the relief available under section 89 and the tax payable for the A.Y. 2024-25. Assume that Mr. Hari exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Note: Rates of Taxes:

Assessment Year	Slab rates of income-tax			
	For resident individuals of the age of 60 years or more at any time during the previous year		For other resident individuals	
	Slabs	Rate	Slabs	Rate
2011-12	Upto ₹ 2,40,000	Nil	Upto ₹ 1,60,000	Nil
	₹ 2,40,001 - ₹ 5,00,000	10%	₹ 1,60,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 - ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
2012-13	Upto ₹ 2,50,000	Nil	Upto ₹ 1,80,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 1,80,001 - ₹ 5,00,000	10%

	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 - ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
2013-14	Upto ₹ 2,50,000	Nil	Upto ₹ 2,00,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 2,00,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 10,00,000	20%	₹ 5,00,001 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%

Note - Education cess@2% and secondary and higher education cess@1% was attracted on the income-tax for all above preceding years.

Ans. **Computation of tax payable by Mr. Hari for the A.Y.2024-25**

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

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

Particulars	A.Y. 2011-12		A.Y. 2012-13		A.Y. 2013-14	
	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Arrears of salary	1,03,000	-	1,17,000	-	1,25,000	-
Taxable salary	8,13,000	7,10,000	9,42,000	8,25,000	10,75,000	9,50,000
Tax on the above	97,900	76,000	1,34,600	99,500	1,47,500	1,15,000
Add: Cess@3%	2,937	2,280	4,038	2,985	4,425	3,450
Tax payable	1,00,837	78,280	1,38,638	1,02,485	1,51,925	1,18,450

Computation of relief under section 89

	Particulars	₹	₹
i	Tax payable in A.Y.2024-25 on arrears: Tax on income including arrears	2,28,280	
	Less : Tax on income excluding arrears	1,20,640	1,07,640
ii	Tax payable in respective years on arrears :		
	Tax on income including arrears (₹ 1,00,837 + ₹ 1,38,638 + ₹ 1,51,925)	3,91,400	
	Less: Tax on income excluding arrears (₹ 78,280 + ₹ 1,02,485 + ₹ 1,18,450)	2,99,215	92,185
	Relief under section 89 - difference between tax on arrears in A.Y. 2024-25 and tax on arrears in the respective years		15,455

Tax payable for A.Y.2024-25 after relief under section 89

Particulars	₹
Income-tax payable on total income including arrears of salary	2,28,280
Less : Relief under section 89 as computed above	15,455
Tax payable after claiming relief	2,12,825

39. Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. with effect from 01.01.2024. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2024. Rent paid by him during the P.Y.2023-24 is as under:

April and May, 2023 - Nil, as he stayed with his parents

June to October, 2023 - ₹ 6,000 p.m. for an accommodation in Ghaziabad

November, 2023 to March, 2024 - ₹ 8,000 p.m. for an accommodation in Delhi

Compute his gross salary for A.Y.2024-25, assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans.

Computation of gross salary of Mr. Mohit for A.Y. 2024-25

Particulars	₹

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

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-March (₹)
Basic salary per month	10,000	10,000	10,000	10,000	11,000
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	5,000	5,000	5,000	5,000	5,500
Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (₹ 6,000×5)	16,000 (₹ 8,000×2)	8,000 (₹ 8,000×1)	16,000 (₹ 8,000×2)
House rent allowance (HRA) received during the relevant period (A)	12,000 (₹ 6,000×2)	30,000 (₹ 6,000×5)	12,000 (₹ 6,000×2)	7,000 (₹ 7,000×1)	14,000 (₹ 7,000×2)
Least of the following is exempt [u/s 10(13A)]	N.A.				
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (–) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad – June to Oct, 2023)	-	30,000 (40% × ₹ 75,000)	15,000 (50% × ₹ 30,000)	7,500 (50% × ₹ 15,000)	16,500 (50% × ₹ 33,000)
50% of salary (Residence at Delhi – Nov, 23 - March, 24)	Nil	22,500	12,000	6,500	12,700
Exempt HRA (B)					
Taxable HRA [Actual HRA (–) Exempt HRA]	12,000	7,500	Nil	500	1,300

(A-B)					

Taxable HRA (total) = ₹ 12,000 + ₹ 7,500 + ₹ 500 + ₹ 1,300 = ₹ 21,300

40. Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2023-24:

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

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

Ans. **Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi for A.Y. 2024-25**

Particulars

1.	Reimbursement of medical expenses incurred by Ms. Rakhi (A) The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite. (B) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite. (C) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite. The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite
2.	Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free perquisite as per clause (iii) of the first proviso to section 17(2).
3.	Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.
4.	As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is a tax-free perquisite.
5. & 6.	As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions - (i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India including stay expenses [₹ 1,05,000, in this case]; (ii) Expenditure on travel of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [₹ 1,20,000, in this case]. The conditions subject to which the above expenditure would be exempt are as follows -
	(i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India; (ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed ₹ 2 lakh. Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from

	perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed ₹ 2 lakh.

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

- A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 1.8.2023.
- A personal loan of ₹ 5,00,000 on 1.7.2023 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding (Assume SBI rate of interest on 1.4.2023 was 12.75% p.a.)
- His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2020. The motor cycle was finally sold to him on 1.8.2023 for ₹ 30,000.
- Professional tax paid by Mr. X is ₹ 2,000.

Compute the income from salary of Mr. X for the A.Y. 2024-25 assuming Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. **Computation of Income from Salary of Mr. X for the A.Y. 2024-25**

Particulars	₹	₹
Basic salary [₹ 25,000 × 12]		3,00,000
Commission [₹ 1,000 × 12]		12,000
Entertainment allowance [₹ 1,000 × 12]		12,000
Rent free accommodation [Note 1]	48,600	
Add : Value of furniture [₹ 2,40,000 × 10% p.a. for 8 months]	16,000	64,600
Interest on personal loan [Note 2]		22,500
Use of motor cycle [₹ 60,000 × 10% p.a. for 4 months]		2,000
Transfer of motor cycle [Note 3]		12,000
Gross Salary		4,25,100
Less : Deduction under section 16		
Under section 16(ia) - Standard deduction	50,000	
Under section 16(iii) - Professional tax paid	2,000	52,000
Income from Salary		3,73,100

Notes:

1. Value of rent-free unfurnished accommodation

= 15% of salary for the relevant period

= 15% of (₹ 3,00,000 + ₹ 12,000 + ₹ 12,000) = ₹ 48,600

2. Value of perquisite for interest on personal loan

= [₹ 5,00,000 × (12.75% - 6.75%) for 9 months] = ₹ 22,500

3. Depreciated value of the motor cycle

= Original cost - Depreciation @ 10% p.a. for 3 completed years.

= ₹ 60,000 - (₹ 60,000 × 10% p.a. × 3 years) = ₹ 42,000.

Perquisite = ₹ 42,000 - ₹ 30,000 = ₹ 12,000.

42. Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2024:

- (i) Basic salary upto 31.10.2023 ₹ 50,000 p.m. Basic salary from 01.11.2023 ₹ 60,000 p.m.

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

- (ii) Dearness allowance @ 40% of basic salary.
- (iii) Bonus equal to one month salary. Paid in October 2023 on basic salary plus dearness allowance applicable for that month.
- (iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.
- (v) Professional tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.
- (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2023.
- (vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2023 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2023 to 31.03.2024, were fully met by the employer. The motor car was self-driven by the employee.
- (viii) Leave travel concession given to employee, his wife and three children (one daughter

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

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the A.Y. 2024-25 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans.

Computation of Taxable Salary of Mr. Balaji for A.Y. 2024-25

Particulars	₹
Basic salary $[(₹ 50,000 \times 7) + (₹ 60,000 \times 5)]$	6,50,000
Dearness Allowance (40% of basic salary)	2,60,000
Bonus $(₹ 50,000 + 40\% \text{ of } ₹ 50,000)$ (See Note 1)	70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of ₹ 6,50,000 (See Note 2)	26,000
Professional tax paid by employer	2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 4)	12,000
Gross Salary	10,20,000
Less: Deduction under section 16	
Standard deduction u/s 16(ia) ₹ 50,000	
Professional tax u/s 16(iii) (See Note 6) ₹ 2,500	
Taxable Salary	9,67,500

Notes:

- Since bonus was paid in the month of October, the basic salary of ₹ 50,000 for the month of October is considered for its calculation.
- It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
- As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.
- As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 2,400 per month. The car was provided to the employee from 01.11.2023, therefore the perquisite value has been calculated for 5 months.
- Mr. Balaji can avail exemption under section 10(5) on the entire amount of ₹ 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The

restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

It is assumed that the Leave Travel Concession was availed for journey within India.

He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

6. As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year.

Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.

43. From the following details, find out the salary chargeable to tax for the A.Y.2024-25 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) -

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2023 in the scale of ₹ 20,000 - ₹ 1,000 - ₹ 30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. DA forms part of pay for retirement benefits.

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

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

Ans. Computation of taxable salary of Mr. X for A.Y. 2024-25

Particulars	₹
Basic pay $[(\text{₹ } 20,000 \times 9) + (\text{₹ } 21,000 \times 3)] = \text{₹ } 1,80,000 + \text{₹ } 63,000$	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus	21,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15%-12% = 3% of ₹ 2,67,300) [See Note 1 below]	8,019
Taxable allowances	
Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation [See Note 1 & 2 below]	44,145
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher [See Note 5 below]	10,000
Gross Salary	3,93,464
Less: Deduction under section 16(ia) - Standard deduction	50,000
Salary income chargeable to tax	3,43,464

Notes:

- Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly worked out.
- Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

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

- Basic salary i.e., ₹ 2,43,000

- ii. Dearness allowance i.e. ₹ 24,300
- iii. Bonus i.e., ₹ 21,000
- iv. Telephone allowance i.e., ₹ 6,000

Therefore, salary works out to

$$₹ 2,43,000 + ₹ 24,300 + ₹ 21,000 + ₹ 6,000 = ₹ 2,94,300.$$

$$15\% \text{ of salary} = ₹ 2,94,300 \times 15/100 = ₹ 44,145$$

Value of rent-free house = Lower of rent paid by the employer (i.e. ₹ 1,20,000) or 15% of salary (i.e., ₹ 44,145).

Therefore, the perquisite value is ₹ 44,145.

- 3. Facility of use of laptop is not a taxable perquisite.
- 4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
- 5. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.

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

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

- 6. Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.

44. You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2024:

- (a) He retired on 31-12-2023 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.
- (b) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.
- (c) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- (d) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of

₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.

- (e) He is receiving ₹ 5,000 as pension. On 1.2.2024, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.
- (f) The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.

Ans.

Computation of income under the head "Salaries"

of Mr. Raja for the A.Y.2024-25 under default tax regime

Particulars	₹	₹
Basic Salary = ₹ 25,000 × 9 months		2,25,000
House Rent Allowance = ₹ 6,000 × 9 months [Fully taxable under default tax regime]		54,000
Gratuity	3,50,000	
Less: Least of the following exempt under section 10(10)(ii)	3,50,000	Nil
(i) Actual Gratuity received ₹ 3,50,000		
(ii) 15 days salary for every year of completed service [15/26 × ₹ 25,000 × 26] = ₹ 3,75,000		
(iii) Notified limit = ₹ 20,00,000		
Leave encashment	3,15,000	
Less: Least of the following exempt under section 10(10AA)	2,50,000	65,000
(i) ₹ 25,00,000		
(ii) Leave salary actually received ₹ 3,15,000		
(iii) ₹ 2,50,000, being 10 months' salary × ₹ 25,000		
(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired		
375/30 × ₹ 25,000 = ₹ 3,12,500		
[Leave Due = Leave allowed - Leave taken]		
= 750 (30 days per year × 25 years) - 375		

days (15 days × 25)		
= 375 days]		
Uncommuted Pension received [₹ 5,000 × 1) + (₹ 5,000 × 2 × 40%)		9,000
Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A)		
1/3 × ₹ 3,00,000/60% × 100%)	1,66,667	1,33,333
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt]		Nil
Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder)		Nil
Gross Salary		4,86,333
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less] [Allowable under default tax regime]		50,000
Net Salary		4,36,333

45. Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2023-24:

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	8,000
Gift voucher given by employer on her birthday	10,000
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to employer	45,000

Children of the assessee are also using the Laptop at home] Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use. Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	7,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2024-25 if she pays tax under default tax regime.

Ans.

Computation of income chargeable under the head "Salaries"
of Ms. Akansha for A.Y.2024-25 under default tax regime

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv)	10,000
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	26,000

Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [$₹ (2,400 + 900) \times 12$] as per Rule 3(2)	Nil
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	39,600
	7,000
Gross Salary	12,26,600
Less: Deduction under section 16	
- Standard Deduction as per section 16(a)	50,000
Income chargeable under the head "Salaries"	11,76,000

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,71,600, respectively.

Chapter – 5

INCOME UNDER THE HEAD HOUSE PROPERTY

1. State the head of income in the following cases under which the receipt is to be assessed and comment.

- Atin uses his property for his own business. Can he claim depreciation?
- Ashni lets out his property to Preeti. Preeti sublets it. How is sub-letting to be assessed in the hands of Preeti?
- Sachin has built a house on a leasehold land. He has let out the property and claims the rent as income from house property and deducted expenses on repairs, security charges, insurance and collection charges totalling to 40% of receipts.

Ans. The taxability of income under various heads is as under-

- Yes, even if property is used for assessee's own business depreciation is allowed u/s 32 of Income-tax Act, 1961.
- Income from sub-letting is taxable under the head income from other sources.
- Even if property is built on a leasehold land, the assessee will be regarded as owner of such house property and rental income will be taxed under Income from house property. However, standard deduction of 30% of net annual value is allowed while computing income from house property. Hence, he will not be entitled deduction on repairs, security charges, insurance and collection charges totalling to 40% of receipts.

2. Mr. X is the owner of four houses, which are all let out and are covered by the Rent Control Act. From the following particulars find out the gross annual value in each case, giving reasons for your answer:

Particulars	House I	House II	House III
Municipal Value	30,000	20,000	35,000
Actual (De facto) Rent	32,000	28,000	30,000
Fair Rent	36,000	24,000	32,000

Ans. Gross Annual Value (GAV): Higher of Expected or Actual Rent Expected Rent: Higher of Municipal Valuation or Fair Rent

House I: ₹ 36,000

House II: ₹ 24,000

House III: ₹ 35,000

Actual Rent (given) GAV:

House I: ₹ 36,000 House II: ₹ 28,000 House III: ₹ 35,000

3. Mr. x is the owner of three houses, which are all let out and not governed by the Rent Control Act. From the following particulars find out the gross annual value in each case:

Particulars	House I	House II	House III	House IV
Municipal Value	30,000	26,000	35,000	30,000
Actual (De Facto) Rent	40,000	30,000	32,000	32,000
Fair Rent	36,000	28,000	30,000	36,000
Standard Rent	30,000	35,000	36,000	40,000

Ans. As all the houses are covered by the Rent Control Act, their gross annual value will be higher of Expected Rent or Actual Rent. Expected Rent shall be higher of Municipal Value or Fair Rent but subject to Standard Rent:

Particulars	House I	House II	House III	House IV
Expected Rent	30,000	28,000	35,000	36,000
Actual (De Facto) Rent	40,000	30,000	32,000	32,000
Gross Annual Value (GAV)	40,000	30,000	35,000	36,000

Annual Letting value of self occupied property, subject to Rent Control Act is to be fixed on basis of standard rent and not on basis of open market Tilak Raj v. CIT (1989) 45 Taxman 279/178 ITR 327 (Punj. & Har.).

- In determining annual value salary paid to caretaker cannot be taken into account CIT v Smt. Sreelekha Banerjee (1989) 45 Taxman 358/179 ITR 46 (Cal.).
- Loss relating to self occupied house property could be set off against income from other sources CIT v. K.K. Dhanda (HUF) (1989) 45 Taxman 346/178 ITR 602 (Punj. & Har.).

Where let out property is vacant for part of the year

In a scenario of vacancy for a part of the year, it is quite probable that the Actual Rent received / receivable would fall lower than Expected Rent and in such an eventuality; therefore the Actual Rent becomes the Gross Annual Value.

4. (i.e. No vacancy but there is unrealized rent)

Mr. A owns two houses. The expected rent of the house one is ₹ 65,000. This house was let out for ₹ 7,500 per month but the rent for the months of February and March, 2024 could not be realized.

The expected rent of another house is ₹ 1,50,000. This house was let out for ₹12,000 per month but the rent for the last three months could not be realized.

In the both cases, Mr. A fulfills the conditions of Rule 4. You are required to compute the Gross Annual Value of both the houses.

Ans.

Particulars	House I	House II
Expected Rent	65,000	1,50,000
Annual Rent	90,000	144000
Unrealized Rent	15,000	36,000

Computation of Gross Annual Value

Particulars	House I	House II
Step 1: Expected Rent	65,000	1,50,000
Step 2: Actual Rent (After deducting unrealized rent) if higher than	75,000	N.A.
Expected Rent then Actual rent otherwise Expected rent		
Step 3: Applicable only in case of vacancy	N.A.	N.A.
Gross Annual Value	75,000	1,50,000

5. (There is vacancy but no unrealized rent)

Find out the gross annual value in the case of the following properties for the Assessment year 2024-25

₹ in thousands

Particulars	P	Q	R	S
Expected Rent	70	55	85	125
Rent Per Month (if let out)	7	5	8	8
Let out period (in months)	11	0	9	10
Vacancy (in months)	1	12	3	2

Further all the rent were realized for the year by the assessee.

Ans. Calculation of Gross Annual Value for A.Y. 2024-25

₹ in thousands

Particulars	P	Q	R	S
Annual Rent (If let out for 12 months)	84	60	96	96
Loss due to vacancy	7	60	24	16
Unrealized rent	Nil	Nil	Nil	Nil
Actual Rent (for let out period)	77	Nil	72	80
Calculation of Gross Annual Value				
Step 1: Expected Rent	70	55	85	125
Step 2: If annual rent is more than Expected Rent then annual rent otherwise expected Rent	84	60	96	125
Step 3: If property remain vacant then decline due to vacancy shall be considered	(7)	(60)	(24)	(16)
Gross Annual Value	77	0	72	109

6. (Vacancy and unrealized rent both exist)

Mr. X is the owner of a house property. He Lets the property during the previous year 2023-24 for ₹ 7,000 p.m. The house was occupied from 1.4.2023 to 31.1.2024 . From 1.2.2024, it remained vacant. Mr. X fails to realize ₹ 10,000 from the tenant. The Expected rent of the house is ₹ 82,000 p.a.

Calculate the Gross Annual Value of the house.

Ans.

Particulars	₹
Expected Rent	82,000
Annual Rent (Actual for the whole year - 7000 x 12)	84,000
Actual Rent (7,000 x 10)	70,000
Unrealized rent	10,000
Realized rent (70,000 - 10,000)	60,000
Loss Due to vacancy (7,000 x 2)	14,000
Decline due to vacancy (82,000 - 14,000) but not less than actual rent received	68,000

Calculation of Gross Annual Value

Step 1: Expected Rent	82,000
Step 2: If actual rent is more than expected rent than actual rent otherwise expected rent	84,000
Step 3: Decline due to vacancy in Expected Rent (i.e. Expected Rent minus Loss due to vacancy but not less than actual rent received)	14,000
Gross Annual Value	68,000

7. Mr. R owns a house which uses for residential purposes throughout the previous year 2023-24. Municipal Value: ₹ 2,40,000. Fair Rent: ₹ 3,00,000. Compute income from house property assuming following expenditure are incurred by him:

Municipal taxes paid: ₹ 15,000

Repairs: ₹ 12,000

Depreciation: ₹ 10,000

Interest on borrowed capital: ₹ 2,00,000 (loan taken on 1.1.2015). House was purchased on 1.5.2018.

Ans. Option 1: Assessee pay tax under normal tax regime.

Option 2: Assessee pay tax under Section 115BAC Solution:

Option 1: Assessee pay tax under normal tax regime.

Particulars	₹
Net Annual Value	Nil
Less: Interest on borrowed capital	2,00,000
(lower of actual interest or 2,00,000; as conditions are satisfied)	
Loss from House Property	(2,00,000)

Option 2: Assessee pay tax under Section 115BAC

Particulars	₹
Net Annual Value	Nil
Less: Interest on borrowed capital	NA
Income from House Property	Nil

8. Mr. R. owns a house. The Municipal value of the house is ₹ 50,000. He paid ₹ 8,000 as local taxes during the year. He uses this house for his residential purposes but lets out half of the house @ ₹ 3,000 p.m. Compute the annual value of the house.

Ans.

Particulars	₹
Gross Annual rent or Municipal valuation (higher)	72,000
Less: Local taxes paid	8,000
Net Annual value of House Property	64,000
Less : Half of annual value regarding self occupied portion for the whole year	(32,000)
Net Annual Value of let out portion	32,000

9. M is the owner of a house. The municipal value of the house is ₹ 40,000. He paid ₹ 8,000 as local taxes during the year. He was using this house for his residential purposes but let out w.e.f. 1.1.2024 @ ₹ 4,000 p.m. Compute the annual value of the house.

Ans.

Particulars	Amount (₹)
Gross annual value : Actual rent or Expected Rent (whichever is higher)	48,000
Less: Local taxes	8,000

Net Annual value of the House

40,000

(No benefit shall be given for self occupied period as the house did not remain vacant during the previous year)

Note: If fair rent is not given, then assume actual rent as fair rent.

10. X has a house which has two identical units. One of the units is self-occupied throughout the previous year and the other unit is let out throughout the previous year on a rent of ₹ 50,000 p.m. Municipal taxes for the complete house amounting to ₹ 60,000 have been paid during the previous year. The construction of the property was completed on 1.1.1995. Determine the income from house property for assessment year 2024-25, if X:

(a) Pay tax under normal tax regime

(b) Pay tax under section 115BAC

Ans.

Particulars	Unit I (Let out)		Unit II (Self-occupied)	
	Pay tax under normal tax regime	Pay tax u/s 115BAC	Pay tax under normal tax regime	Pay tax u/s 115BAC
Gross Annual Value	6,00,000	6,00,000	Nil	Nil
Less: Municipal Taxes	30,000	30,000	—	—
Net Annual Value	5,70,000	5,70,000	Nil	Nil
Less: Statutory deduction @ 30%	1,71,000	1,71,000	Nil	Nil
	399,000	399,000	Nil	Nil

No deduction shall be made under the second proviso unless the assessee furnishes a certificate, from the person to whom any interest is payable on the capital borrowed, specifying the amount of interest payable by the assessee for the purpose of such acquisition or construction of the property, or, conversion of the whole or any part of the capital borrowed which remains to be repaid as a new loan.

11. The assessee took a loan of ₹ 6,00,000 on 1.4.2021 from a bank for construction of a house on a piece of land owns in Indore. The loan carries an interest @ 10% per annum. The construction is completed on 15.8.2023. The entire loan is still outstanding. Compute the interest allowable for the assessment year 2024-25.

Ans.

Particulars	Amount (₹)
(i) Interest for the previous year 2023-24 on ₹6,00,000 @ 10%	60,000
(ii) Interest for the pre-construction period i.e. from 1.4.2021 to 31.3.2023 (1/5th of ₹1,20,000)	24,000
Total interest allowable	84,000

Note: Although the property is completed on 15.8.2023, the interest for the entire previous year i.e. 1.4.2023 to 31.3.2024 will be treated as current year's expenditure.

12. Nikhil has a property whose Municipal Valuation is ₹ 500,000 p.a. The Fair Rent of the property is ₹ 400,000 p.a. and the Standard Rent fixed by Rent Control Act is ₹ 4,50,000 p.a. The property was let out for a Rent of ₹ 35,000 pm and the tenant vacated the same on 31st Jan 2024. Unrealised Rent was ₹ 35000 and the conditions are fulfilled with respect to the same. He paid municipal taxes worth ₹ 15000 during the PY and the Interest on Loan was ₹ 60000. Please exhibit the computation and advise the income from house property.

Ans.

Computation of GAV (Gross Annual Value)	₹	₹
ER (Expected Rent)		
Higher of:		
1) Fair Rent	4,00,000	
2) Municipal Value	5,00,000	
Limited to Standard Rent		4,50,000
AR (Actual Rent)	3,50,000	
Less: Unrealised Rent	(35,000)	
		3,15,000

GAV (as falls Vacant)		3,15,000
Less: Municipal Taxes paid by the owner during the PY		(15,000)
NAV(Net Annual Value)		3,00,000
Less: Deductions u/s 24		
30% NAV	90,000	
Interest on borrowed capital	60,000	
		(1,50,000)
Income from House Property		1,50,000

13. Smt. Shanti Devi has a house property in Kolkata. The Municipal Valuation for the same is ₹ 10,00,000. The Fair Rental for the property is ₹ 750,000. The Standard Rent per the Rent Control Act is ₹ 800,000. She let out the property until 30th November, 2023 for a monthly rent of ₹ 75,000 per month. Thereafter, the tenant vacated the property and she used the house for self-occupation. Rent for the months of Oct & November 2022 could not be realised despite all efforts, and all the conditions for unrealised rent were satisfied. She paid Municipal Taxes @ 12% during the year. She also paid Interest of ₹ 25,000 during the year for amount borrowed for repair. Compute the Income from House Property for AY 2024-25.

Ans.

Computation of GAV	₹	₹
ER		
Higher of:		
1) Fair Rent	7,50,000	
2) Municipal Value	10,00,000	
Limited to Standard Rent		8,00,000
Annual Rent	6,00,000	
Less: Unrealised Rent	(1,50,000)	4,50,000
GAV (partly let out and partly self occupied)		8,00,000
Less: Municipal Taxes paid by the owner during the PY		1,20,000
NAV		6,80,000
Less: Deductions u/s 24		

30% NAV	2,04,000	
Interest on borrowed capital	25,000	(2,29,000)
Income from House Property		4,51,000

14. M₹ Ruchika has a house which has two identical units. One of the units is self-occupied throughout the previous year and the other unit is let out throughout the previous year on a rent of ₹50,000 p.m. Municipal taxes for the complete house amounting to ₹60,000 have been paid during the previous year. The construction of the property was completed on 1.1.1995. Determine the income from house property for assessment year 2023-24, if M₹ Ruchika:

- (a) Pay tax under normal tax regime
(b) Pay tax under section 115BAC

What if the self-occupied portion was Let out for three months then what will be the income from house property?

Ans.

Particulars	Unit I (Let out)		Unit II (Self-occupied)	
	Pay tax under normal tax regime	Pay tax u/s 115BAC	Pay tax under normal tax regime	Pay tax u/s 115BAC
Gross Annual Value	6,00,000	6,00,000	Nil	Nil
Less: Municipal Taxes	30,000	30,000	—	—
Net Annual Value	5,70,000	5,70,000	Nil	Nil
Less: Statutory deduction @ 30%	1,71,000	1,71,000	Nil	Nil
Income under the head House Property	399,000	399,000	Nil	Nil

In this case, the self-occupied property has been let out for part of the year and as such annual value shall not be nil. It will be determined as if the property is let, as per provisions of section 23(1).

Particulars	Pay tax under normal tax regime	Pay tax u/s 115BAC	Pay tax under normal tax regime	Pay tax u/s 115BAC
	Unit I	Unit I	Unit II	Unit II
Gross Annual Value	6,00,000	6,00,000	6,00,000	6,00,000
Less: Municipal value	30,000	30,000	30,000	30,000
Net Annual Value	5,70,000	5,70,000	5,70,000	5,70,000
Less: Statutory deduction @ 30%	1,71,000	1,71,000	1,71,000	1,71,000
Income from house property	3,99,000	3,99,000	3,99,000	3,99,000

15. Two sisters, Seema and Rashmi, are co-owners of a house property, with 50% share each in the property. The property was constructed prior to 1st April, 1999. The property has 7 equal units and is situated in Bangalore. During the FY 2023-24, each co-owner occupied one unit each and the balance were let out at a rental of ₹ 20000 per unit per month. The Municipal Valuation (MV) was ₹ 7,00,000 and the Municipal Taxes were @ 10% of the MV. Interest payable on loan taken for construction was ₹ 400,000. One of the let-out units was vacant for 6 months in the year.

Compute the Income from House Property for each of the sisters. Assuming they pay tax under normal tax regime

Ans.

Computation of GAV	₹	₹
Estimated Rent		
Higher of:		
1) Fair Rent	-	
2) Municipal Value	5,00,000	
Limited to Standard Rent		5,00,000
Annual Rent	12,00,000	
Less: Unrealised Rent	(1,20,000)	
		10,80,000

GAV (partly let out and partly self occupied)		10,80,000
Less: Municipal Taxes paid by the owner during the PY		(50,000)
NAV		10,30,000
Less: Deductions u/s 24		
30% NAV	3,09,000	
Interest on borrowed capital	2,85,714	
		(5,94,714)
Income from House Property		4,35,286
Share of each Co-owner		2,17,643
Loss from House Property (self occupied portions)		(30,000)
Income from House Property (each co-owner)		1,87,643

Notes:

- 1) Observe that the computation has been done for the 5 Let out and 2 self-occupied portions separately and commensurately.
- 2) The Interest on Borrowed Capital for let out proportions is fully allowable as deduction without any cap.
- 3) The Annual Value for the Self Occupied Portion is NIL and the Interest on Borrowed Capital is restricted to ₹ 30,000 for each co-owner.

16. Mr. X is the owner of four houses. The following particulars are available:

Particulars	House 1	House 2	House 3	House 4
Municipal valuation	16,000	20,000	24,000	5,600
Rent (Actual)	—	14,000	20,000	6,800
Municipal taxes	400	1,000	1,200	300
Repairs and collection charges	200	2,500	1,040	460
Interest on mortgage	—	—	—	1,000
Ground rent	—	100	—	60
Fire premium	140	—	200	—
Annual charges	—	—	360	—

House No. 1 is self-occupied.

House No. 2 is let out for business; construction was completed on 1.3.91 and consists of two residential units.

House No. 3 is 3/4 used for own business 1/4 let out to the manager of the business.

House No. 4 is let out for residential purposes.

His other income is ₹ 30,000. Find out the income of X from house property for the assessment year 2024-25. Assuming he has not opted for section 115BAC of the Income Tax Act, 1961 and pay tax under normal tax regime.

Ans.

House No. 1

₹

Municipal valuation	16,000
Annual Value deemed	NIL

House No. 2

₹

Fair rental value	20,000
Less: Municipal taxes	1,000
Net Annual Value	19,000
Less: 30% of Net Annual Value	(5,700)
	13,300

House No. 3

Since the house is used for own business, the income from this house is not taxable under the head ₹Income from house property₹ but will be assessed under ₹Profit and gains of business or profession₹. 1/4 of the house occupied by the Manager is presumed to be incidental to the business and hence not assessable under the head

House No.4

₹

Rent Received	6,800
Less: Municipal taxes	(300)
Net annual Value	6,500
Less: 30% of Net Annual Value	(1,950)
	4,550

Income from House Property: ₹ NIL + ₹ 13,300 + ₹ 4,550 = ₹ 17,850. It is presumed that House No. 4 has not been mortgaged for purposes of acquiring or repairs on the house property.

17. Mr. Lai is the owner of a house property. Its municipal valuation is ₹ 80,000. It has been Let out for ₹ 1,20,000 p.a. The local taxes payable by the owner amount to ₹ 16,000 but as per agreement between the tenant and the landlord, the tenant has paid the amount direct to the municipality. The landlord, however, bears the following expenses on tenant's amenities:

Particulars	(₹)
Extension of water connection	3,000
Water charges	1,500
Lift maintenance	1,500
Salary of gardener	1,800
Lighting of stairs	1,200
Maintenance of swimming pool	750

The landlord claims the following deductions:

Repairs and Collection charges	7,500
Land revenue paid	1,500

Compute the taxable income from the house property for the assessment year 2024-25.

Ans.

Computation of income from house property for the Assessment Year 2024-25

Particulars	₹	₹
Gross annual value: to be higher of the following:		
Municipal valuation or	80,000	
De facto rent (1,20,000 less value of amenities)	1,20,000	
Rent Received		1,20,000
Less: Value of the amenities provided by the assessee:		
(i) Extension of water connection not deductible as it is capital expenditure		-
(ii) water charges	(1500)	
(iii) Lift maintenance	(1500)	

(iv) Salary of gardener	(1,800)	
(v) Lighting of stairs	(1,200)	
(vi) Maintenance of swimming pool	(750)	
		(6,750)
Gross Annual Value		1,13,250
Less: Local tax ₹16,000: No deduction is permissible as the taxes have been paid by the tenant		-
Net Annual Value		1,13,250
Less: Standard deduction from Net Annual Value: 30% of Net Annual Value		(33,975)
Income from House Property		79,275

18. For the assessment year 2024-25, Sonu submits the following information:

Income from business (speculative)		40,000
Property Income	House I	House II
	₹	₹
Municipal valuation	35,000	80,000
Rent received	38,000	68,000
Municipal taxes paid by tenant	3,000	4,000
Repairs paid by tenant	500	18,000
Land revenue paid	2,000	16,000
Insurance premium paid	500	2,000
Interest on borrowed capital for payment of municipal tax of house property	200	400

Nature of occupation	Let out for Residence	Let out for Business
Date of completion of construction	1.4.1996	1.7.1994

Determine the taxable income of Sonu for the assessment year 2024-25.

Ans.

Computation of Taxable Income of Sonu for Assessment year 2024-25

House I	₹
Gross Annual Value	38000
Less: Municipal Taxes - not deductible since paid by tenant	NIL
Net Annual Value	38000
Less: 30% of Net Annual Value Taxable Income	(11,400)
Total	26,600
House II	
Gross Annual Value	80000
Less: Taxes - not deductible, paid by tenant	NIL
Net Annual Value	80,000
Less: 30% of Net Annual Value Taxable Income	(24,000)
Total	56,000

Total Income = ₹ 26,600 + ₹ 56,000 + ₹ 40,000 (income from speculative business) = ₹ 1,22,600.

Note: Interest on borrowed capital for payment of municipal tax is not allowed as deduction under Section 24 of the Act.

19. Mr. X has taken a loan of ₹ 5,00,000 on 01.10.2001 @ 10% p.a. for construction of a house which was completed on 01.10.2022 and the house remained self-occupied throughout the previous year 2023-24. The assessee has income under the head salary ₹ 4,00,000. Mr. X has paid life insurance premium of ₹ 20,000. Compute tax liability for assessment year 2024-25 .

Option 1: Assessee Pay tax under normal tax regime.

Option 2: Assessee pay tax under section 115BAC

Ans. Option 1 - Assessee Pay tax under normal tax regime

Particulars	₹
Net Annual Value	Nil
Less: Interest on capital borrowed u/s 24(b)	(30,000)
Loss under the head House Property	(30,000)

Income under the head Salary	4,00,000
Gross Total Income	3,70,000
Less: Deduction u/s 80C	(20,000)
Total Income	3,50,000
Computation of Tax Liability Tax on ₹ 3,50,000 at slab rate	5,000
Less: Rebate u/s 87A	(5,000)
Tax Liability	Nil

Working Notes:

Current period Interest from 01.04.2023 to 31.03.2024	
$5,00,000 \times 10\% =$	50,000
Prior period interest from 01.10.2021 to 31.03.2023	
$5,00,000 \times 10\% \times 258/12 =$	10,75,000
Installment = $10,75,000 / 5 =$	215,000
Total Interest = ₹ 50,000 + ₹ 215,000 = ₹ 265,000 Subject to maximum ₹ 30,000	

Option 2 Assessee pay tax under section 115BAC

Net Annual Value	Nil
Less: Interest on capital borrowed u/s 24(b)	(NA)
Income under the head House Property	Nil
Income under the head Salary	4,00,000
Gross Total Income	4,00,000
Less: Deduction u/s 80C	(NA)
Total Income	4,00,000
Computation of Tax Liability	
Tax on ₹ 4,00,000 at slab rate	5,000
Less: Rebate u/s 87A	(5,000)
Tax Liability	Nil

20. Mr. Rohit has a house property in Delhi whose particulars are as under:

Particulars	₹
Municipal value	4,00,000
Standard rent	4,50,000
Municipal taxes paid	50,000
Interest on Money borrowed for acquiring the house	1,60,000

Period of occupation for own residence Actual rent for 10 months

Compute the income from house property assuming he pay tax under Section 115BAC of the Income tax Act, 1961.

Ans. Computation of income from House Property Gross annual value shall be higher of following two

(a) Expected rent (Municipal value ₹ 4,00,000 or FRV ₹ 5,40,000 whichever is 4,50,000 higher i.e., ₹ 5,40,000 but restricted to standard rent i.e., ₹ 4,50,000)

(b) Actual rent received or receivable (45,000 x 10) 4,50,000

Less: Municipal taxes paid (50,000)

Net Annual Value 4,00,000

Less: Deduction u/s 24

(a) Statutory deduction @ 30% (1,20,000)

(b) Interest on money borrowed for acquisition houses (1,60,000)

Income from House Property 1,20,000

21. Prakash owns a house property in Delhi which is let out for ₹ 15,000 p.m. The municipal value of which is ₹ 2,00,000 and municipal taxes were 20% of municipal valuation. He paid during the previous year municipal tax of 6 year which relate to past 5 years as well as for the current year. The other expenses of the property were as under:

Amount	(₹)
Repair	8,000
Insurance premium	4,000
Interest for purchase of house	25,000
Ground rent due	4,000

Compute the Income from Prakash from house property assuming he pay tax under Section 115BAC of the Income Tax, 1961

Ans.

Gross Annual value higher of the following two	₹
(a) Expected rent 2,00,000	
(b) Actual rent received or receivable	1,80,000
Gross Annual Value	2,00,000
Less: Municipal taxes paid	(2,40,000)
Net annual value	(40,000)
Less: Deduction u/s 24	
(a) Statutory deduction @ 30%	Nil
(b) Interest (25,000)	
Income from House Property	(65,000)

22. Mr A owns a house property. It is used by him throughout the previous year 2023-24 for his (and his family members) residence. Municipal value of the property is ₹ 1,66,000, whereas fair rent is ₹ 1,76,000 and standard rent is ₹ 1,50,000. The following expenses incurred by Mr A -repairs ₹ 20,000, municipal tax: ₹ 16,000, insurance Rs : 2,000, interest on capital borrowed to construct the property: ₹ 1,66,000; interest on capital borrowed by mortgaging the property for daughter's marriage: ₹ 20,000 (in either case capital is borrowed before April 1, 1999). Income of Mr A from business is ₹ 7,10,000. Find out the net income of Mr A for the assessment year 2024-25.

Ans.

Particulars	₹
Gross annual value	Nil
Less: Municipal tax	Nil
Net annual value	Nil
Less: Interest on borrowed capital (maximum ₹ 30,000)	-30,000
Property income	-30,000
Business income	7,10,000
Net income	6,80,000

23. Find out the income from property chargeable to tax for the assessment year 2024-25 in the following cases-

Particulars	X ₹	Y ₹
Municipal value (MV)	1,20,000	1,20,000
Fair rent	1,30,000	1,30,000
Standard rent under the Rent Control Act (SR)	1,10,000	1,10,000
Actual rent if property is let out throughout the previous year	1,26,000	1,26,000
Unrealized rent of the previous year 2023-24	10,500	Nil
Period when the property remains vacant (in number of month)	(1)	(Nil)
Loss due to Vacancy	10,500	Nil
Municipal taxes-		
Tax for the year 2023-24	18,000	18,000
- Paid by X and Y during 2023-24	17,000	8,000
- Paid by X and Y after March 31, 2024	1,000	1,000
- Paid by Tenants during 2023-24	-	9,000

Ans. Computation of income under the head "Income from house property"

Particulars	X ₹	Y ₹
Gross annual value		
Step I - Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]	1,10,000	1,10,000
Step II - Rent received/receivable after deducting unrealized rent but before adjusting loss due to vacancy	1,15,500	1,26,000
Step III - Amount computed in Step I or Step II, whichever is higher	1,15,500	1,26,000
Step IV - Loss due to vacancy	10,500	Nil
Step V - Gross annual value in Step III minus step IV	1,05,000	1,26,000
Less : Municipal tax paid by X or Y during the previous year 2023-24	17,000	8,000
Net annual value	88,000	1,18,000
Less : Standard deduction under section 24(a) [30% of net annual value]	26,400	35,400
Income from house property	61,600	82,600

24. X, Y, Z, A and B separately own the following properties-

(₹ in thousand)

Particulars	H1	H2	H3	H4	H5
	X	Y	Z	A	B
Municipal Value(MV)	105	105	105	105	105
Fair rent(FR)	107	107	107	107	107
Standard rent under the Rent Control Act (SR)	NA	88	88	135	135
Actual rent	103	112	86	114	97
Unrealized rent (conditions are satisfied)	1	2	1	2	1
Period of the previous year(in months)	12	12	12	12	12
Period during which the property remains vacant	Nil	Nil	Nil	Nil	Nil

Find out the Gross annual value for the assessment year 2024-25.

Ans. In this case gross annual value shall be determined as follows-

(₹ in thousand)

Particulars	X	Y	Z	A	B
Computation of gross annual value					
Step I- Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]	107	88	88	107	107
Step II- Rent received/receivable after deducting unrealized rent but before adjusting loss due to vacancy	102	110	85	112	96
Step III- Amount computed in Step I or Step II, whichever is higher	107	110	88	112	107
Step IV- Loss due to Vacancy	Nil	Nil	Nil	Nil	Nil
Step V- Gross annual value is Step III minus Step IV	107	110	88	112	107

25. Jayashree owns five houses in India, all of which are let-out. Compute the GAV of each house from the information given below -

	House I (₹)	House II (₹)	House III (₹)	House IV (₹)	House V (₹)
Municipal Value	80,000	55,000	65,000	24,000	80,000
Fair Rent	90,000	60,000	65,000	25,000	75,000
Standard Rent	N.A.	75,000	58,000	N.A.	78,000
Actual rent received/ receivable	72,000	72,000	60,000	30,000	72,000

Ans. As per section 23(1), Gross Annual Value (GAV) is the higher of Expected rent and actual rent received. Expected rent is higher of municipal value and fair rent but restricted to standard rent.

Computation of GAV of each house owned by Jayashree

	Particulars	House I (₹)	House II (₹)	House III (₹)	House IV (₹)	House V (₹)
(i)	Municipal value	80,000	55,000	65,000	24,000	80,000
(ii)	Fair rent	90,000	60,000	65,000	25,000	75,000
(iii)	Higher of (i) & (ii)	90,000	60,000	65,000	25,000	80,000
(iv)	Standard rent	N.A.	75,000	58,000	N.A.	78,000
(v)	Expected rent [Lower of (iii) & (iv)]	90,000	60,000	58,000	25,000	78,000
(vi)	Actual rent received/receivable	72,000	72,000	60,000	30,000	72,000
	GAV [Higher of (v) & (vi)]	90,000	72,000	60,000	30,000	78,000

26. Rajesh, a British national, is a resident and ordinarily resident in India during the P.Y.2023-24. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the P.Y.2023-24. The value of one £ in Indian rupee to be taken at ₹ 95. Compute Rajesh's Net Annual Value of the property for the A.Y. 2024-25.

Ans. For the P.Y.2023-24, Mr. Rajesh, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is to be allowed as deduction from the gross annual value.

**Computation of Net Annual Value of the property of Mr.
Rajesh for A.Y.2024-25**

Particulars	₹
Gross Annual Value ($\text{£ } 10,000 \times 12 \times 95$)	1,14,00,000
Less: Municipal taxes paid ($\text{£ } 8,000 \times 95$)	7,60,000
Net Annual Value (NAV)	1,06,40,000

27. Mr. Manas owns two house properties one at Bombay, wherein his family resides and the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Bombay, he has taken a loan of ₹ 30 lakh@10% p.a. on 1.4.2022. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of ₹ 5 lakh@11% p.a. on 1.10.2022 towards repairs. Compute the deduction which would be available to him under section 24(b) for A.Y.2024-25 in respect of interest payable on such loan if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Mr. Manas can claim benefit of Nil Annual Value in respect of his house property at Bombay and Delhi, since no benefit is derived by him from such properties, and he cannot occupy such properties due to reason of his employment at Chandigarh, where he lives in a rented house.

He is eligible for deduction under section 24(b) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of deduction u/s 24(b) for A.Y.2024-25

Particulars	₹
I Interest on loan taken for acquisition of residential house property at Bombay $30,00,000 \times 10\% = \text{₹ } 3,00,000$ Restricted to ₹ 2,00,000	2,00,000

II Interest on loan taken for repair of residential house property at Delhi $\text{₹ } 5,00,000 \times 11\% = \text{₹ } 55,000$ Restricted to ₹ 30,000	30,000
Total interest	2,30,000
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to	2,00,000

28. Anirudh has a property whose municipal valuation is ₹ 1,30,000 p.a. The fair rent is ₹ 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 1,20,000 p.a. The property was let out for a rent of ₹ 11,000 p.m. throughout the previous year. Unrealised rent was ₹ 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was ₹ 40,000 for the year. Compute his income from house property for A.Y.2024-25.

Ans.

Computation of Income from house property of Mr. Anirudh for A.Y.2024-25

Particulars	Amount in ₹	
Computation of GAV		
Step 1 Compute ER		
ER = Higher of MV of ₹ 1,30,000 p.a. and FR of ₹ 1,10,000 p.a., but restricted to SR of ₹ 1,20,000 p.a.	1,20,000	
Step 2 Compute actual rent received/receivable		
Actual rent received/receivable less unrealized rent as per Rule 4 = ₹ 1,32,000 - ₹ 11,000	1,21,000	
Step 3 Compare ER of ₹ 1,20,000 and Actual rent received/receivable of ₹ 1,21,000		
Step 4 GAV is the higher of ER and Actual rent received/receivable	1,21,000	
Gross Annual Value (GAV)		1,21,000
Less: Municipal taxes (paid by the owner during the previous year) = 10% of ₹ 1,30,000		13,000
Net Annual Value (NAV)		1,08,000
Less: Deductions under section 24		
(a) 30% of NAV	32,400	

(b) Interest on borrowed capital (actual without any ceiling limit)	40,000	72,400
Income from house property		35,600

Note - Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 1,32,000, being higher of expected rent of ₹ 1,20,000 and actual rent of ₹ 1,32,000. Thereafter, unrealized rent of ₹ 11,000 and municipal taxes of ₹ 13,000 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 1,08,000.

29. Ganesh has a property whose municipal valuation is ₹ 2,50,000 p.a. The fair rent is ₹ 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 2,10,000 p.a. The property was let out for a rent of ₹ 20,000 p.m. However, the tenant vacated the property on 31.1.2024. Unrealised rent was ₹ 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was ₹ 65,000 for the year. Compute the income from house property of Ganesh for A.Y.2024-25.

Ans. Computation of income from house property of Ganesh for A.Y.2024-25

Particulars	Amount in ₹	
Computation of GAV		
Step 1		
Compute ER	2,10,000	
Higher of MV of ₹ 2,50,000 p.a. & FR of ₹ 2,00,000 p.a., but restricted to SR of ₹ 2,10,000 p.a.	1,80,000	
Step 2 Compute Actual rent received/receivable		
Actual rent received/receivable for let out period less unrealized rent as per Rule 4 = ₹ 2,00,000 - ₹ 20,000	1,80,000	
Step 3 Compare ER & Actual rent received/receivable		
Step 4 In this case the actual rent of ₹ 1,80,000 is lower than ER of ₹ 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 2,20,000 (₹ 1,80,000 + ₹ 40,000, being notional rent for February and March 2023). Therefore, actual rent is the GAV.		1,80,000
Gross Annual Value (GAV)		20,000
Less: Municipal taxes (paid by the owner during the previous year) = 8% of ₹ 2,50,000		1,60,000

Net Annual Value (NAV)	48,000	
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 1,60,000		1,13,000
(b) Interest on borrowed capital (actual without any ceiling limit)	65,000	
Income from house property		47,000

Note - Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 2,00,000, being the actual rent, since the actual rent is lower than the expected rent of ₹ 2,10,000 owing to vacancy. Thereafter, unrealized rent of ₹ 20,000 and municipal taxes of ₹ 20,000 would be deducted from GAV of ₹ 2,00,000 to arrive at the NAV of ₹ 1,60,000.

30. Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is ₹ 25,000 p.m. The municipal valuation is ₹ 2,80,000 p.a.. Municipal taxes paid is ₹ 8,000. The house construction began in April 2017 with a loan of ₹ 20,00,000 taken from SBI Housing Finance Ltd. @9% p.a. on 1.4.2017. The construction was completed on 30.11.2019. The accumulated interest up to 31.3.2019 is ₹ 3,60,000. On 31.3.2024, Poorna paid ₹ 2,40,000 which included ₹ 1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from house property for A.Y. 2024-25 assuming that she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. **Computation of income from house property of Smt. Poorna**
for A.Y.2024-25

Particulars	Amount ₹
Annual Value of house used for self-occupation under section 23(2)	Nil
Less: Deduction under section 24	
Interest on borrowed capital	
Interest on loan was taken for construction of house on or after 1.4.99 and same was completed within the prescribed time - interest paid or payable subject to a maximum of ₹ 2,00,000 (including apportioned pre-construction interest) will be allowed as deduction.	
In this case the total interest is ₹ 1,80,000 + ₹ 72,000 (Being 1/5th of ₹ 3,60,000) = ₹ 2,52,000. However, the interest deduction is restricted to ₹ 2,00,000.	2,00,000
Loss from house property	(2,00,000)

31. Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is ₹ 5,00,000, fair rent is ₹ 4,20,000 and standard rent is ₹ 4,80,000. The property was let-out for ₹ 50,000 p.m. up to December 2023. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2023 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @12% during the year. She had paid interest of ₹ 25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the A.Y. 2024-25.

Ans. **Computation of income from house property
of Smt. Rajalakshmi for A.Y. 2024-25**

Particulars	Amount in ₹	
Computation of GAV		
Step 1 Compute ER for the whole year ER = Higher of MV of ₹ 5,00,000 and FR of ₹ 4,20,000, but restricted to SR of ₹ 4,80,000	4,80,000	
Step 2 Compute Actual rent received/receivable Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = (₹ 50,000 × 9) - (₹ 50,000 × 2) = ₹ 4,50,000 - ₹ 1,00,000	3,50,000	
Step 3 Compare ER for the whole year with the actual rent received/receivable for the let out period i.e. ₹ 4,80,000 and ₹ 3,50,000		
Step 4 GAV is the higher of ER computed for the whole year and Actual rent received/receivable computed for the let-out period	4,80,000	
Gross Annual Value (GAV)		4,80,000
Less: Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 5,00,000		60,000
Net Annual Value (NAV)		
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 4,20,000	1,26,000	
(b) Interest on borrowed capital	25,000	1,51,000

Income from house property

2,69,000

Note - Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV then, GAV would be ₹ 4,80,000, being higher of expected rent of ₹ 4,80,000 and actual rent of ₹ 4,50,000. Thereafter, unrealized rent of ₹ 1,00,000 and municipal taxes of ₹ 60,000 would be deducted from GAV of ₹ 4,80,000 to arrive at the NAV of ₹ 3,20,000. The deduction u/s 24(a) would be ₹ 96,000, being 30% of ₹ 3,20,000. The income from house property would, therefore, be ₹ 1,99,000.

32. Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the P.Y.2023-24 are as under:

Particulars	House I	House II	House III
Municipal valuation p.a.	₹ 3,00,000	₹ 3,60,000	₹ 3,30,000
Fair rent p.a.	₹ 3,75,000	₹ 2,75,000	₹ 3,80,000
Standard rent p.a.	₹ 3,50,000	₹ 3,70,000	₹ 3,75,000
Date of completion/purchase	31.3.2000	31.3.2002	01.4.2016
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	₹ 55,000	
Interest for current year on money borrowed in April, 2016 for purchase of property			₹ 1,75,000

Compute Ganesh's income from house property for A.Y.2024-25 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

Ans. Let us first calculate the income from each house property assuming that they are deemed to be let out.

Computation of income from house property of Ganesh for the A.Y. 2024-25

Particulars	Amount in ₹		
	House I	House II	House III
Gross Annual Value (GAV) ER is the GAV of house property ER = Higher of MV and FR, but restricted to SR	3,50,000	3,60,000	3,75,000

Less: Municipal taxes (paid by the owner during the previous year)	36,000	28,800	19,800
Net Annual Value (NAV)	3,14,000	3,31,200	3,55,200
Less: Deductions under section 24			
(a) 30% of NAV	94,200	99,360	1,06,560
(b) Interest on borrowed capital	-	55,000	1,75,000
Income from house property	2,19,800	1,76,840	73,640

Ganesh can opt to treat any two of the above house properties as self-occupied.

Under default tax regime under section 115BAC

OPTION 1 (House I and II- self-occupied and House III - deemed to be let out)

If House I and II are opted to be self-occupied, the income from house property shall be -

Particulars	Amount in ₹
House I (Self-occupied)	Nil
House II (Self-occupied) (No interest deduction)	Nil
House III (Deemed to be let-out)	73,640
Income from house property	73,640

OPTION 2 (House I and III - self-occupied and House II - deemed to be let out)

If House I and III are opted to be self-occupied, the income from house property shall be -

Particulars	Amount in ₹
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	1,76,840
House III (Self-occupied) (No interest deduction)	Nil
Income from house property	1,76,840

OPTION 3 (House II and III -self-occupied and House I - deemed to be let out)

If House II and III are opted to be self-occupied, the income from house property shall be -

Particulars	Amount in ₹
House I (Deemed to be let-out)	2,19,800
House II (Self-occupied) (No interest deduction)	-
House III (Self-occupied) (No interest deduction)	-
Income from house property	2,19,800

Since Option 1 is most beneficial, Ganesh should opt to treat House I and II as self-occupied and House III as deemed to be let out. His income from house property would be ₹ 73,640 for the A.Y. 2024-25 under default tax regime under section 115BAC.

If Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

OPTION 1 (House I and II- self-occupied and House III - deemed to be let out)

If House I and II are opted to be self-occupied, the income from house property shall be -

Particulars	Amount in ₹
House I (Self-occupied)	Nil
House II (Self-occupied) (Interest deduction restricted to ₹ 30,000)	(30,000)
House III (Deemed to be let-out)	73,640
Income from house property	43,640

OPTION 2 (House I and III - self-occupied and House II - deemed to be let out)

If House I and III are opted to be self-occupied, the income from house property shall be -

Particulars	Amount in ₹
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	1,76,840
House III (Self-occupied)	(1,75,000)
Income from house property	1,840

OPTION 3 (House II and III -self-occupied and House I - deemed to be let out)

If House II and III are opted to be self-occupied, the income from house property shall be -

Particulars		Amount in ₹
House I (Deemed to be let-out)		2,19,800
House II (Self-occupied) (Interest deduction restricted to ₹ 30,000)	(30,000)	
House III (Self-occupied) (No interest deduction)	(1,75,000)	
(Total interest deduction restricted to ₹ 2,00,000)		(2,00,000)
Income from house property		19,800

Since Option 2 is most beneficial in this case, Ganesh should opt to treat House I and III as self-occupied and House II as deemed to be let out. His income from house property would be ₹ 1,840 for the A.Y. 2024-25 under the optional tax regime i.e., the normal provisions of the Act.

33. Prem owns a house in Madras. During the previous year 2023-24, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹ 8,000 p.m. Municipal value of the property is ₹ 3,00,000 p.a., fair rent is ₹ 2,70,000 p.a. and standard rent is ₹ 3,30,000 p.a. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 25,00,000 was taken by him during the year 2019 for acquiring the property. Interest on loan paid during the previous year 2023-24 was ₹ 1,20,000. Compute Prem's income from house property for the A.Y. 2024-25 assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
What would be Prem's income from house property under the default tax regime?

Ans. There are two units of the house. Unit I with 2/3rd area is used by Prem for self-occupation throughout the year and no other benefit is derived from that unit, hence it will be treated as self-occupied and its annual value will be Nil. Unit 2 with 1/3rd area is let-out throughout the previous year and its annual value has to be determined as per section 23(1).

Computation of income from house property of Mr. Prem for A.Y.2024-25 under the optional tax regime (i.e., the normal provisions of the Act)

Particulars	Amount in ₹	
Unit I (2/3rd area - self-occupied)		
Annual Value		Nil
Less: Deduction under section 24(b) 2/3rd of ₹ 1,20,000		80,000
Income from Unit I (self-occupied)		(80,000)
Unit II (1/3rd area - let out)		
Computation of GAV		
Step I Compute ER		
ER = Higher of MV and FR, restricted to SR However, in this case, SR of ₹ 1,10,000 (1/3rd of ₹ 3,30,000) is more than the higher of MV of ₹ 1,00,000 (1/3rd of ₹ 3,00,000) and FR of ₹ 90,000 (1/3rd of ₹ 2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV.	1,00,000	
Step 2 Compute actual rent received/ receivable ₹ 8,000 × 12 = ₹ 96,000		
Step 3 Compare ER and Actual rent received/receivable	1,00,000	
Step 4 GAV is the higher of ER and actual rent received/receivable i.e. higher of ₹ 1,00,000 and ₹ 96,000		1,00,000
Gross Annual Value(GAV)		10,000
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3rd of (10% of ₹ 3,00,000) = ₹ 30,000/3 = ₹ 10,000		90,000
	27,000	
Net Annual Value(NAV)		
Less: Deductions under section 24	40,000	67,000
(a) 30% of NAV = 30% of ₹ 90,000		
(b) Interest paid on borrowed capital (relating to let out portion) 1/3rd of ₹ 1,20,000		23,000
Income from Unit II (let-out)		
Loss under the head "Income from house property" = (₹ 80,000) + ₹ 23,000 = (₹ 57,000)		

Under the default tax regime, Prem would not be entitled to interest deduction of ₹ 80,000 under section 24(b) in respect of self-occupied portion (Unit 1). Hence, income from house property would be ₹ 23,000, being income from Unit II, which is let out.

34. Mr. Anand sold his residential house property in March, 2023.

In June, 2023, he recovered rent of ₹ 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2017 to March 2019. He could not realise two months rent of ₹ 20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2019-20.

Further, he had let out his property from April, 2019 to February, 2023 to Mr. Satish. In April, 2021, he had increased the rent from ₹ 12,000 to ₹ 15,000 per month and the same was a subject matter of dispute. In September, 2023, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2021 to February, 2023.

Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?

Ans. Since the unrealised rent was recovered in the P.Y.2023-24, the same would be taxable in the A.Y.2024-25 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y.2023-24, and hence the same would be taxable in the A.Y.2024-25 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y.2024-25.

Computation of income from house property of Mr. Anand for A.Y.2024-25

Particulars	₹
(i) Unrealised rent recovered	10,000
(ii) Arrears of rent received	69,000
	79,000
Less: Deduction@30%	23,700
Income from house property	55,300

35. Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of ₹

50,00,000@10% taken on 1.4.2022 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of ₹ 3,00,000@12% on 1.10.2022 for repairs of this flat. Compute the deduction which would be available to Ms. Aparna and Ms. Dimple under section 24(b) for A.Y.2024-25, if both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. **Computation of deduction u/s 24(b) available to Ms. Aparna for A.Y.2024-25**

Particulars	₹
I Interest on loan taken for acquisition of residential house property at Calcutta ₹ 50,00,000 × 10% = ₹ 5,00,000 Ms. Aparna's share = 50% of ₹ 5,00,000 = ₹ 2,50,000 Restricted to ₹ 2,00,000	2,00,000
II Interest on loan taken for repair of flat at Pune ₹ 3,00,000 × 12% = ₹ 36,000 Restricted to ₹ 30,000	30,000
Total interest	2,30,000
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to	2,00,000

Computation of deduction u/s 24(b) available to Ms. Dimple for A.Y.2024-25

Particulars	₹
Interest on loan taken for acquisition of residential house property at Calcutta ₹ 50,00,000 × 10% = ₹ 5,00,000 Ms. Dimple's share = 50% of ₹ 5,00,000 = ₹ 2,50,000 Restricted to ₹ 2,00,000	2,00,000
Deduction under section 24(b)	2,00,000

36. Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property.

Particulars	₹
Municipal value of the property	1,60,000
Fair rent	1,50,000

Standard rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹ 25,000, out of which ₹ 21,000 has been paid. Interest on the unpaid interest is ₹ 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is ₹ 5,000.

The municipal taxes of ₹ 5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of Mr. Raman for the A.Y. 2024-25.

Ans. **Computation of income from house property of Mr. Raman for A.Y. 2024-25**

Particulars	₹	₹
Gross Annual Value (See Note 1 below)		1,80,000
Less: Municipal taxes - paid by the tenant, hence not deductible		Nil
Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		
(i) 30% of NAV	54,000	
(ii) Interest on housing loan (See Note 2 below)		
- Interest on loan taken from bank	25,000	
- Interest on fresh loan to repay old loan for this property	5,000	84,000
Income from house property		96,000
50% share taxable in the hands of Mr. Raman (See Note 3 below)		48,000

Notes:

1. Computation of Gross Annual Value (GAV)

GAV is the higher of Expected rent and actual rent received. Expected rent is the higher of municipal value and fair rent, but restricted to standard rent.

Particulars	₹	₹	₹	₹
(a) Municipal value	1,60,000			
(b) Fair rent	1,50,000			
(c) Higher of (a) and (b)		1,60,000		
(d) Standard rent		1,70,000		

(e) Expected rent [lower of (c) and (d)]		1,60,000	
(f) Actual rent [₹ 15,000 × 12]		1,80,000	
(g) Gross Annual Value [higher of (e) and (f)]			1,80,000

2. Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
3. Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

37. Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹ 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2023-24 are as under:

Standard rent	₹ 1,62,000 p.a.
Municipal valuation	₹ 1,90,000 p.a.
Fair rent	₹ 1,85,000 p. a
Municipal tax (Paid by Mr. X)	5% of municipal valuation
Light and water charges	₹ 500 p.m.
Interest on borrowed capital	₹ 1,500 p.m.
Lease money	₹ 1,200 p.a.
Insurance charges	₹ 3,000 p.a.
Repairs	₹ 12,000 p.a.

Compute income from house property of Mr. X for the A.Y. 2024-25 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Computation of Income from house property for A.Y. 2024-25

Particulars	₹	₹
(A) Rented unit (50% of total area - See Note below)		
Step I - Computation of Expected Rent		
Municipal valuation (₹ 1,90,000 × $\frac{1}{2}$) Fair rent (₹ 1,85,000 × $\frac{1}{2}$)	95,000	
Standard rent (₹ 1,62,000 × $\frac{1}{2}$)	92,500	
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
Step II - Actual Rent		
Rent received/receivable for the let out period (₹ 8,000 × 10)	80,000	
Step III - Computation of Gross Annual Value		
The actual rent of ₹ 80,000 is lower than ER of ₹ 81,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 96,000 (₹ 80,000 + ₹ 16,000, being notional rent for two months. Therefore, actual rent is the GAV.	80,000	
Gross Annual Value		80,000
Less: Municipal taxes (5% of ₹ 95,000)		4,750
Net Annual value		<u>75,250</u>
Less : Deductions under section 24 -		
(i) 30% of net annual value	22,575	31,575
(ii) Interest on borrowed capital (₹ 750 × 12)	9,000	
Taxable income from let out portion		43,675
(B) Self occupied unit (50% of total area - See Note below)		
Annual value	Nil	
Less : Deduction under section 24 -		
Interest on borrowed capital (₹ 750 × 12)	9,000	
Loss from self occupied portion		9,000
Income from house property		(9,000)
		34,675

Note: No deduction will be allowed separately for light and water charges, lease money paid, insurance charges and repairs.

38. Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 (per annum), respectively. During the F.Y. 2023-24, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @11% of municipal value was paid during the year.

The construction of the house began in June, 2016 and was completed on 31-5-2019. Vikas took a loan of ₹ 1,00,000 on 1-7-2016 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the A.Y. 2024-25 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. **25** **Computation of income from house property of Mr. Vikas for the A.Y. 2024-**

Particulars	₹	₹
Income from house property		
I. Self-occupied portion (Two third)		
Net Annual value		Nil
Less: Deduction under section 24(b)		
Interest on loan (See Note below) (₹ 18,600 × 2/3)		
[Allowable since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]		12,400
Loss from self occupied property		(12,400)
II. Let-out portion (One third)		
Gross Annual Value		
(a) Actual rent received (₹ 5,000 × 12)	₹ 60,000	
(b) Expected rent	₹ 36,000	
[higher of municipal valuation (i.e., ₹ 96,000) and fair rent (i.e., ₹ 1,26,000) but restricted to standard rent (i.e., ₹ 1,08,000)] = ₹ 1,08,000 × 1/3		

Higher of (a) or (b) Less:	60,000	
Municipal taxes	3,520	
(₹ 96,000 × 11% × 1/3)		
Net Annual Value	56,480	
Less: Deductions under section 24		
(a) 30% of NAV	16,944	
(b) Interest on loan (See Note below)		
(₹ 18,600 × 1/3)	6,200	33,336
Income from house property		20,936

Note: Interest on loan taken for construction of building

Interest for the year (1.4.2023 to 31.3.2024) = 12% of ₹ 1,00,000 = ₹ 12,000

Pre-construction period interest = 12% of ₹ 1,00,000 for 33 months (from 1.07.2016 to 31.3.2019)
= ₹ 33,000

Pre-construction period interest to be allowed in 5 equal annual installments of ₹ 6,600 from the year of completion of construction i.e., from F.Y. 2019-20 till F.Y. 2023-24.

Therefore, total interest deduction under section 24 = ₹ 12,000 + ₹ 6,600 = ₹ 18,600.

39. Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2023-24. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is \$20,000. The value of one USD (\$) may be taken as ₹ 75.

She took ownership and possession of a flat in Chennai on 1.7.2023, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2024. The municipal valuation is ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

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

She had taken a loan from Standard Chartered Bank in June, 2021 for purchasing this flat. Interest on loan was as under:

Particulars	₹
Period prior to 1.4.2023	49,200
1.4.2023 to 30.6.2023	50,800
1.7.2023 to 31.3.2024	1,31,300

She had a house property in Bangalore, which was sold in March, 2020. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2024. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the A.Y. 2024-25 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

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

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

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

Accordingly, the income from house property of Mrs. Rohini Ravi for A.Y.2024-25 will be calculated as under:

Particulars	₹	₹
1. Self-occupied house at Los Angeles		
Annual value		Nil
Less: Deduction under section 24		Nil
Chargeable income from this house property		Nil
2. Self-occupied house property at Chennai		
Annual value		Nil

Less: Deduction under section 24		1,91,940
Interest on borrowed capital		
(See Note below)		(1,91,940)
3. Arrears in respect of Bangalore property (Section 25A)		
Arrears of rent received	60,000	
Less: Deduction @ 30% u/s 25A(2)	18,000	42,000
Loss under the head "Income from house property"		(1,49,940)

Note: Interest on borrowed capital

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

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

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

40. Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2015-2016. The property consists of eight identical units and is situated at Cochin.

During the financial year 2023-24, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

₹

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

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

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

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the financial year 2023-24.

Compute the income under the head ₹Income from House Property₹ and the total income of two brothers for the A.Y. 2024-25 if they pay tax under the default tax regime under section 115BAC.

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

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

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

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

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

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

(ii) If Arun and Bimal have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

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

Particulars	Arun (₹)	Bimal(₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b)		
Interest on loan taken for construction ₹ 37,500 (being 25% of ₹ 1.5 lakh) [Allowable since they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]	37,500	37,500
Loss from self occupied property	(37,500)	(37,500)
II. Let-out portion (75%) - See Working Note above	1,25,850	1,25,850
Income from house property	88,350	88,350
Other Income	2,90,000	1,80,000
Total Income	3,78,350	2,68,350

Chapter – 6

PROFITS AND GAINS FROM BUSINESS AND PROFESSION

1. X Ltd. has a block of assets (P&M), carrying 15% depreciation, WDV on 1st Apr 2023 is ₹ 75,00,000. It purchased subsequently on 1st Dec. 2023, another machinery for ₹ 25,00,000 and put to use on the same day. X Ltd. was amalgamated with Y Ltd. effective 1st Feb. 2024.

Ans.

Compute the depreciation allowable for X Ltd. and Y Ltd. for the AY 2024-25.

Block	Days	Allowable	Depreciation
75,00,000	365	Full	11,25,000
25,00,000	121	Half	1,87,500
		Total Depreciation	13,12,500
Predecessor	306	On the Opening P&M	9,43,151
Successor	59		1,81,849
Predecessor	62	On the Acquired P&M	96,074
Successor	59		91,426

Notes:

- (1) The depreciation for the asset in existence and used for the whole year is proportionately divided on the basis of the number of days used by the predecessor until amalgamation date and the successor post amalgamation date.
- (2) The depreciation for the asset acquired during the year and used for the remaining part of the year is proportionately divided on the basis of the number of days used by the predecessor until amalgamation date and the successor post amalgamation date, beginning the date of acquisition.

Note: As per the CBDT circular, irrespective of the accounting treatment, the Lessor shall be entitled to claim depreciation on leased assets, whether the lease is an operating lease or a financial lease.

2. M Ltd. owns the following assets on 1.4.2023:

Assets	WDV as on 1.4.2023 (?)	Rates of Depreciation (%)
Building A	10,20,000	10
Building B	5,40,000	10
Building C	6,35,000	10
Machinery C	1,65,000	30
Machinery D	4,000	30
Machinery E	50,000	30
Furniture A	1,10,000	10
Furniture B	8,000	10

The following assets are acquired by the company during the previous year 2023-24:

Asset	Actual Cost ₹	Rate of Depreciation (%)	Date of acquisition
Building D	5,40,000	10	14.5.2023
Machinery F	16,000	30	21.9.2023
Patents	40,000	25	15.4.2023
Technical Know-how	60,000	25	17.5.2023

The following assets are sold by the company during the previous year 2023-24:

Asset	Sale consideration ₹	Date of Sale
Machinery C	1,10,000	2.9.2023
Machinery E	80,000	28.3.2023

Determine the depreciation for the assessment year 2024-25.

Ans.

Particulars	WDV as on 1.4.2023 ₹	Additions during the year (₹)	Assets sold during the year (₹)	WDV as on 31.3.2024	Depreciation
Block 1 Building 10%	21,95,000	5,40,000	—	27,35,000	2,73,500
Block 2 Machinery 30%	2,19,000	16,000	1,90,000	45,000	13,500
Block 3 Furniture & Fixtures	1,18,000	—	—	1,18,000	11,800
Block 4 Intangible assets	Nil	1,00,000	—	1,00,000	25,000
Total					323800

3. W.D.V. of the block having two machines namely A & B as on 1.4.2023 is ₹6,00,000. Machine C was acquired on 12.11.2023 for ₹3,00,000 and put to use on the same date. Machine C is sold on 31.3.2024 for ₹4,00,000.

- Compute the depreciation allowable for the assessment year 2024-25.
- What will be the amount of depreciation allowed, if machine ₹A is sold instead of machine ₹C.
- What will be the amount of depreciation allowed if both ₹A and B machines are sold instead of machine C

Ans. (a)

Particulars

W.D.V. of the block as on 1.4.2023	6,00,000
Addition during the year of Machine C for less than 180 days	3,00,000
	9,00,000
Less: Sale price of machine C sold during the year	(4,00,000)
W.D.V. as on 31.3.2024 for the purpose of charging depreciation	5,00,000
Depreciation on ₹5,00,000 @ 15%	(75,000)
W.D.V. as on 1.4.2024	4,25,000

Full depreciation @ 15% has been charged, as the machine C which was put to use for Less than 180 days during the year, ceases to exist on 31.3.2024 and as such depreciation shall not be charged at the rate of 50% of the normal rate. It would have been charged, if the machine other than C had been sold during the year.

(b)

Particulars	Amount	Amount
w.D.V. of the block as on 1.4.2023		6,00,000
Addition during the year of Machine C put to use for less than 180 days		3,00,000
		9,00,000
Less : Sale price of machine A sold during the year		4,00,000
		5,00,000
Depreciation @ 7.5% on ₹3,00,000	22,500	
@ 15% on balance ₹2,00,000	30,000	52,500
w.D.V. as on 1.4.2024		4,47,500

(c)

Particulars	Amount	Amount
w.D.V. of the block as on 1.4.2023		6,00,000
Addition during the year of Machine C put to use for less than 180 days		3,00,000
		9,00,000
Less : Sale price of machine A & B sold during the year		4,00,000
		5,00,000
Depreciation* @ 7.5% on ₹3,00,000	22,500	
@ 15% on balance ₹2,00,000	30,000	52,500
w.D.V. as on 1.4.2024		4,47,500

* Although only one asset ₹C₹ is left in the block whose cost is ₹ 3,00,000, still depreciation will be allowed on the balance amount of ₹2,00,000 @ 15% as the block has not ceased to exist.

4. Ashwani borrowed a sum of ₹ 30,00,000 on 1.4.2021 @ 12% p.a. to construct the building for the purpose of her business. The construction of house property in completed on 30.6.2023 and put to use immediately. The loan is still outstanding. Cost of construction of

building is Rs60 lakh. Calculate the actual cost of building which shall be eligible for depreciation.

Ans.

Particulars	Amount
Cost of construction	60,00,000
Add: Interest from 1.4.2021 to 30.6.2023 ($\text{₹}30,00,000 \times 12/100 \times 27/12$)	8,10,000
Total actual cost eligible for depreciation	68,10,000

Note: Interest payable after 30.6.2023 shall be allowed as revenue expenditure.

5. An electricity company which was charging depreciation on straight line method and whose actual cost of the asset was ₹ 6,00,000 and written down value ₹ 5,50,000 sold the said asset during 2023-24 after 2 years. What will be the tax treatment if the asset is sold for:
- (i) Rs 4,50,000 (ii) Rs 5,80,000 (iii) Rs 7,00,000

Ans.

- (i) ₹ 4,50,000 - ₹ 5,50,000 = ₹ 1,00,000 will be allowed as terminal depreciation in the previous year 2023-24.
- (ii) ₹ 5,80,000 - ₹ 5,50,000 = ₹ 30,000 shall be balancing charge and taxable as business income as per section 41(2).
- (iii) ₹ 7,00,000 - ₹ 5,50,000 = ₹ 1,50,000 shall be balancing charge and hence taxable as business income ₹ 7,00,000 - ₹ 6,00,000 = ₹ 1,00,000 shall be short-term capital gain.

6. Mr. Mohan, engaged in the business of generation of power, furnishes the following details for FY 2023-24. He has opted for WDV method, you are required to compute the allowable depreciation for FY 2023-24.

The Opening Block as on 22nd April, 2023 was ₹ 950,000 (15% block). He acquired second hand machinery for ₹ 250,000 on 30th Nov²³. He also acquired Power Generation Machinery on 1st Aug 2023 for ₹ 10,00,000. He invested in an AC for Office for ₹ 200,000 on 9th Sep²³ and a pollution control equipment for ₹ 250,000 on 30th Jun²³. He bought additional power generation machinery for ₹ 500,000 on 1st Feb²⁴. Also, he sold assets valued ₹ 400,000 for ₹ 350,000 during the year.

Solution:

Particulars	₹	Block	Date	Particulars	₹	Block	Date
Opening WDV	9,50,000	15%		Air Pollution Control Equipment	2,50,000	40%	30th Jun, 23
Acq. Second hand	2,50,000	15%	30th Nov ₹23				
Power Generation Machinery	10,00,000	15%	1st Aug ₹23				
AC for Office	2,00,000	15%	9th Sep ₹23				
Power Generation Machinery	5,00,000	15%	1st Feb ₹24				
Sale Value	3,50,000						
Depreciation							
On the ones put to use for < 180 day	18,750						
	37,500						
On the Remaining Block, which comes to ₹ 18,00,000	2,70,000			On the Pollution Control Equipment	1,00,000		
Depreciation allowable	3,26,250						
Addl Depreciation allowable on Power Generation Machinery @ 20	2,00,000			Addl Depreciation allowable on the Poll Control	50,000		

				Equipment @			
Power Generation Machinery @ 20% which was used for < 180 days	50,000						
Total Depreciation Allowable	5,76,250			Total Depreciation Allowable	1,50,000		

Notes:

- The cells highlighted denote the ones which were put to use for < 180 days.
- Power generation equipment, pollution control equipment can enjoy additional depreciation.
- No depreciation is allowable on second hand machinery or office appliances like AC. Tea/Coffee/Rubber Development Account [Section 33AB]

7. Binod furnishes the following particulars for PY 2023-24. You are required to arrive at the deduction allowable u/s 35 for AY 2024-25, while computing the Income under the head "Profits / Gains from Business/ Profession".

- Amount paid to M/s ABC Ltd., a company registered in India, which has as its main object, scientific research and development, as approved by the prescribed authority ₹ 600,000
- Amount Paid to IIT Mumbai, for an approved scientific research programme ₹ 375,000
- Revenue Expenditure on In-house R&D facility as approved by prescribed authority ₹ 450,000
- Capital Expenditure on In-house R&D facility as approved by prescribed authority ₹ 12,00,000. This includes cost of Land ₹ 450,000
- Amount paid to Indian Institute of Science, Bangalore, for Scientific Research ₹ 10,00,000

Solution:

Expenditure	₹	Allowable Section	Deduction
Amount paid to M/s ABC Ltd., a company registered in India, which has as its main object, scientific research and development, as approved by the prescribed authority	6,00,000	100% 35(1)(ia)	6,00,000
Amount Paid to IIT Mumbai, for an approved scientific research programme	3,75,000	100 % 35(2AA)	3,75,000
Revenue Expenditure on In-house R&D facility as approved by prescribed authority	4,50,000	100% 35(1)(i)	4,50,000
Capital Expenditure on In-house R&D facility as approved by prescribed authority	7,50,000	100% 35(1)(iv)	7,50,000
Amount paid to Indian Institute of Science, Bangalore for Scientific Research	10,00,000	100 % 35(1)(ii)	10,00,000
Total	31,75,000		31,75,000

8. Kiara Ltd. constructed a building and started operating a hotel of 3 star category w.e.f. 1.4.2023. The company incurred the following expenditure in this connection.

1.	Capital expenditure (including cost of land Rs 70 lakhs) incurred during December, 2021 to March 2023 which were capitalized in the books of account 31.3.2023	1,30,00,000
2.	Capital expenditure incurred during previous year 2023-24 (it includes Rs 40 lakhs paid for Goodwill)	1,40,00,000

Compute the deduction available under section 35AD in the assessment year 2024-25.

Ans.

Particulars	Amount
Capital expenditure incurred before commencement but capitalized in books of account	1,30,00,000
Less: Cost of land not eligible for deduction under section 35 AD	(70,00,000)
	60,00,000

Capital expenditure incurred during previous year 2023-24 exclusive of value of goodwill	1,00,00,000
Deduction allowable under section 35AD	1,60,00,000

9. ABC Ltd commenced operations of the Business of a new Four-Star Hotel in Chennai on 01.04.2023. The Company incurred Capital Expenditure of ₹ 40 Lakhs during the period January, 2023 to March, 2023 exclusively for the above Business, and capitalised the same in its Books of Account as on April, 2023. Further, during the Previous Year 2023-2024, it incurred Capital Expenditure of ₹ 2.5 Crores (out of which ₹ 1 Crore was for Acquisition of Land) exclusively for the above Business.

Compute the Income under the heading Profits and Gains of Business or Profession for the Assessment Year 2024-2025, assuming that ABC Ltd has fulfilled all the conditions specified for claim of deduction u/s 35AD and has not claimed any deduction under Chapter VI-A under the heading "C- Deductions in respect of certain incomes". The Profits from the Business of running this Hotel (before claiming deduction u/s 35AD), for the Assessment Year 2024-2025 is ₹ 80 Lakhs.

Assume that the Company also has another existing Business of running a Four-Star Hotel in Kanpur, which commenced Operations 6 years back, the Profits from which was ₹ 130 Lakhs for the AY 2024-2025.

Ans. Assessee: ABC Ltd Previous Year: 2023-2024 Assessment Year: 2024-2025

Computation of Deduction u/s 35AD

Particulars	Lakhs
1. Income from Four Star Hotel in Chennai	80
Less: Eligible deduction u/s 35AD:	
(i) Prior Period Expenditure (40)	(190)
(ii) Capital Expenditure (₹ 250 Lakhs - ₹ 100 Lakhs) (150)	
Total [Loss can be set-off only against the Income from any Specified Business] [Section 73A]	(110)
2. Income from Four Star Hotel in Kanpur [Being a Specified Business, above Loss is eligible to be set- off against this Income u/s 73A],	130

Income under the head Profits & Gains of Business/Profession

20

10. (a) Compute the deduction allowable under section 35D on the basis of the following information submitted.

Preliminary expenses incurred	₹ 2,20,000
Cost of project	₹ 50,00,000

- (b) What will be your answer if the above preliminary express have been incurred by Ruchira Ltd. & the capital employed is ₹ 60,00,000.

Ans.

(a) Cost of project	₹ 50,00,000
5% of cost of project	₹ 2,50,000
Actual expenditure incurred	₹ 2,20,000
Deduction allowed shall be limited to	₹ 2,20,000

Deduction allowed shall be ₹ 2,20,000/5 = ₹ 44,000 for a period of 5 years starting from the previous year in which business has commenced.

(b) Actual preliminary expenditure incurred	₹ 2,20,000
5% of cost of project	₹ 2,50,000
Capital employed	₹ 60,00,000
5% of capital employed	₹ 3,00,000

Maximum deduction to be allowed shall be restricted to ₹ 2,50,000 Deduction allowable for 5 years — ₹ 2,50,000/5 = ₹ 50,000 every year

11. During the Financial Year 2023-2024, the following payments / expenditure were made / incurred by Mr. Yuvan Raja, a Resident Individual (whose turnover during the year ended 31.03.2023 was ₹ 54 Lakhs):

- Interest of ₹ 12,000 and commission ₹15,000 was paid to Rehman & Co, a Resident Partnership Firm.
- Interest of ₹ 4,000 was paid as interest to Mr. R.D. Burman, a Non-Resident.
- ₹ 3,00,000 was paid as salary to a resident individual.
- He had sold goods worth ₹ 5 Lakhs to Mr. Deva. He gave Mr. Deva a cash discount of

₹ 12,000 later. Commission of ₹ 15,000 was paid to Mr. Vidyasagar on 02.07.2023. In none of these transactions, tax was deducted at source. Briefly discuss whether any disallowance arises under the provisions of Section 40(a)(i) / 40(a)(ia) of the Income Tax Act, 1961.

Ans. Assessee: Mr. Yuvan Raja Previous Year: 2023-2024 Assessment Year: 2024-2025

1. Payment of Interest and Commission: The Assessee is not subject to Tax Audit in the preceding PY since the Turnover of ₹ 54 Lakhs is less than the prescribed limit of u/s 44AB for PY 2022-2023. Therefore the Assessee is not liable to deduct Tax for both interest u/s 194A and commission u/s 194H. The amounts of ₹ 12,000 (Interest) and ₹ 15,000 (Commission) are allowable expenditure.
2. Interest, Royalty, Fees for Technical Services or other similar sum payable outside India or in India to a Non-Resident not being a Company, or to a Foreign Company, on which tax has not been paid or deducted at source or after deduction, tax has not been paid before the prescribed time u/s 139(1) will be allowed as a deduction in computing the income of the previous year in which such tax has been paid and not in the previous year to which it relates to. Hence, the interest of ₹ 4,000 paid to Mr. Burman without deduction of tax is not an allowable expenditure for the Previous Year 2023-2024. [Note: However, Where an Assessee fails to deduct tax at source but is not deemed to be an Assessee in Default u/s 201(1), then it shall be deemed that the Assessee has deducted and paid the tax on such sum, on the date of furnishing of Return of Income by the Payee.]
3. Salary to a Resident: TDS on Salaries to Resident Employees in India is also covered u/s 40(a)(ia). So, payment of ₹ 3,00,000 to a Resident Individual on which Tax was not deducted is disallowed to an extent of 30%. However, is allowed in the year of TDS remittance.
4. Sale of Goods and Cash Discount are business transactions and TDS is not attracted for these transactions. Therefore the amounts are not disallowed u/s 40(a)(ia).

12. CASE 1

Ms. Priya is engaged in the business of generation and distribution of power and opts the WDV method for claiming Depreciation. She has an opening block of ₹ 50,00,000. She acquired new machinery for ₹ 25,00,000 on 15th Nov 2023. She also imported a new machinery from Zurich for ₹ 10,00,000 on 14th Apr 2023. This machine was used there earlier and she is the first user in India. Additionally, she bought computers for ₹ 500,000 on 9th Sep 2023.

You are required to compute the allowable depreciation under Income Tax Act, 1961 for AY 2024-25. Answer

Items	Date	₹	Category	Rate	Depreciation
Opening WDV	1st Apr 2023	50,00,000	Full	15%	7,50,000
New Machinery	15th Nov 2023	25,00,000	Half	15%	1,87,500
Imported Machinery	14th Apr 2023	10,00,000	Full	15%	1,50,000
Computers	9th Sep 2023	5,00,000	Full	40%	2,00,000
Total Depreciation					12,87,500
Addl Depreciation					
New Machinery		25,00,000	Half	20%	2,50,000
Computers		5,00,000	Full	20%	1,00,000
Additional Depreciation					3,50,000
Annual Depreciation					16,37,500

Note: The machinery that was imported was first used therein at Zurich, earlier, before being imported into India and hence no depreciation will be allowed on the same.

CASE 2

Examine whether the following expenses incurred by Ms. Priyanka, a dealer in Securities, will be allowable?

- Expenses on CSR Activities ₹ 750,000
- Setting up a cold chain facility for specified products, ₹ 10,00,000
- Interest on loan paid to Mr. Shyam, ₹ 100,000 on which no TDS was affected. Her sales for the PY was ₹ 5 Crores
- Securities Transaction Tax paid ₹ 50,000 Answer:
 - Expenses on CSR activities are not allowable as a deduction u/s 37 and hence the entire ₹ 750,000 would be disallowed
 - This is a specified business for which she can claim 100% deduction u/s 35AD, hence entire ₹ 10,00,000 will be allowable
 - The turnover of Ms. Priyanka exceeds the threshold of ₹ 100,00,000 and hence she was required to deduct tax at source. Since she didn't, 30% of the interest, i.e., 30% of ₹ 100,000, that is ₹ 30,000 would be disallowed u/s 40(a)(ia) and

the balance ₹ 70,000 would be allowable for the assessee u/s 36(1)(iii)

(d) Securities Transaction Tax of ₹ 50,000 would be an allowable expense, assuming that income from such source, has been included under the head "Profits / Gains from Business / Profession".

CASE 3

Mr. Kundan Lal, a trader at Kolkata, submits the P&L as under, for FY 2023-24:

Profit & Loss Account for Year Ended 31st March, 2024			
Particulars	₹	Particulars	₹
To Opening Stock	1,00,000	By Sales	1,25,00,000
To Purchases	1,20,00,000	By Closing Stock	2,00,000
To Gross Profit	6,00,000		
Total	1,27,00,000	Total	1,27,00,000
To Rent, Rates, Taxes	1,08,000	By Gross Profit	6,00,000
To Salaries	1,25,000	By Interest Income	5,000
To Interest on loan	25,000		
To Depreciation	2,25,000		
To Printing & Stationery	25,000		
To Postage & Telegram	1,750		
To Loss on Sale of Shares (Short Term)	12,190		
To General Expenses	17,060		
To Net Profit	66,000		
Total	6,05,000	Total	6,05,000

Additional Information:

- Closing Stock & Opening Stock was under-valued by 10%
- Salary includes ₹ 20,000 paid to a relative which was considered unreasonable
- The whole amount of Printing & Stationery was paid in Cash at one go
- WDV of the Plant & Machinery on 1st April, 2023 was ₹ 12,00,000. Additions of ₹ 5,00,000 were made on 1st June 2023 and on 1st Oct 2023, Machinery was sold for ₹ 12,57,993

- e) Rent & Rates included GST Liability for Mar ₹ 24 , of ₹ 27,000, duly paid within 7th April 2024
- f) A general expenses includes donation of ₹ 12,000 was made to a public charitable trust during the year.

You are required to:

- a) Calculate the Profits / Gains from Business Profession
- b) Advise whether he should opt for the Presumptive scheme u/s 44AD

You can assume that the entire amount of turnover was received by account payee cheque.

Ans:

	Particulars	₹
	Net Profit	66,000
Add:	UV Closing Stock	2,22,222
	Salary (Relative)	20,000
	Printing & Stationery (Cash > 20000)	25,000
	Depreciation	2,25,000
	Donation	12,000
	Loss on Sale of Shares	12,190
		5,82,412
Less:	UV Opening Stock	1,11,111
	Allowable Depreciation	66,301
	Interest Income	5,000
	Profits / Gains from Business / Profession	4,00,000
	Under Presumptive Taxation	7,50,000

Since the tax liability on presumptive basis, i.e., 6% of Gross Receipts (₹ 125,00,000 *6%) = ₹ 750,000 is higher than the computed Profits / Gains from Business Profession, he shouldn't adopt for presumptive basis. However, since his turnover is > ₹ 1 Crore, audit u/s 44AB would be mandatory, if he doesn't adopt presumptive basis.

Notes:

- a) Under-valued closing stock added to Profits $(100/90 \times 200,000)$
- b) Under-valued opening stock reduced $(100/90 \times 100,000)$
- c) Salary to relative, to the extent considered reasonable, added back
- d) Since the cash payment was > ₹ 10,000, entire amount disallowed u/s 40 A (3)
- e) Depreciation added back and allowed as under:

Particulars	₹
Opening WDV	12,00,000
Additions	5,00,000
Disposals	12,57,993
Closing WDV	4,42,007
Depreciation @ 15%	66,301

- f) Since the unpaid GST Liability was paid before the due date and before the date of filing return of income u/s 139(1), it is allowable.

CASE 4

Net profit as per profit and loss account of X is ₹ 6,86,000 for the year ending 31st March, 2024. The following information is noted from his accounts:

- (a) Advertisement expenditure debited to profit and loss account include the following:
 - (i) Expenditure incurred outside India: ₹ 46,000 (permitted by RBI);
 - (ii) Articles presented by way of advertisement (60 articles cost of each being ₹ 900; and 36 articles cost of each being ₹ 1,700);
 - (iii) Rs 16,000 being cost of advertisement which appeared in a newspaper owned by a political party;
 - (iv) ₹ 11,400 being capital expenditure on advertisement;
 - (v) ₹ 12,000 paid in cash; and
 - (vi) ₹ 7,000 paid to a concern in which X has substantial interest (amount is excessive to the extent of ₹ 1,400).
- (b) Out of salary to employees of ₹ 8,70,000 debited to the profit and loss account:
 - (i) ₹ 40,000 is employees' contribution to recognised provident fund, ₹ 37,500 of which is credited in the employees' account in the relevant fund before the due date;
 - (ii) ₹ 46,000 is bonus which is paid on 13th November, 2024;

- (iii) ₹ 36,000 is commission which is paid on 1st December, 2024;
- (iv) ₹ 20,000 is incentive to workers which is paid on 10th December, 2023;
- (v) ₹ 40,000 is paid outside India in respect of which tax is not deducted at source;
- (vi) ₹ 6,000 being capital expenditure for promoting family planning amongst employees; and
- (vii) ₹ 40,000 being entertainment allowance given to employees;
- (viii) Entertainment expenditure debited to profit and loss account is ₹ 9,000.

Determine the net income of X for the assessment year 2024-25.

Ans.

Calculation of Net Income of X for Assessment Year 2024-25

Particular	Amount
Net Profit as per Profit and Loss Account	6,86,000
Add: Inadmissible items:	
Cash paid for advertisement expenses (Note 3)	12000
Cost of advertisement which appeared in a newspaper owned by a political party	16000
Excessive amount paid to a concern in which X has substantial interest	1400
Employee contribution to recognised provident fund (to the extent not credited in the employees' account in the relevant fund before the due date)	2500
Bonus being paid to employees after the due date of filing the return	46000
Commission being paid to employees after the due date of filing the return	36000
Salary paid outside India in respect of which tax is not deducted at source	40000
Capital expenditure for promoting family planning amongst employees (allowed only to a corporate assessee)	6000
Capital expenditure on Advertisements	11400
Net Income	8,57,300

Notes:

- Restrictions on advertisement and entertainment abolished.
- With the abolition of Section 37(3), which inter alia governed the deductibility of advertising expenses, advertising too has come within the fold of the omnibus Section 37(1) which specifically frowns on capital expenditure. The Himachal Pradesh High Court verdict in

Mohan Meakin Breweries Ltd. v. CIT (1979) 118 ITR 101 allowing capital expenditure on advertising therefore has ceased to have the force of law as it was rendered in the context of Section 37(3).

3. Advertisement expenses of ₹ 12,000 (i.e., exceeding the limit of ₹ 10,000) is paid in cash, hence disallowed under section 40A(3).
4. The ₹due date for filing return where the assessee is a person (other than a company) who is required to get his accounts audited under the Income-tax Act or any other law is September 30; and where the assessee is a person deriving income from business and who is not required to get his accounts audited, the ₹due date is July, 31. Under the provisions of Section 43B of the Act - Bonus ₹ 46,000 paid on 13th Nov., 2024 and Commission ₹ 36,000 paid on 1st Dec., 2024 are not admissible since the payments are made after the above mentioned ₹due date.
5. Incentive to workers which is paid on 10th December, 2023 is admissible on ₹due basis.

13. Mr. X, a proprietor engaged in manufacturing business, furnishes the following particulars:

	Particulars	₹
(1)	Opening balance of plant and machinery as on 1.4.2023 (i.e., WDV as on 31.3.2023 after reducing depreciation for P.Y. 2022-23)	30,00,000
(2)	New plant and machinery purchased and put to use on 8.06.2023	20,00,000
(3)	New plant and machinery acquired and put to use on 15.12.2023	8,00,000
(4)	Computer acquired and installed in the office premises on 2.1.2024	3,00,000

Compute the amount of depreciation and additional depreciation for the A.Y. 2024- 25, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that all the assets were purchased by way of account payee cheque.

Ans. Computation of depreciation and additional depreciation for A.Y. 2024-25

Particulars	Plant & Machinery (15%)	Computer (40%)
Normal depreciation		
@15% on ₹ 50,00,000 [See Working Notes 1 & 2]	7,50,000	-
@7.5% (50% of 15%, since put to use for less than 180 days) on ₹ 8,00,000	60,000	-
@20% (50% of 40%, since put to use for less than 180 days) on ₹ 3,00,000	-	60,000
Additional Depreciation		
@20% on ₹ 20,00,000 (new plant and machinery put to use for more than 180 days)	4,00,000	-
@10% (50% of 20%, since put to use for less than 180 days) on ₹ 8,00,000	80,000	-
Total depreciation	12,90,000	60,000

Working Notes:

(1) Computation of written down value of Plant & Machinery

Particulars	Plant & Machinery (₹)	Computer (₹)
Opening balance as on 1.4.2023	30,00,000	-
Add: Plant & Machinery purchased on 08.6.2023	20,00,000	-
Add: Plant & Machinery acquired on 15.12.2023	8,00,000	-
Computer acquired and installed in the office premises	-	3,00,000
Written down value as on 31.03.2024	58,00,000	3,00,000

(2) Composition of plant and machinery included in the WDV

Particulars	Plant & Machinery (₹)	Computer (₹)
Plant and machinery put to use for 180 days or more [₹ 30,00,000 (WDV) + ₹ 20,00,000 (purchased on 8.6.2023)]	50,00,000	
Plant and machinery put to use for < 180 days	8,00,000	-

Computers put to use for < 180 days	-	3,00,000
	58,00,000	3,00,000

Notes:

- (1) Where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage.

Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2023 and computer acquired and installed on 02.01.2024, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to ₹ 80,000, being 10% (i.e., 50% of 20%) of ₹ 8 lakh.

Mr. X is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- (2) As per third proviso to section 32(1)(ii), the balance additional depreciation of ₹ 80,000 being 50% of ₹ 1,60,000 (20% of ₹ 8,00,000) would be allowed as deduction in the A.Y.2025-26.
- (3) As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, @20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant installed in office premises, residential accommodation or in any guest house.

Accordingly, additional depreciation is not allowable on computer installed in the office premises.

14. A car purchased by Dr. Soman on 10.08.2020 for ₹ 5,25,000 for personal use is brought into professional use on 1.07.2023 by him, when its market value was ₹ 2,50,000.

Compute the actual cost of the car and the amount of depreciation for the A.Y. 2024-25 assuming the rate of depreciation to be 15%.

Ans. As per section 43(1), the expression "actual cost" would mean the actual cost of asset to the assessee.

The purchase price of ₹ 5,25,000 is, therefore, the actual cost of the car to Dr. Soman. Market value (i.e. ₹ 2,50,000) on the date when the asset is brought into professional use is not relevant.

Therefore, amount of depreciation on car as per section 32 for the A.Y.2024-25 would be ₹ 78,750, being ₹ 5,25,000 x 15%.

Note: Explanation 5 to section 43(1) providing for reduction of notional depreciation from the date of acquisition of asset for personal use to determine actual cost of the asset is applicable only in case of building

15. A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2023-24 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y.2024-25. Assume that all the assets were purchased by way of account payee cheque.

S. No.	Description	Date of acquisition	Date when put to use	Amount ₹
1	Computer including computer software	27 Sept., 23	1 Oct., 23	35,000
2	Computer UPS	2 Oct., 23	8 Oct., 23	8,500
3	Computer printer	1 Oct., 23	1 Oct., 23	12,500
4	Books (other than annual publications are of ₹ 12,000)	1 Apr., 23	1 Apr., 23	13,000
5	Office furniture (Acquired from a practicing C.A.)	1 Apr., 23	1 Apr., 23	3,00,000
6	Laptop	26 Sep., 23	8 Oct., 23	43,000

Ans.

Computation of depreciation allowable for A.Y.2024-25

Asset		Rate	Depreciation (₹)
Block 1	Furniture [See working note below]	10%	30,000
Block 2	Plant (Computer including computer software, Computer UPS, Laptop, Printers and Books) [See working note below]	40%	34,500
Total depreciation allowable			64,500

Computation of depreciation

Block of Assets	₹
Block 1: Furniture - [Rate of depreciation - 10%]	
Put to use for more than 180 days [₹ 3,00,000@10%]	30,000
Block 2: Plant [Rate of depreciation- 40%]	
(a) Computer including computer software (put to use for more than 180 days) [₹ 35,000 @ 40%]	14,000
(b) Computer UPS (put to use for less than 180 days) [₹ 8,500 @20%] [See note below]	1,700
(c) Computer Printer (put to use for more than 180 days) [₹ 12,500 @40%]	5,000
(d) Laptop (put to use for less than 180 days) [₹ 43,000 @20%] [See note below]	8,600
(e) Books (being annual publications or other than annual publications) (Put to use for more than 180 days) [₹ 13,000 @40%]	5,200
	34,500

Note - Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the P.Y. 2023-24 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

16. Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2023. The manufacturing unit was set up on 1.5.2023. He commenced his manufacturing operations on 1.6.2023. The total cost of the plant and machinery installed in the unit is ₹ 120 crore. The said plant and machinery included second hand plant and machinery bought for ₹ 20 crore and new plant and machinery for scientific research relating

to the business of the assessee acquired at a cost of ₹ 15 crore.

Compute the amount of depreciation allowable under section 32 of the Income-tax Act, 1961 in respect of the assessment year 2024-25. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans.

**Computation of depreciation allowable for the A.Y. 2024-25
in the hands of Mr. Gamma**

Particulars	₹ in crore	
Total cost of plant and machinery	120.00	
Less: Used for Scientific Research (Note 1)	15.00	
	105.00	15.75
Normal Depreciation at 15% on ₹ 105 crore		
Additional Depreciation:		
Cost of plant and machinery	120.00	
Less: Second-hand plant and machinery (Note 2) 20.00		
Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction u/s 35(1)(iv) read with section 35(2)(ia) (Note 2) 15.00	35.00	17.00
	85.00	
Additional Depreciation at 20%		
Depreciation allowable for A.Y.2024-25		32.75

Notes:

- As per section 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since deduction is allowable under section 35 in respect of such capital expenditure.
- Mr. Gamma is entitled to additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery

or plant acquired and installed after 31.3.2005 by an assessee engaged in, inter alia, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia, -

- (i) any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;
- (ii) any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profit and gains of business or profession" of any one previous year.

In view of the above provisions, additional depreciation cannot be claimed in respect of -

- (i) Second hand plant and machinery;
- (ii) New plant and machinery purchased for scientific research relating to assessee's business in respect of which the whole of the capital expenditure can be claimed as deduction under section 35(1)(iv) read with section 35(2)(ia) & (iv).

17. Mr. A, furnishes the following particulars for the P.Y.2023-24. Compute the deduction allowable under section 35 for A.Y.2024-25, while computing his income under the head "Profits and gains of business or profession", if.

- (i) he is paying tax under default tax regime under section 115BAC
- (ii) he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

	Particulars	₹
1.	Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3.	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	4,00,000
4.	Expenditure incurred on in-house scientific research and development facility as approved by the prescribed authority related to his business	
(a)	Revenue expenditure on scientific research	3,00,000
(b)	Capital expenditure (including cost of acquisition of land ₹ 5,00,000) on scientific research	7,50,000

Ans.

(i) If Mr. A is paying tax under default tax regime under section 115BAC

Computation of deduction under section 35 for the A.Y.2024-25

Particulars	₹	Section	Allowability	Amount of deduction (₹)
Payment for scientific research				
Indian Institute of Science, Bangalore	1,00,000	35(1)(ii)	Not allowable under default tax regime	Nil
IIT, Delhi	2,50,000	35(2AA)		Nil
X Ltd.	4,00,000	35(1)(ia)		Nil
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	Allowable under default tax regime	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)		2,50,000
Deduction allowable under section 35				5,50,000

(ii) If Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

Computation of deduction under section 35 for the A.Y.2024-25

Particulars	₹	Section	% of deduction	Amount of deduction (₹)
Payment for scientific research				
Indian Institute of Science	1,00,000	35(1)(ii)	100%	1,00,000
IIT, Delhi	2,50,000	35(2AA)	100%	2,50,000
X Ltd.	4,00,000	35(1)(ia)	100%	4,00,000
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)	100%	2,50,000
Deduction allowable under section 35				13,00,000

18. Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2023. He incurred capital expenditure of ₹ 80 lakh, ₹ 60 lakh and ₹ 50 lakh, respectively, on purchase of land and building during the period January, 2023 to March, 2023 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2023. The cost of land included in the above figures is ₹ 50 lakh, ₹ 40 lakh and ₹ 30 lakh, respectively. During the P.Y. 2023-24, he incurred capital expenditure of ₹ 20 lakh, ₹ 15 lakh & ₹ 10 lakh, respectively, for extension/reconstruction of the building purchased and used exclusively for the above businesses.

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2024-25 and the loss to be carried forward, assuming that Mr. A is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and has fulfilled all the conditions specified under section 35AD and wants to claim deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C - Deductions in respect of certain incomes".

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2024-25 is ₹ 16 lakhs, ₹ 14 lakhs and ₹ 31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

Ans. **Computation of profits and gains of business or profession for A.Y.2024-25**

Particulars	₹ (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	31
Less: Depreciation under section 32	
10% of ₹ 30 lakh, being (₹ 50 lakh - ₹ 30 lakh + ₹ 10 lakh)	3
Income chargeable under "Profits and gains from business or profession"	28

Computation of income/loss from specified business under section 35AD

Particulars	Food Grains	Sugar	Total
	₹ (in lakhs)		
(A) Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 35AD)	16	14	30
Less: Deduction under section 35AD			
(B) Capital expenditure incurred prior to 1.4.2023 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023 (excluding the expenditure incurred on acquisition of land) = ₹ 30 lakh (₹ 80 lakh - ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh - ₹ 40 lakh)	30	20	50
(C) Capital expenditure incurred during the P.Y. 2023-24	20	15	35
(D) Total capital expenditure (B + C)	50	35	85
(E) Deduction under section 35AD			
100% of capital expenditure (food grains/ sugar)	50	35	85
Total deduction u/s 35AD for A.Y.2024-25	50	35	85
(F) Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)

Notes:

- (i) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2024-25 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 1.4.2012 or on or after 1.4.2009, respectively.
- (ii) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- (iii) Mr. A can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2023-24.
- (iv) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

19. Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2023. He incurred capital expenditure of ₹ 50 lakh during the period January, 2023 to March, 2023 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2023. Further, during the P.Y. 2023-24, he incurred capital expenditure of ₹ 2 crore (out of which ₹ 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2024-25, assuming that he has fulfilled all the conditions specified under section 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading "C - Deductions in respect of certain incomes". He has

exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2024-25 is ₹ 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the A.Y.2024- 25. Also, assume that payments for capital expenditure were made by net banking.

Ans.

Computation of profits and gains of business or profession for A.Y. 2024-25

Particulars	₹
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)	25 lakh
Less: Deduction under section 35AD	
Capital expenditure incurred during the P.Y.2023-24 (excluding the expenditure incurred on acquisition of land) = ₹ 200 lakh - ₹ 150 lakh	50 lakh
Capital expenditure incurred prior to 1.4.2023 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023	50 lakh
Total deduction under section 35AD for A.Y.2024-25	100 lakh
Loss from the specified business of new hotel in Madurai	(75 lakh)
Profit from the existing business of running a hotel in Coimbatore	120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A	45 lakh

20. Mr. Arnav is a proprietor having two units - Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil.

Unit A commenced operations on 1.4.2022 and it claimed deduction of ₹ 100 lacs incurred on purchase of two buildings for ₹ 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2023-24. However, in February, 2024, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of Mr. Arnav.

Ans. Since the capital asset, in respect of which deduction of ₹ 50 lacs was claimed u/s 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2023-24, the deeming provision u/s 35AD(7B) is attracted during the A.Y.2024-25.

Particulars	₹
Deduction allowed u/s 35AD for A.Y.2023-24	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2023-24 [10% of ₹ 50 lacs]	5,00,000
Deemed income under section 35AD(7B)	45,00,000

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation u/s 32 on the building in Unit B for A.Y.2024-25. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	₹
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2023-24 [10% of ₹ 50 lacs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	45,00,000

21. Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2024 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the financial year 2023-24, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

	Particulars	Amount in ₹
(1)	Salary to its employee, Mr. X (credited and paid in March, 2024)	12,00,000
(2)	Directors' remuneration (credited in March, 2024 and paid in April, 2024)	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2024 at the time of payment and remitted the same in July, 2024?

Ans. Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source as per the provisions of Chapter XVII-B would attract disallowance u/s 40(a)(ia).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is

deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible u/s 194J, would attract disallowance@30% u/s 40(a)(ia). Whereas in case of salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y.2023-24, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed u/s 40(a)(ia) while computing business income for A.Y.2024-25 is as follows -

Particulars		Amount paid in ₹	Disallowance u/s 40(a)(ia) @30%
(1)	Salary [tax is deductible under section 192]	12,00,000	3,60,000
(2)	Directors' remuneration [tax is deductible under section 194J without any threshold limit]	28,000	8,400
Disallowance under section 40(a)(ia)			3,68,400

If the tax is deducted on directors' remuneration in the next year i.e., P.Y.2024-25 at the time of payment and remitted to the Government, the amount of ₹ 8,400 would be allowed as deduction while computing the business income of A.Y. 2025-26.

22. During the financial year 2023-24, the following payments/expenditure were made/ incurred by Mr. Raja, a resident individual (whose turnover during the year ended 31.3.2023 was ₹ 99 lacs):

- Interest of ₹ 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
- ₹ 10,00,000 was paid as salary to a resident individual without deduction of tax at source;
- Commission of ₹ 16,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2023 without deduction of tax at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja?

Ans. Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

(i) The obligation to deduct tax at source from interest paid to a resident arises u/s 194A in the case of an individual, whose total turnover in the immediately preceding P.Y., i.e., P.Y.2022-23 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source. Hence, disallowance u/s 40(a)(ia) is not attracted in this case.

(ii) The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-

B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed ₹ 1 crore in the immediately preceding previous year.

Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

(iii) The obligation to deduct tax at source under section 194H from commission paid in excess of ₹ 15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2022-23 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source u/s 194H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed ₹ 50 lakh during the P.Y. 2023-24. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

23. A firm has paid ₹ 7,50,000 as remuneration to its partners for the P.Y.2023-24, in accordance with its partnership deed, and it has a book profit of ₹ 10 lakh. What is the remuneration allowable as deduction?

Ans. The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be -

Particulars	₹
On first ₹ 3 lakh of book profit [₹ 3,00,000 × 90%]	2,70,000
On balance ₹ 7 lakh of book profit [₹ 7,00,000 × 60%]	4,20,000
	6,90,000

The excess amount of ₹ 60,000 (i.e., ₹ 7,50,000 - ₹ 6,90,000) would be disallowed as per section 40(b)(v).

24. Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 7,00,000 before deduction of the following items:

- (1) Salary of ₹ 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- (2) Depreciation on plant and machinery under section 32 (computed) ₹ 1,50,000.
- (3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is ₹ 5,00,000.

Compute:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- (ii) Allowable working partner salary for the A.Y. 2024-25 as per section 40(b).

Ans.

- (i) As per Explanation 3 to section 40(b), "book profit" shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars	₹	₹
Net Profit (before deduction of depreciation, salary and interest)		7,00,000
Less: Depreciation under section 32	1,50,000	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 5,00,000 × 12%)	60,000	2,10,000
Book Profit		4,90,000

(ii) Salary actually paid to working partners = ₹ 20,000 × 2 × 12 = ₹ 4,80,000.

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits -

On the first ₹ 3,00,000 of book profit or in case of loss	₹ 1,50,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partners' salary for the A.Y. 2024-25 in this case would be:

Particulars	₹
On the first ₹ 3,00,000 of book profit [(₹ 1,50,000 or 90% of ₹ 3,00,000) whichever is more]	2,70,000
On the balance of book profit [60% of (₹ 4,90,000 - ₹ 3,00,000)]	1,14,000
Maximum allowable partners' salary	3,84,000

Hence, allowable working partners' salary for the A.Y.2024-25 as per the provisions of section 40(b)(v) is ₹ 3,84,000.

25. X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees.

Compute the amount of deduction allowable under section 36(1)(iva), if the basic salary of the employees aggregate to ₹ 10 lakh. Would disallowance under section 40A(9) be attracted, and if so, to what extent?

Ans.

Computation of deduction u/s 36(1)(iva) and disallowance u/s 40A(9)

Particulars	₹
Basic Salary	10,00,000
Dearness Allowance@40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)	14,00,000
Actual contribution (20% of basic salary i.e., 20% of ₹ 10 lakh)	2,00,000
Less: Permissible deduction under section 36(1)(iva) (10% of basic salary plus dearness pay = 10% of ₹ 14,00,000 = ₹ 1,40,000)	1,40,000
Excess contribution disallowed under section 40A(9)	60,000

26. Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

	₹
(i) Andhra Pradesh State Financial Corporation (P.Y. 2022-23 & 2023-24)	15,00,000
(ii) Indian Bank (P.Y. 2023-24)	30,00,000
	45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2023-24, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2024, Hari paid 5 installments to APSFC and 3 installments to Indian Bank.

Hari claimed the entire interest of ₹ 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Examine whether his claim is valid and if not what is the amount of interest, if any, allowable.

Ans. According to section 43B, any interest payable on the term loans to specified financial institutions and any interest payable on any loans and advances to, inter alia, scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so

converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of ₹ 15,00,000 due to APSFC and of ₹ 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of ₹ 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the A.Y.2024-25 shall be calculated as follows:

	Interest outstanding	Number of Instalments	Amount per instalment	Instalments paid	Interest allowable (₹)
APSFC	15 lakh	60	25,000	5	1,25,000
Indian Bank	30 lakh	60	50,000	3	1,50,000
Total amount eligible for deduction					2,75,000

27. Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

Particulars	₹
Financial year 2020-21	1,15,000
Financial year 2021-22	1,80,000
Financial year 2022-23	2,10,000

What is his obligation regarding maintenance of books of accounts for Assessment Year 2024-25 under section 44AA of Income-tax Act, 1961?

Ans. Section 44AA(1) requires every person carrying on any profession, notified by the Board in the Official Gazette (in addition to the professions already specified therein), to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 1961.

As per Rule 6F, a person carrying on a notified profession shall be required to maintain specified books of accounts:

- (i) if his gross receipts in all the three years immediately preceding the relevant previous year

has exceeded ₹ 1,50,000; or

- (ii) if it is a new profession which is setup in the relevant previous year, it is likely to exceed ₹ 1,50,000 in that previous year.
- (iii) In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded
- (iv) ₹ 1,50,000 in financial year 2020-21, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.
- (v) Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.

28. Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the financial year 2023-24. Amount received in cash during the P.Y. 2023-24 is ₹ 14,00,000 and balance through prescribed electronic modes on or before 31st October 2024. His income from the said business as per books of account is ₹ 15,00,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2023-24 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

- (i) Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the assessment year 2024-25?
- (ii) If so, determine his income from retail trade as per the applicable presumptive provision.
- (iii) In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 1961?
- (iii) What is the due date for filing his return of income under both the options?

Ans.

- (i) Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover $(14,00,000/2,98,50,000 \times 100)$ and his total turnover for the F.Y.2023-24 is below ₹ 300 lakhs, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.

- (ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹ 18,19,000 (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).
- (iii) Mr. Praveen had declared profit for the previous year 2022-23 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive assessment years i.e., A.Y. 2024-25 to A.Y. 2028-29, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2023-24 relevant to A.Y.2024-25, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2025-26 to A.Y. 2029-30.
- Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.
- (iv) In case he declares presumptive income under section 44AD, the due date would be 31st July, 2024.

In case he declares profits as per books of account which is lower than the presumptive income, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2024.

29. Mr. X commenced the business of operating goods vehicles on 1.4.2023. He purchased the following vehicles during the P.Y.2023-24. Compute his income under section 44AE for A.Y.2024-25.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2023
(2)	6,500	1	15.03.2024
(3)	10,000	3	16.07.2023
(4)	11,000	1	02.01.2024
(5)	15,000	2	29.08.2023
(6)	15,000	1	23.02.2024

Would your answer change if the goods vehicles purchased in April, 2023 were put to use only in July, 2023?

Ans. Since Mr. X does not own more than 10 vehicles at any time during the previous year 2023-24, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2023	8	16
1	23.02.2024	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2023	12	24
1	15.3.2024	1	1
3	16.7.2023	9	27
1	02.1.2024	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y.2024-25 would be -

₹ 6,82,500, i.e., 55 × ₹ 7,500, being for other than heavy goods vehicle + 18 ×

₹ 1,000 × 15 ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 2023 were put to use only in July, 2023, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

30. Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2024:

S. No.	Particulars	₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the A.Y. 2024-25.

Ans.

Computation of business income and agricultural income of Ms. Vivitha for the A.Y.2024-25

Sr. No.	Source of income	Gross (₹)	Business income		Agricultural income
			%	₹	₹
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000
(iii)	Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below)	2,50,000	100%	2,50,000	-
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India (See Note 2 below)	80,000		Nil	80,000

	Total			5,40,000	5,90,000

Notes:

- Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.
 - Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land. Therefore, such income would be exempt u/s 10(1).
31. Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2024

	(₹ in lakhs)
WDV of Plant and Machinery on 31.3.2023	30.00
Depreciation including additional depreciation for P.Y. 2022-23	4.75
New machinery purchased on 1-9-2023	10.00
New machinery purchased on 1-12-2023	8.00
Computer purchased on 3-1-2024	4.00

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2023 and computer have been installed in the office.
- During the year ended 31-3-2023, a new machinery had been purchased on 31-10-2022, for ₹ 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.
- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2023.

Compute the depreciation available to the assessee as per the provisions of the Income-

tax Act, 1961 and the WDV of different blocks of assets as on 31- 3-2024 if -

- (i) he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)
- (ii) he pays tax under the default tax regime under section 115BAC.

Ans.

**Computation of written down value of block of assets of
Venus Ltd. as on 31.3.2024**

Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
Written down value (as on 31.3.2023)	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2022-23	4.75	-
Opening balance as on 1.4.2023	25.25	
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2023	10.00	-
New machinery purchased on 1.12.2023	8.00	-
Computer purchased on 3.1.2024	-	4.00
Less: Assets sold/discarded/destroyed during the year	43.25	4.00
	Nil	Nil
Written Down Value (as on 31.03.2024)	43.25	4.00

- (i) If Mr. Venus exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)

In this case, since his income would be computed under the optional tax regime as per the normal provisions of the Act, he would be entitled for normal depreciation and additional depreciation, subject to fulfilment of conditions.

Computation of depreciation for A.Y. 2024-25

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	Normal Depreciation	3.79	-
	- WDV of plant and machinery (₹ 25.25 lacs x 15%)	1.50	-
	- New Machinery purchased on 1.9.2023 (₹ 10 lacs x 15%)		-
	(A)	5.29	-
	Additional Depreciation		
	New Machinery purchased on 1.9.2023 (₹ 10 lakhs x 20%)	2.00	
	Balance additional depreciation in respect of new machinery purchased on 31.10.2022 and put to use for less than 180 days in the P.Y. 2022-23 (₹ 10 lakhs x 20% x 50%)	1.00	
	(B)	3.00	
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any		
	Normal Depreciation		
	New machinery purchased on 1.12.2023 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2023 [₹ 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	8.89	0.80

Notes:

- (1) As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005, by an assessee engaged,

inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia,-

- (i) any office appliances or road transport vehicles;
- (ii) any machinery or plant installed in, inter alia, office premises.

In view of the above provisions, additional depreciation cannot be claimed in respect of -

- (i) Machinery purchased on 1.12.2023, installed in office and
 - (ii) Computer purchased on 3.1.2024, installed in office.
- (2) Balance additional depreciation@10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year.

Hence, in this case, the balance additional depreciation@10% (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the previous year 2022-23 and put to use for less than 180 days in that year can be claimed in P.Y. 2023-24 being immediately succeeding previous year.

- (ii) If Mr. Venus pays tax under default tax regime under section 115BAC

In this case, under the default tax regime as per section 115BAC, he would be entitled only for normal depreciation but not additional depreciation.

Computation of depreciation for A.Y. 2024-25

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation		
	Normal Depreciation		
	- WDV of plant and machinery	3.79	-

II	(₹ 25.25 lacs × 15%)	1.50	-
	- New Machinery purchased on 1.9.2023 (₹ 10 lacs × 15%)		
	(A)	5.29	-
	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation		
	Normal Depreciation	0.60	-
	New machinery purchased on 1.12.2023 [₹ 8 lacs × 7.5% (i.e., 50% of 15%)]		
	Computer purchased on 3.1.2023 [₹ 4 lacs × 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	5.89	0.80

32. Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the A.Y. 2024-25, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

	Particulars	(₹ in lacs)
(i)	WDV of block as on 31.3.2023 (15% rate)	50.00
(ii)	Depreciation for P.Y. 2022-23	7.50
(iii)	New machinery purchased on 12-10-2023	10.00
(iv)	Machinery imported from Colombo on 12-4-2023. This machine had been used only in Colombo earlier and the assessee is the first user in India.	9.00
(v)	New computer installed in generation wing unit on 15-7-2023	2.00

All assets were purchased by A/c payee cheque.

Ans.

Computation of depreciation under section 32 for A.Y.2024-25

Particulars	₹	₹
Normal Depreciation		
Depreciation@15% on ₹ 51,50,000, being machinery put to use for more than 180 days [WDV as on 31.3.2023 of ₹ 50,00,000 - Depreciation for P.Y. 2022-23 of ₹ 7,50,000+ Purchase cost of imported machinery of ₹ 9,00,000]	7,72,500	
Depreciation@7.5% on ₹ 10,00,000, being new machinery put to use for less than 180 days	75,000	9,27,500
Depreciation@40% on computers purchased ₹ 2,00,000	8,47,500	
Additional Depreciation (Refer Note below)		
Additional Depreciation@10% of ₹ 10,00,000 [being actual cost of new machinery purchased on 12-10-2023]	1,00,000	1,40,000
Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of ₹ 2,00,000]	40,000	
Depreciation on Plant and Machinery		10,67,500

Note:-

Mr. Abhimanyu is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, inter alia, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing units eligible for additional depreciation@20%.

Since the new machinery was purchased only on 12.10.2023, it was put to use for less than 180 days during the previous year, and hence, only 10%

(i.e., 50% of 20%) is allowable as additional depreciation in the A.Y.2024-25. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.

33. Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the A.Y. 2024-25 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) -

- (i) Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.
- (ii) Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to ₹ 4,50,000.
- (iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted. The sales for the P.Y. 2022-23 was ₹ 202 lakhs. Mr. X has not paid the tax, if any, on such interest.
- (iv) Commodities transaction tax paid ₹ 20,000 on sale of bullion.

Ans. Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

(i) Construction of school building in compliance with CSR activities

Under section 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

Accordingly, the amount of ₹ 5,60,000 incurred by Mr. Manav, towards construction of

school building in compliance with CSR activities shall not be allowed as deduction under section 37.

Therefore, the deduction under section 35AD while computing business income of such specified business would be ₹ 4,50,000, if Mr. Manav opts for section 35AD.

(ii) Purchase of building for setting up and operating a warehousing facility for storage of food grains

Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The deduction u/s 35AD would be 100% of ₹ 4,50,000, being the amount invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (P.Y.2023-24, in this case).

Therefore, the deduction under section 35AD while computing business income of such specified business would be ₹ 4,50,000, if Mr. Manav opts for section 35AD.

(iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted

As per section 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 2022-23 exceeds ₹ 100 lakhs.

Therefore, ₹ 15,000, being 30% of ₹ 50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source under section 194A on interest of ₹ 50,000 paid by it to Mr. X.

The balance ₹ 35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

(iv) Commodities transaction tax of ₹ 20,000 paid on sale of bullion

Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is allowable as deduction, provided

the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".

Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of ₹ 20,000 paid is allowable as deduction under section 36(1)(xvi).

34. Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

- a. For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.
- b. Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a crossed cheque, ₹ 25,000 can be the profits and gains of business under section 40A(3A) in the year of payment.
- c. It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession".
- d. The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by an account payee cheque on 27.12.2023 is a deductible expenditure under section 36.
- e. Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.
- f. An individual engaged in trading activities and exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) can claim additional depreciation under section 32(1)(iia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.

Ans. (i) True: Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.

(ii) True: As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding ₹ 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes such as credit card, debit card, net

banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.

- (iii) True: According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/ profession whether or not the assessee has claimed the same while computing his total income.
- (iv) True: Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- (v) False: Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.
- (vi) False: Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.

In this case, the individual is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, he will not be entitled to claim additional depreciation under section 32(1)(ia), even though he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

35. Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the A.Y. 2024-25:

- Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filing return.
- Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.
- Tax on non-monetary perquisite provided to an employee ₹ 20,000.
- Payment of ₹ 50,000 by using credit card for fire insurance.

- e. Salary payment of ₹ 10,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.
- f. Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods.

Ans. (i) Not allowable as deduction: As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:

- (1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund; or
- (2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.

Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

- (ii) Allowable as deduction: As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds ₹ 10,000.

Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

- (iii) Not allowable as deduction: Income-tax of ₹ 20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC).

As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

- (iv) Allowable as deduction: Payment for fire insurance is allowable as deduction under section 36(1). Since payment is made by credit card, which is a prescribed electronic mode, disallowance under section 40A(3) is not attracted in this case.

- (v) Not allowable as deduction: Disallowance under section 40(a)(iii) is attracted in respect of salary payment of ₹ 10,00,000 outside India by a company without deduction of tax at source.
- (vi) Allowable as deduction: The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is ₹ 35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A(3) is not attracted for payment of ₹ 30,000 made in cash to a transporter for carriage of goods.

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

- (a) Payment made in respect of a business expenditure incurred on 16th February, 2024 for ₹ 25,000 through a crossed cheque is hit by the provisions of section 40A(3).
- (b)
 - (i) It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.
 - (ii) Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a non- resident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income.

Ans. (a) True: In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a crossed cheque will attract disallowance under section 40A(3).

- (b) (i) **True:** It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same as bad debt under section 36(1)(vii). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDSs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.

- (ii) True: Section 40(a)(i) provides that failure to deduct tax at source from, inter alia, rent or royalty payable to a non-resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.

37. Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2024:

Trading and Profit and Loss Account for the year ended 31.03.2024

Particulars	₹	Particulars	₹
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares (Short-term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

- a. It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock ₹ 9,000

Closing stock ₹ 18,000

- b. Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent

of ₹ 2,000.

c. The whole amount of printing and stationery was paid in cash by way of one-time payment to Mr. Ramesh.

d. The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:

The opening balance of plant and machinery (i.e., the written down value as on 31.3.2023 minus depreciation for P.Y. 2022-23) is ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2023 for ₹ 70,000. Two old plants were sold on 1.10.2023 for ₹ 50,000.

e. Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2024.

f. Other general expenses include ₹ 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation u/s 44AD and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

Ans. **Computation of business income of Mr. Sivam for the A.Y. 2024-25**

Particulars	₹	₹
Net Profit as per profit and loss account		50,000
Add: Inadmissible expenses/ losses		
Under valuation of closing stock	18,000	
Salary paid to brother - unreasonable [Section 40A(2)]	2,000	
Printing and stationery - whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds ₹ 10,000 [Section 40A(3)]	23,200	
Depreciation (considered separately)	1,05,000	
Short term capital loss on shares	8,100	
Donation to public charitable trust	2,000	1,58,300
		2,08,300
Less: Items to be deducted:		

Under valuation of opening stock	9,000	
Income from UTI [Chargeable under the head "Income from Other Sources"]	2,400	11,400
Business income before depreciation		1,96,900
Less: Depreciation (See Note 1)		66,000
		1,30,900

Computation of business income as per section 44AD:

As per section 44AD, where the amount of turnover is received, inter alia, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes, the presumptive business income would be 6% of turnover, i.e., ₹ $1,12,11,500 \times 6 / 100 = ₹ 6,72,690$

Notes:

1. Calculation of depreciation

Particulars	₹
Opening balance of plant & machinery as on 1.4.2023 (i.e. WDV as on 31.3.2023 (-) depreciation for P.Y. 2022-23)	4,20,000
Add: Cost of new plant & machinery	70,000
	4,90,000
Less: Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2024	4,40,000
Depreciation@15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

38. Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2023, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2nd May, 2023, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2023. This new vehicle could, however, be put to use only on 15th June, 2023.

Compute the total income of Mr. Sukhvinder for the A.Y. 2024-25, taking note of the following data:

Particulars	₹	₹
Freight charges collected		12,70,000
Less: Operational expenses	6,25,000	
Depreciation as per section 32	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		4,45,000
Other business and non-business income		70,000

Ans. Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such assesses on a presumptive basis. The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is ₹ 13,72,500 (See Notes 1 & 2 below) and his total income would be ₹ 14,42,500.

However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be ₹ 4,45,000 instead of ₹ 13,72,500 and his total income would be ₹ 5,15,000.

Notes:

1. Computation of total income of Mr. Sukhvinder for A.Y. 2024-25

Particulars	Presumptive income ₹	Where books are maintained ₹
Income from business of plying goods carriages [See Note 2 Below]	13,72,500	4,45,000

Other business and non-business income	70,000	70,000
Total Income	14,42,500	5,15,000

2. Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month/ per month	Ton	Amount ₹
(1)	(2)		(3)	(4)
Heavy goods vehicle				
1 goods carriage upto 1st May	2	1,000	15 (15,000/1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/1,000)	9,00,000
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 6th May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000
Total				13,72,500

39. Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2024:

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2024

Particulars	₹	Particulars	₹
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	2,34,00,000	By Gross Profit	2,34,00,000
To Administrative charges	3,26,000		10,60,000

To	SGST penalty	5,000	By	Dividend from domestic companies	15,000
To	GST paid	1,10,000	By	Income from agriculture (net)	1,80,000
To	General Expenses	54,000			
To	Interest to Bank (On machinery term loan)	60,000			
To	Depreciation	2,00,000			
To	Net Profit	5,00,000			
		12,55,000			12,55,000

Following are the further information relating to the financial year 2023-24:

- Administrative charges include ₹ 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹ 36,000.
- The assessee paid ₹ 33,000 in cash to a transport carrier on 29.12.2023. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)
- A sum of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
- Bank term loan interest actually paid upto 31.03.2024 was ₹ 20,000 and the balance was paid in November 2024.
- Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in P.Y. 2022-23 for self-occupation. Interest on housing loan was ₹ 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.
- Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate@15%)	₹
WDV as on 31.03.2023 minus Depreciation for P.Y. 2022-23	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the A.Y. 2024-25 assuming he pays tax under default tax regime.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income.

Ans. **Computation of total income of Mr. Raju for the A.Y. 2024-25**

Particulars		₹	₹
Profits and gains of business or profession			5,00,000
Net profit as per profit and loss account			
Add:	Excess commission paid to brother disallowed under section 40A(2)	10,000	
	Disallowance under section 40A(3) is not attracted since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators. Therefore, amount of ₹ 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
	Salary paid to staff not recorded in the books (Assuming that the expenditure is in the nature of unexplained expenditure and hence, is deemed to be income as per section 69C	48,000	
	and would be taxable @ 60% under section 115BBE - no deduction allowable in respect of such expenditure) [See Note 1 below]		3,03,000
	Bank term loan interest paid after the due date of filing of return under section 139(1) - disallowed as per section 43B	40,000	
	State GST penalty paid disallowed [See Note 2 below]	5,000	
	Depreciation debited to profit and loss account	2,00,000	
Less:	Dividend from domestic companies [Chargeable to tax under the head "Income from Other Sources"]	15,000	8,03,000
	Income from agriculture [Exempt under section 10(1)]	1,80,000	4,18,500
	Depreciation under the Income-tax Act, 1961 (As per working note)	2,23,500	
Income from house property			3,84,500
Annual value of self-occupied property		Nil	

Less :	Deduction u/s 24(b) - interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]	Nil	Nil
Income from Other Sources			
Dividend from domestic companies			15,000
Gross Total Income			3,99,500
Less: Deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime]			Nil
Total Income			3,99,500

Working Note:

Computation of depreciation under the Income-tax Act, 1961

Particulars	₹
Depreciation@15% on ₹ 13.90 lakhs (WDV as on 31.3.2023 less depreciation for P.Y. 2022-23 i.e., ₹ 11.90 lakh plus assets purchased during the year and used for more than 180 days ₹ 2 lakh)	2,08,500
Depreciation @7.5% on ₹ 2 lakh (Assets used for < 180 days)	15,000
	2,23,500

Since Mr. Raju is paying tax as per default tax regime, additional depreciation u/s 32(1)(iia) would not be available to him.

Notes (Alternate views):

- It is also possible to take a view that the salary not recorded in the books of account was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same should not be added back as unexplained expenditure, but would be allowable as deduction while computing profits and gains of business and profession.
- Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.

Since the question only mentions "GST penalty paid" and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not

deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be ₹ 3,94,500.

40. Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2024 are given below:

Particulars	₹
Opening balance of car (only asset in the block) as on 1.4.2023	3,00,000
(i.e. WDV as on 31.3.2023 (-) depreciation for P.Y. 2022-23)	
Opening balance of machinery as on 1.4.2023 (i.e., WDV as on 31.3.2023 (-) depreciation for P.Y. 2022-23)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are ₹ 50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities for the A.Y. 2024-25.

Ans. Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962.

As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

Particulars	₹	₹
Sale value of cured coffee		22,00,000
Car expenses (80% of ₹ 50,000)	3,10,000	
Depreciation on car (80% of 15% of ₹ 3,00,000) [See Computation below]	40,000	
	36,000	
Total cost of agricultural operations	3,86,000	
Expenditure on coffee curing operations	3,00,000	
	0	

Add: Depreciation on machinery (15% of ₹ 15,00,000)	2,25,000		
[See Computation below]	0		
Total cost of the curing operations		5,25,000	9,11,000
Total cost of composite operations			
Total profits from composite activities			12,89,000
Business income (25% of above)			3,22,250
Agricultural income (75% of above)			9,66,750

Computation of depreciation for P.Y. 2023-24

Particulars	₹	₹
Car		
Opening balance as on 1.4.2023 (i.e., WDV as on 31.3.2023 (-) depreciation for P.Y.2022-23)		3,00,000
Depreciation thereon at 15%	45,000	
Less: Disallowance @20% for personal use	9,000	
Depreciation actually allowed		36,000
Machinery		
Opening balance as on 1.4.2023 (i.e., WDV as on 31.3.2023 (-) depreciation for P.Y.2022-23)		15,00,000
Depreciation @ 15% for P.Y. 2023-24		2,25,000

Explanation 7 to section 43(6) provides that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

Chapter – 7

CAPITAL GAINS

1. On 25th December, 2023, Mr. X sold 500 grams of gold, the sale consideration of which was Rs 4,50,000. He had acquired this gold on 20th August, 2000 for Rs 4,00,000. Fair market value of 500 grams of gold on 1st April, 2001 was Rs 3,40,000. Find out the amount of capital gain chargeable to tax for the assessment year 2024-25.

Ans. Statement showing computation of Capital Gain

Particulars		Amount ₹
Sale consideration		14,50,000
Less: Indexed Cost of Acquisition	Cost=4,00,000	(13,92,000)
(If Acquisition before 1.4.2001)	FMV=3,40,000	
ICOA =	Whichever is higher	
[(COA or FMVA as on 1.4.2001 whichever is higher)*(CII for the year of Transfer/100)]	i.e. 4,00,000 =[(4,00,000)*(348/100)]	
Long Term Capital Gain		58,000

2. (Where indexation benefit is not available even on transfer of long term capital asset)
Ms. Dixita has 1,000 9% Debentures of DD Ltd. acquired on 15.04.2009 for Rs 85 each. As on 01.02.2023, she sold such asset for Rs 1,25,500. Brokerage @0.5 % of sale value was paid by her. Compute capital gain for AY 2024-25.

Ans. Statement showing computation of capital gain

Particulars	Amount ₹
Sale Consideration	1,25,500
Less:	
Expense on transfer (i.e. Brokerage 0.5% of Rs 1,25,500)	(628)
Cost of Acquisition (85*1000)	(85000)
(Note: No indexation benefit is available as Capital Asset is Debenture)	

Long Term Capital Gain	39,872

3. Self Generated Assets

Nisha transferred the following assets on 02.06.2023, determine capital gain for the A.Y. 2024-25 assuming Brokerage paid on transfer @ 2%

Particulars	Cost	FMV (1.4.2001)	Sale value
Land acquired in 1976	25,000	1,00,000	30,00,000
Goodwill of business [Business commenced on 1-05-1995]	Nil	40,000	2,00,000
Tenancy right	Nil	30,000	3,00,000

Ans. Computation of capital gains in the hands of Nisha for the A.Y. 2024-25

Particulars	Land	Goodwill of business	Tenancy right
Sale Consideration	30,00,000	2,00,000	3,00,000
Less:			
Expense on transfer (2% Brokerage on sale)	(60,000)	(4,000)	(6,000)
COA or ICOA	(348000)	Nil	Nil
(Acquisition of land before 1.4.2001) Cost= ₹ 25000, FMV=Rs100000 whichever is higher i.e. 1,00,000 shall be considered for indexation	[(100000)*(348/100)]	As per section 55(2) (a)	As per section 55(2)(a)
LTCG	25,92,000	1,96,000	2,94,000

4. Mr. Nagendra Kumar converts his capital asset acquired for an amount of ₹ 125000 in 2005-06, into stock in trade in the FY 2016-17 on which the FMV of the capital asset is 7,50,000. He thereafter sells this asset for ₹ 10,00,000 in 2023-24. Please advise on the taxability.

Ans. It is to be noted that when the owner of a capital asset, converts it in to stock in trade, the "capital gains" arises in the year of such conversion, that is regarded as transfer, i.e., in the year

in which the transfer (conversion) was effected. Therefore, in this case the Capital Gains arises in FY 2016-17. however, the same will be taxable only in the year the asset was sold, and along with it shall be chargeable to tax, the relevant income under the head "profits / Gains from Business / profession".

Particulars	₹
FMV of asset on date of conversion	7,50,000
Indexed Cost of acquisition [See note 1]	2,82,051
Capital Gain arises in FY 2016-17	4,67,949
Finally sold for	10,00,000
Cost of Acquisition	7,50,000
Business Income arises in FY 2023-24	2,50,000

Note:

- 1) Indexed Cost of Acquisition is ₹ 125000/117*264 (refer to the CII table for the indices of respective years).
- 2) The Capital Gain arises in FY 2016-17.
- 3) The Capital Gain is taxable only in FY 2023-24 when the asset is sold, along with the Business Income.

5. Mr. Srinivasan, purchases 2000 equity shares in ABC Ltd., for ₹ 50 per share (Brokerage 1%), in Feb 1997. He gets 200 Bonus shares in September, 2000. He again gets 2200 bonus shares in September, 2007. FMV of the Shares on 1st April, 2001 was ₹ 125. In January, 2024, he sells all the shares for ₹ 500 per share (Brokerage 2%). Compute the Capital Gains Tax in the hands of Mr. Srinivasan in FY 2023-24.

Ans.

Cost of Acquisition	Nos.	Per Share	Total ₹
Original	2,000	50.50	1,01,000
Bonus Shares prior to 1st April, 2001	200	125 (FMV)	25,000
Bonus Share post 1st April, 2001	2,200	-	-
Full value of Consideration	4,400	490.00	21,56,000
Indexed Cost of Acquisition			

Original (2000 × 125 × 348/100)		8,70,000	
Bonus (200 × 125 × 348/100)		87,000	(9,57,000)
Capital Gains (Long Term)			11,99,000

Note:

- The brokerage is netted against the costs and sales taxes
- The Cost of Acquisition of Bonus Shares acquired prior to 1st April, 2001 is the FMV on 1st April, 2001 and for the ones acquired post 1st April, 2001 is NIL
- For the Original Shares, since the acquisition cost (₹ 50) is less than the FMV (₹ 125) as on 1st April, 2001, the FMV as on 1st April, 2001 is considered for computing the indexed cost of acquisition
- Refer to the tables for the Indices used in the computation.

6. M & Sons, HUF, had purchased a land for ₹ 150,000 in 2002-03. In the PY 2006-07, a partition takes place and the Coparcener, Mr. B, gets this plot, valued at ₹ 2,00,000. In PY 2007-08, he incurs expenses of ₹ 2,50,000 on the plot towards fencing of the plot of land. Mr. B then sells this plot at ₹ 15,00,000 in PY 2023-24. You are required to compute the capital gains for AY 2024-25.

Ans.

Particulars	(₹)
Cost of acquisition	1,50,000
Cost of Improvement	2,50,000
Full Value of Consideration	15,00,000
Indexed Cost	
Acquisition [See note (b)]	(4,97,143)
Improvement [See note (c)]	(6,74,419)
Capital Gains	3,28,438

Note:

- a) Although the cost of acquisition for the land, in case of partition of HUF would be the cost to the previous owner, the year would be the year in which he gets the asset upon partition, that is FY 2006-07
- b) Indexed Cost of Acquisition therefore is ₹ (1,50,000/105) × 348 = 4,97,143

c) Indexed Cost of Improvement therefore is ₹ $(2,50,000/129) * 348 = 6,74,419$

7. Mr. X purchases a property for ₹ 50,000 on 3rd May 1975. The following expenses were incurred by him:

- Improvement of property in 1998-99 ₹ 2,50,000
- Construction of two floors in 2002-03 ₹ 8,00,000
- Reconstruction and refurbishment of property in 2012-13 ₹ 15,00,000

FMV of property on 1st April, 2001 is 10,00,000. He sells the house on 9th September, 2023 for ₹ 90,00,000 and incurs ₹ 2,50,000 on transfer. Compute the Capital Gains taxable in his hands in AY 2024-25.

Ans.

Particulars		₹
	Net Sale of Consideration	87,50,000
Less	Indexed Cost of Acquisition [(FMV as on 01.04.2001 or cost of acquisition whichever is higher i.e. 10,00,000*348/100]	(34,80,000)
	Indexed Cost of Improvement [8,00,000*348/105]	(26,51,429)
	Indexed Cost of Improvement [15,00,000*348/200]	(26,10,000)
	Long Term Capital Gains	8,571

Note: The Cost of Improvement to the property only after 1st April, 2001 are considered. The costs are indexed using the indices from the CII table.

8. If XP owns a house property which was acquired on 1.5.1979 for ₹ 3,00,000 and it was destroyed by flood on 3.4.2023 and received ₹5,00,0000 insurance compensation during the year. The market value of the said property as on 1.4.2001 was ₹ 15,00,000. Compute the capital gain for the AY 2024-25.

Ans. Statement showing computation of Capital Gain

Particulars	Amount ₹	Amount ₹
Sale consideration (In this case, Sale consideration= Amt of compensation)		50,00,000

Less: Indexed Cost of Acquisition (If Acquisition before 1.4.2001)	(3,00,000 or 15,00,000 whichever is higher) i.e. 15,00,000 = (15,00,000)*(348/100)	(52,20,000)
ICOA =		
[(COA or FMVA as on 1.4.2001 whichever is higher)*(CII for the year of Transfer/100)]		
LTCG		(2,20,000)

9. NX invested ₹ 1,65,000 on the purchase of gold ornaments on 4.1.2005 for investment purpose. On 12.1.2016, he started a Jewellery business and converts his investment into stock in trade. Moreover, the Market value as on date of conversion was ₹ 4,50,000. These ornaments were sold in PY2023- 24 for ₹ 5,50,000. Compute the capital gain and business income.

Ans.

Year of Acquisition : 2004-05 (i.e. 4.1.2005)
 Year of Conversion : 2015-16 (i.e. on 12.1.2016)
 Year of taxability : 2023-24 (In the year in which stock is transferred)
 Sale Consideration : FMV as on date of conversion

Statement showing computation of Capital Gain

Particulars		Amount ₹
Sale consideration (In this case, Sale consideration= FMV as on date of conversion)		4,50,000
Less: Indexed Cost of Acquisition		(3,70,885)
(If Acquisition on or after 1.4.2001)		
ICOA =	=	
[(COA)*(CII for the year of Conversion /CII for Year of Acquisition)]	[(165000)*(254/113)]	
LTCG		79,115

Computation of Business Income

Sale consideration	5,50,000
Less: FMV as on date of conversion	4,50,000
Business Income	1,00,000

10. Mr. X converts his capital asset acquired for an amount of Rs 55,000 in June, 2003 into stock-in-trade in the month of November, 2019. The fair market value of the asset on the date of conversion is Rs 4,50,000. The stock-in-trade was sold for an amount of Rs 7,50,000 in the month of September, 2023. Compute the capital gain and business income.

Ans.

Year of Acquisition : 2003-04 (i.e. June 2003)
 Year of Conversion : 2019-20 (i.e. November 2019)
 Year of taxability : 2023-24 (In the year in which stock is transferred)
 Sale Consideration : FMV as on date of conversion

Statement showing computation of Capital Gain

Particulars		Amount Rs
Sale consideration (In this case, Sale consideration= FMV as on date of conversion)		4,50,000
Less: Indexed Cost of Acquisition		(1,45,826)
(If Acquisition on or after 1.4.2001)		
ICOA =	=	
	$[(55000) * (289/109)]$	
$[(COA) * (CII \text{ for the year of Conversion} / CII \text{ for Year of Acquisition})]$		
LTCG		3,04,174

Computation of Business Income

Sale consideration	7,50,000
Less: FMV as on date of conversion	4,50,000
Business Income	3,00,000

11. Mr. X converts his plot of land purchased in July, 2004 for Rs 80,000 into stock-in-trade on 31st March, 2022. The fair market value as on 31.3.2022 was Rs 3,00,000. The stock-in-trade was sold for Rs 3,25,000 in the month of January, 2024. You are required to compute business income and Capital gain for the AY 2024-25. Details of CII are as below: Cost Inflation Index: F.Y. 2004-05:113; F.Y. 2021-22: 317.

Ans. : LTCG=Rs 75,575, Business Income=Rs 25,000

12. Mr. Raja has acquired assets in terms of gift from his father dated 12.5.2006 where FMV as on date was Rs475000. It is interesting to note that father had acquired such asset on 16.10.2003 for ₹875000 and it was given as capital contribution to Partnership firm in which Raja become partner on 5.6.2023. Market Value of asset as on such date was ₹2500000 but it was recorded in the books of account at ₹2600000. Compute the capital gain for the AY 2024-25.

Ans.

Year of Acquisition : 2003-04 (i.e. 16.10.2003)
Year of taxability : 2023-24 (In the year of transfer)
Sale Consideration : Amount recorded in books of account

Statement showing computation of Capital Gain

Particulars	Amount ₹
Sale consideration (In this case, Sale consideration= Amount recorded in books of account)	26,00,000
Less: Indexed Cost of Acquisition (If Acquisition on or after 1.4.2001)	(27,93,578)
ICOA = [(COA)*(CII for the year of transfer /CII for Year of Acquisition)] = [(875000)*(348/109)]	
LTCG	(1,93,578)

13. DP & Co. has three partners D, P and N sharing profit or Loss in the ratio 5:3:2. They admitted X as a new partner on 31/03/2024 for 1/5th share and X is to bring Rs 4,00,000 as his capital which he brought in form of furniture (earlier used in his home) Rs 1,00,000

immediately & further brought jewellery of which fair market value is Rs 2,50,000 on 2/04/2024 (however such assets was recorded in the books at Rs 1,80,000). X had acquired such jewellery for Rs 55,000 on 7/07/2001. Compute capital gain in the hands of Mr. X.

Ans.

Statement showing computation of Capital Gain

Particulars		Amount ₹
Sale consideration (In this case, Sale consideration = Amount recorded in books of account)		1,80,000
Less: Indexed Cost of Acquisition	$[(55000) \times (317/100)]$	(1,91,400)
LTCG		(11,400)

14. Mr. AP acquired a house for Rs240000 in 1997-98. Upon his death, it was acquired by his son KP. The market value as on 1.4.2001 was ₹250000. But Government has acquired on 15.3.2013 for Rs1260000 as it will be used by rail transport. Government paid compensation of ₹1020000 on 25.3.2014 and balance of ₹240000 on 15.4.2014. Mr KP filed suit for challenging compensation of Govt. and court ordered for giving additional compensation of ₹400000 (Incurred an expense in connection with ₹10000). It was received on 14.3.2024. Compute the Capital Gain for AY 2024-25.

Ans.

Computation of Initial Compensation

Particulars		Amount ₹
Sale consideration (In this case, Sale consideration = Initial compensation)		12,60,000
Less: Indexed Cost of Acquisition	Cost = 240000	(5,00,000)
If Acquisition before 1.4.2001)	MV = 250000	
ICOA =	Whichever is higher =	
$[(COA \text{ or } FMVA \text{ as on } 1.4.2001 \text{ Whichever}) \times (CII \text{ for the } 250000)]$		

year of compulsory acquisition (12-13)/100)]	=	
	[(250000)*(200/100)	
LTCG		7,60,000

Computation of Additional/Enhanced Compensation

Particulars		Amount ₹
Sale consideration (In this case, Sale consideration = Additional compensation)		4,00,000
Less:		(10,000)
• Expense on transfer	10000	
• COA	-	
• COI	-	
LTCG		3,90,000

15. Mr. J purchased a residential plot for ₹ 32,50,000 on first of July 1998. Fair Market Value as on 1.4.2001 was ₹ 96,50,000. Y Ltd (Builder) enters into registered Joint Development Agreement with Mr. J on 1.7.2019 and paid ₹ 1,25,00,000. Company will construct 6 residential units on a plot of land and will give 3 units to Mr. J Moreover the construction of all 6 units was completed and certificate of completion would also be issued by competent authority on dated 20.3.2023. The stamp duty of each flat on same date is ₹ 80,50,000. Later on, Mr. J sold his one flat to Mr. DP on 25th September 2023 for ₹ 1,32,50,000. You are required to compute capital gain for AY 2023-24.

Ans.

Date of transfer 1.7.2019 (i.e. Date of agreement) [PY2019-2020]

Year of taxability PY 2022-2023 (i.e. 20.3.2023 - Date of completion certificate received)

Statement showing computation of capital gain for AY 2023-24

Particulars	Amount (₹)
Sale Consideration (i.e. Stamp duty) [(80,50,000*3) + 1,25,00,000]	3,66,50,000
Less:	
Indexed Cost of Acquisition: (If Acquisition Cost=3250000	2,78,88,500

before		
1.4.2001)	FMV=9650000	
ICOA = [(96,50,000)*(289/100)] =	Whichever is	
[(COA or FMVA as on 1.4.2001 Whichever is higher)*(CII for the year of Transfer (19-20)/100)]	higher=9650000	
Long term Capital Gain		87,61,500

16. (Block is partly sold)

Mr. provides following information towards his WDV of assets as on 1.4.2023 having rate of depreciation of 15% Plant -A ₹ 1,00,000 and Plant B of ₹ 20,000. He has also purchased Plant C and Plant D for same rate of depreciation for ₹ 60,000 and ₹ 40,000 dated 15.4.2023 and 15.9.2023 respectively. At the same time, he has sold plant A on 15.3.2024 for ₹ 2,40,000. Compute the capital gain for AY 2024-25. Does your view change if Plant A has sold for ₹ 2,00,000?

Ans.

Particulars	Amount (₹)
Sale Consideration	2,40,000
Less:	
Opening WDV as on 1.4.2023 (100000+20000)	(120000)
Cost the acquisition during year (60000+40000)	(100000)
Short Term Capital Gain	20,000

Note: if Plant A has sold for ₹ 2,00,000, there will be no capital gain in the cited case as Sale consideration (₹ 2,00,000) < Value of Block of assets (i.e. Opening + during the year purchase) (₹ 2,20,000). At the same time, allowable depreciation shall be Rs20000. (i.e. 220000-200000) because still the block exist.

17. (Block is entirely sold)

Mr. provides following information towards his WDV of assets as on 1.4.2023 having rate of depreciation of 15% Plant -A ₹ 1,00,000 and Plant B of ₹ 20,000. He has also purchased Plant C and Plant D for same rate of depreciation for ₹ 60,000 and ₹ 40,000 dated

15.4.2023 and 15.9.2023 respectively. At the same time, he has sold all the plants for ₹ 2,40,000 on 15.3.2024. Compute the capital gain for AY 2024-25. Does your view change if Plant A has sold for ₹ 2,00,000?

Ans.

Particulars	Amount (₹)
Sale Consideration	2,40,000
Less	
Opening WDV as on 1.4.2023 (100000+20000)	(120000)
Cost the acquisition during year (60000+40000)	(100000)
Short Term Capital Gain	20,000

If Plant A has sold for ₹ 2,00,000?

Particulars	Amount (₹)
Sale Consideration	200000
Less	
Opening WDV as on 1.4.2023 (100000+20000)	(120000)
Cost the acquisition during year (60000+40000)	(100000)
Short Term Capital Loss	20,000

18. Mohan is the proprietor of photo film Agencies which has 2 units, one for printing and the other for binding. He transferred, by way of slump sale, one of the units (unit 2) on 1st April, 2023, for a total consideration of ₹ 50,00,000. Expenses on sale were 0.5%. This unit was started in the year 2013-14.

Appended below is the Balance Sheet:

Particulars	Unit 1	Unit 2
Building	7,50,000	15,00,000
Machinery	5,00,000	10,00,000
Debtors	2,50,000	5,00,000

Other Assets	1,00,000	2,00,000
	16,00,000	32,00,000
Capital		40,00,000
Revaluation Reserve		2,50,000
Bank Loan		3,50,000
Creditors		2,00,000
		48,00,000

The Revaluation Reserve was created by upward revaluation of Buildings in unit 2. Other Assets of unit 2 include, ₹ 1,00,000 of patents acquired on 1st July, 2017, on which no depreciation has been charged. 75% of Creditors and 25% of Bank Loan is for unit 2. Compute the Capital Gains on the slump sale for AY 2024-25.

Ans.

The Capital Gains from Slump Sale are as under:

Particulars	(₹)
Full Value of Consideration	50,00,000
Expenses on Sale	(25,000)
Net Sale Consideration	49,75,000
Net Worth	(26,44,141)
Long Term Capital Gains	23,30,859

Working Notes

(1) The first note details the computation of net worth for unit 2

	Net Worth	Amount (₹)	Amount (₹)
	Buildings	15,00,000	
Less:	Revaluation Reserve	(2,50,000)	
	Net for Buildings		12,50,000
	Machinery		10,00,000
	Debtors		5,00,000
	Other Assets		1,00,000
	Patents		23,731

	Total Assets		28,73,731
Less:	Creditors	1,50,000	
	Bank Loan	87,500	
	Total Liabilities		(2,37,500)
	Net Worth		26,36,231

(2) The second note details the valuation of WDV of patents

Patents	Amount (₹)
Opening Block	1,00,000
Depreciation Y1	(25,000)
Written Down Value EOY1	75,000
Depreciation Y2	(18,750)
Written Down Value EOY2	56,250
Depreciation Y3	(14,063)
Written Down Value EOY3	42,188
Depreciation Y4	(10,547)
Written Down Value EOY4	31,641
Depreciation Y5	7910
Written down Value EO5	23731

19. Mr. Kaka has a self-occupied house property acquired 10 months ago for Rs 5,00,000. He sold such property for Rs 6,00,000 to Dada. Stamp duty authority for the purpose of levying stamp duty adopted value of Rs 6,25,000. You are required to compute the capital gain for AY 2024-25. Does your view towards taxability change if stamp duty adopted value will be ₹ 675000?

Ans.

(If value adopted for stamp duty is ₹ 6,25,000)

Nature of Capital Asset : House Property

Value adopted for stamp duty : ₹ 6,25,000

Actual consideration : ₹ 6,00,000

Computation of Sale consideration

A Value adopted/assessed/assessable by the stamp valuation authority 6,25,000
B. 110% of actual consideration (110% * 6,00,000) 6.60.6000

A < B, Hence, Sale Consideration = Actual consideration

Computation of Capital gain for AY 2024-25

Particulars	Amount (₹)
Sale consideration	6,00,000
Less:	
Expense on transfer	-
Cost of Acquisition	5,00,000
Short Term Capital Gain	1,00,000

(If value adopted for stamp duty is ₹ 6,75,000)

₹ 6,75,000 ₹

Nature of Capital Asset : House property :

Value adopted for stamp duty : ₹ 6,75,000

Actual consideration : ₹ 6,00,000

Computation of Sale consideration

C. Value adopted/assessed/assessable by the stamp valuation authority 6,75,000

A > B, Hence, Sale Consideration = Value adopted by Stamp Value authority

C. Computation of Capital gain for AY 2024-25 6.75.000

D. 110% of actual consideration (110% * 6,00,000) 6,00,000

Computation of Capital gain for A-Y 2024-25

Particulars	Amount (₹)
Sale consideration	6,75,000
Less:	
Expense on transfer	-
Cost of Acquisition	5,00,000
Short Term Capital Gain	1,75,000

20. Mr. Divyesh has a house property acquired on 14/10/2022 for Rs 8,00,000. He sold such property for ₹ 7,00,000 to Vatsal as on 16/08/2023. Stamp duty authority for the purpose

of levying stamp duty adopted value of ₹ 12,00,000. Assessing Officer for computing capital gain on such transfer is taking sale consideration ₹ 12,00,000 u/s 50C. On request of Mr. Divyesh, the matter being referred to Valuation Officer and value determined by the Valuation Officer is ₹ 11,00,000. Compute capital gain for AY 2024-25. What will be the tax treatment if value determined by the Valuation Officer is ₹ 12,25,000.

Ans.

Nature of Capital Asset : House Property
Value adopted for stamp duty : ₹ 12,00,000
The value determined by the Valuation Officer : ₹ 11,00,000
omputation of Sale consideration

A. The value determined by the Valuation Officer
11,00,000

B. The value adopted or assessed or assessable for the purpose of stamp duty 12,00,000
 $A < B$, Hence Sale Consideration = A (i.e. Value determined by Valuation officer) 11,00,000

Computation of Capital gain for AY 2024-25

Particulars	Amount (₹)
Sale consideration	11,00,000
Less:	
Expense on transfer	-
Cost of Acquisition	8,00,000
Short Term Capital Gain	3,00,000

if value determined by the Valuation Officer is ₹ 12,25,000.

A. The value determined by the Valuation Officer
12,25,000

B. The value adopted or assessed or assessable for the purpose of stamp duty 12,00,000
 $A > B$, Hence Sale Consideration = B (i.e. adopted for stamp duty)
12,00,000

Computation of Capital gain for AY2024-25

Particulars	Amount (₹)
Sale consideration	12,00,000
Less:	

Expense on transfer	-
Cost of Acquisition	8,00,000
Short Term Capital Gain	4,00,000

21. A has the following incomes for the Previous Year 2023-24:

Particular	₹	₹
Business Income		(-30,000)
capital gains		
-short -term	6,000	
- Long-term	1,90,000	1,96,000
		1,66,000

A deposits ₹ 9,000 in public provident fund account. You are required to find out his tax liability for the Assessment Year 2024-25.

Ans.

Computation of net Income of Mr. A for the Assessment Year 2024-25

Particular	₹	₹
Business Income		(-30,000)
capital gains		
-short -term	6,000	
- Long-term	1,90,000	1,96,000
		1,66,000

Computation of Tax Liability for the assessment year 2024-25

Tax on Total income Nil

Notes:

- (1) If the net income (other than long-term capital gain) is below the amount of first slab which is not taxable (i.e., ₹ 2,50,000), then the long-term capital gain is to be reduced by the amount by which the total income (other than long-term capital gain) falls short of the maximum amount which is not chargeable to tax.
- (2) In this case, net income (other than long-term capital gain is (-) ₹ 24,000 which will be allowed to be carried forward, i.e., not to be deducted from ₹ 2,50,000. Therefore, long-term capital gain shall be reduced by ₹ 2,50,000. Thus, no tax shall be leviable on long-term capital gain.

22. Mr. X acquired a house in Mumbai on 16.12.2012 for ₹ 12,50,000. After few years i.e. on March-2016, he entered into agreement to sell the property to Mr. Y for ₹ 20,50,000 and received ₹ 2,50,000 as an advance money and balance money to be paid within period of a month as per the terms of agreement subject to forfeiture if not paid within stipulated time. Mr. Y failed to make payment within stipulated time and consequently it was forfeited. Later on it was sold to Mr. Z for ₹ 25,50,000 by Mr. X and paid 2% of brokerage of sale. You are required to compute Capital Gain for AY 2024-25.

Ans.

Statement showing computation of capital gain for AY 2024-25

Particulars	Amount (₹)
Sale Consideration	25,50,000
Less:	
Expense on transfer (2% of 25,50,000)	(51,000)
Indexed Cost of Acquisition (If Acquisition on or after 1.4.2001)	(21,75,000)
ICOA = $[(COA) \times (CII \text{ for the year of transfer} / CII \text{ for Year of Acquisition})]$	
ICOA = $[(12,50,000) \times (348/200)]$	
Long Term Capital Gain	3,24,000

Treatment of Advance Money Forfeited

Forfeited amount of ₹ 2,50,000 by Mr. X shall be taxable under the head "Income From Other Sources" as per section 56 (2) (ix).

23. Mr. Khan purchased a residential house in the previous year 2005-06 for ₹ 2 crores. The house property is sold for ₹ 10 crores in the previous year 2023-24 and the capital gain is invested in two residential house properties worth ₹ 4 crores each. Can he claim the benefit of section 54 in respect of both houses?

Ans. Exemption under section 54 can be claimed in respect of capital gains arising on transfer of capital asset, being long-term residential house property. An assessee has an option to make investment in two residential house properties in India to claim section 54 exemption. This option can be exercised by the assessee only once in his lifetime provided the amount of long-term capital gain

does not exceed ₹ 2 crores. Since, the gain arising in hands of Mr. Khan is ₹ 5.06 crores which is more than ₹ 2 crore, he cannot claim the benefit of section 54 by making investment in both the house properties. However, he can claim the benefit only in respect of one residential property invested.

Computation of Long Term Capital Gains (LTCG)

Particulars		Amount (₹)
	Sale Consideration	10 Crores
Less	Indexed Cost of Acquisition (2*348/117)	5.95 Crores
	Long Term Capital Gains (LTCG)	5.05 Crores
Less	Deduction u/s 54	4 Crores
	Taxable LTCG	1.05 Crores

24. Under which section, the assessee has to reinvest the entire net consideration to claim full exemption for the long-term capital gains earned during a previous year —
- (a) Section 54EC (b) Section 54F
(c) Section 54GA (d) Section 54D.

Ans. Section 54F

25. Mr. Raman is a salaried employee. In the month of January, 2014 He purchased 100 shares of X Ltd. @ ₹ 1,400 per share from Bombay Stock Exchange. These shares were sold through BSE in April, 2023 @ ₹ 2,600 per share. The highest price of X Ltd. share quoted on the stock exchange on January 31, 2018 was ₹ 1,800 per share. What will be the nature of capital gain in this case?

Ans. Shares were purchased in January, 2014 and were sold in April, 2023, i.e., sold after holding them for a period of more than 12 months and, hence, the gain will be long-term capital gain (LTCG). In the given case, shares are sold after holding them for a period of more than 12 months, shares are sold through recognized stock exchange and the transaction is Liable to STT. Therefore, section 112A is applicable in this case.

The cost of acquisition of X Ltd. shares shall be higher of:

- a) Cost of acquisition, i.e., 1,40,000 (1,400 * 100)
b) Lower of:

i) Highest price quoted as on 31.1.2018. i.e., 1,80,000 (1,800 * 100);

ii) Sales consideration, i.e., 2,60,000 (2,600 * 100)

Thus, the cost of acquisition of shares shall be ₹ 1,80,000. Accordingly, Long-term capital gains in hands of Mr. Raman would be ₹ 80,000 (i.e., 2,60,000 - 1,80,000). Since long-term capital gains doesn't exceed ₹ 1,00,000, nothing is taxable in hands of Mr. Raman.

26. Mr. Kapoor (age 67 years and resident) is a retired person earning total pension of ₹ 1,00,000. He purchased gold in December, 2010 and sold the same in April, 2023. Taxable LTCG amounted to ₹ 2,80,000. What will be his tax liability for the A.Y. 2024-25?

Option 1 : Assessee has not opted for Section 115BAC

Option 2 : Assessee has opted for Section 115BAC

Ans. Computation of tax liability for the AY 2024-25 is as under:

Option 1 : Assessee has not opted for Section 115BAC

Gross Salary (pension income)	₹ 1,00,000
Less: Standard deduction u/s 16(ia)	₹ 50,000
Income under the head Salary	₹ 50,000
LTCG on sale gold	₹ 2,80,000
Total income	₹ 3,30,000
Tax on LTCG u/s 112 on ₹ 30,000 @ 20%*	₹ 6,000
Less : Rebate as per section 87A	₹ 6,000
Tax after Rebate	NIL

* Resident individual above 60 years but below 80 years of age has basic exemption limit of ₹ 3,00,000. Which can be adjusted against LTCG of ₹ 2,80,000 but after the adjustment of salary income of ₹ 50,000. Hence, the balance LTCG taxable will come to ₹ 30,000 @ 20%.

Option 2: Assessee has opted for Section 115BAC Computation of tax liability for the A/Y is as under :

Gross Salary (pension income)	₹ 1,00,000
Less: Standard Deduction u/s 16 (ia)	(50,000)
Income under the head Salary	₹ 50,000

LTCG on sale of gold	₹ 2,80,000
Total income	₹ 3,30,000
Tax on LTCG u/s 112 on ₹ 30,000 @ 20%*	₹ 6,000
Less : Rebate as per section 87A	₹ 6,000
Tax after Rebate	Nil
Add: health and Education Cess @ 4%	Nil
Tax Liability	Nil
	Unutilised exemption limit

* u/s 115BAC Basic exemption limit is 3,00,000 irrespective of age. of

₹ 3,00,000 - 50,000, i.e., ₹ 2,50,000, can be adjusted against LTCG of ₹ 2,80,000. Hence, the balance LTCG taxable will come to ₹ 30,000 @ 20%.

27. Mr. Gagan (age 69 years and non-resident) is a retired person earning total pension of ₹ 1,00,000 from Indian employer. He purchased a piece of land in Delhi in December, 2010 and sold the same in April, 2023. Taxable LTCG amounted to ₹ 2,30,000. What will be his tax liability for the year 2024-25?

Option 1 : Assessee has not opted for Section 115BAC

Option 2 : Assessee has opted for Section 115BAC

Ans.

Option 1 : Assessee has not opted for Section 115BAC Computation of tax liability for the A.Y. 2024-25 is as under:

Gross Salary (pension income)	₹ 1,00,000
Less: Standard deduction u/s 16 (ia)	(₹ 50,000)
Income under the head Salary	₹ 50,000
LTCG on sale of gold	₹ 2,30,000
Total income	₹ 2,80,000
Tax on LTCG u/s 112 on ₹ 2,30,000 @ 20%*	₹ 46,000
Less : Rebate as per section 87A (not available to non-resident)	NIL
Tax after Rebate	₹ 46,000
Add : Health & education cess @ 4%	₹ 1,840
Net tax payable	₹ 47,840

non-Resident individual (of any age) has basic exemption limit of ₹ 2,50,000. Which cannot be

adjusted against LTCG of ₹ 2,30,000 but the same can be adjusted against salary income of ₹ 50,000. Hence, the whole amount of LTCG is taxable @ 20%.

Solution :

Option 2 : Assessee has opted for Section 115BAC

Computation of tax liability for the A.Y. 2024-25 is as under :

Gross Salary (pension income)	₹ 1,00,000
Less: Standard deduction u/s 16 (ia)	(50,000)
Income under the head Salary	₹ 50,000
LTCG on sale of gold	₹ 2,30,000
Total income	₹ 2,80,000
Tax on LTCG u/s 112 on ₹ 2,30,000 @ 20%*	₹ 46,000
Less : Rebate as per section 87A	NIL
Tax after Rebate	₹ 46,000
Add : health & Education cess @ 4%	₹ 1840
Net tax payable	₹ 47840

*non-Resident individual (of any age) has basic exemption limit of ₹ 3,00,000. Which cannot be adjusted against LTCG of ₹ 2,30,000 but the same can be adjusted against salary income of ₹ 50,000. Hence, the whole amount of LTCG is taxable @ 20%.

28. Priyanka furnishes the following data for the PY ended 31st Mar ₹ 24.

- She had unlisted shares of XYZ Ltd., 1,00,000 in number, which she sold on 30th Jun ₹ 23 for ₹ 1,000 per share.
- The above shares were acquired as under:
- Gift from father: 50,000 shares on 3rd May ₹ 99 (FMV on 1st April 2001 is ₹ 300 per share)
- Bonus Shares on 21st June 2009: 20,000 shares
- purchased 30,000 shares on 1st January 2011 @ ₹ 525 per share

Thereafter, she invested the proceeds to buy a residential house at ₹ 4,00,00,000 on 3rd May ₹ 23 and she was already owing a residential house prior to the purchase of this one.

You are required to compute the taxable capital gains.

Ans.

	Particulars	Number	Rate per Share	Amount	Date
	Full Value of Consideration	1,00,000	1,000	10,00,00,000	30th Jun ^{₹2}
Less:	Indexed COA				
	Gift from father	50,000	300	5,22,00,000	3rd May ^{₹99}
	Bonus	20,000	0	-	21st Jun ^{₹09}
	Purchased	30,000	525	3,28,20,359	1st Jan ^{₹11}
	Total Indexed COA			8,50,20,359	
	LTCG			1,49,79,641	
	New Residential house			4,00,00,000	
	LTCG exempt			59,91,856	
	Taxable LTCG			89,87,784	

Note:

- The bonus shares were granted after 1st Apr^{₹01} and hence the cost of acquisition is NIL
- for the shares gifted by her father prior to 1st Apr^{₹01}, the FMV as on 1st Apr^{₹01} would be considered as the Cost of Acquisition
- Indexed COA for the gifted shares therefore is $50,000 \times 300 / 100 \times 348$
- Indexed COA for the acquired shares therefore is $30,000 \times 525 / 167 \times 348$
- In the case above the necessary conditions u/s 54F have been fulfilled and therefore she is entitled to a proportionate exemption from LTCG (i.e., ₹ 4 Crores / ₹ 10 Crores * 1,49,79,641).

29. M[₹] Shanti Devi, a resident individual, sold her residential property on 18th Jul^{₹23} for ₹ 75,00,000. She had purchased the same for ₹ 25,00,000 on 3rd May 2006. She paid ₹ 1,00,000 towards brokerage for the sale. The stamp duty valuation was ₹ 100,00,000. She bought another property for ₹ 20,00,000 on 14th Dec^{₹23} and deposited another ₹ 5,00,000 on 21st Jun^{₹24} in the capital gain deposit scheme with SBI for construction of an additional floor in the property.

She also deposited ₹ 5,00,000 on 30th Nov^{₹23} in the NHAI Bonds. Compute the Capital

Gains and Tax Liability. Assuming the assessee has not opted for section 115BAC

Ans.

Particulars	₹
Full Value of Consideration	1,00,00,000
Brokerage	1,00,000
Net Sale Consideration	99,00,000
Less: Indexed COA [25 lakh *348/122]	71,31,148
LTCG	27,68,852
Exemption u/s 54	25,00,000
Exemption u/s 54EC	2,68,852
Taxable LTCG (Total Income)	Nil
Tax payable	-

Notes:

- As per Section 50C, in case the actual sale consideration is Less than the stamp duty value, the stamp duty valuation would be the full value of the consideration.
- Exemptions u/s 54 are towards purchase of another house within 2 years of date of transfer and Deposit in Capital Gains Accounts Scheme (CGAS) on or before the due date of filing return of Income.
- Exemption u/s 54EC is towards investment in specified bonds (NHAI) within 6 months from date of transfer.

30. Mr. X purchased a house on 01.04.2001 for ₹ 2,00,000 and incurred ₹ 3,00,000 on improvement on 01.07.2002 and it was received by his son Mr. Y on 01.07.2011 and Mr. Y incurred ₹ 4,00,000 on improvement on 01.07.2013 and the house was sold by him on 01.07.2023 for ₹ 1,00,00,000. He is entitled to Deduction u/s 80C of ₹ 1,00,000. Compute the tax liability of Mr. Y assuming Assessee has not opted for Section 115BAC

Ans.

Option 1 : Assessee has not opted for Section 115BAC

Particulars	₹
Full value of consideration	1,00,00,000

Less: Indexed cost of acquisition = $2,00,000 / 100 \times 348$	(69,600)
Less: Indexed Cost of improvement = $3,00,000 / 105 \times 348$	(9,94,286)
Less: Indexed Cost of improvement = $4,00,000 / 220 \times 348$	(6,32,727)
Long term Capital Gains	76,76,987
Gross Total Income	76,76,987
Less: Deduction u/s 80C	(1,00,000)
Total Income (rounded off u/s 288A)	75,76,987
Computation of Tax Liability	
Tax on LTCG ₹ 73,26,987 (75,76,987 - 2,50,000) @ 20%	14,65,397
Add: Surcharge @ 10%	1,46,539
Tax before health & education cess	16,11,937
Add: HEC @ 4%	64,477
Tax Liability	16,76,414

31. State, giving reason, whether the asset is Short term or Long term in the cases given below

-

1. L purchases a house property on March 10, 2022 and transfers it on June 6, 2023
2. M purchases Listed shares in an Indian Company on March 10, 2022 and transfers it on June 6, 2023
3. N acquires units of equity oriented mutual fund on July 7, 2022 and he transfers these units on July 10, 2023 & purchases diamonds on September 12, 2018 and gifts the same to his friend p on December 31, 2020. p transfers the assets on October 20, 2021.
4. P purchases shares in a company through a NSE broker (Date of purchase by the broker: November 21, 2020 the company transfers shares in the name of P: January 5, 2021). These shares are transferred by P on December 20, 2021.

Ans.

Taxpayer	Asset	Minimum period to become long-term capital asset	Short term or long term
L	House property	24 months	Short term

M	Listed Shares	12 months	Long term
N	Units of EOMF	12 months	Long term
P	Diamonds	36 months	Long term
P	Listed Shares	12 months	Long term

32. State, giving reasons the assessment year for which capital gain is chargeable to tax in the cases given below -

1. K sells a house property to Q as per sale deed dated March 30, 2023. The documents are, however, registered on April 6, 2024.
H sells a house property to C as per agreement to sale dated May 6, 2023, A pays the consideration on the same day. The possession is given on June 1, 2023, the sale deed is yet to be registered.
2. V sells shares to M on March, 1, 2023. Transfer deed is signed on the same day. Share certificates are delivered at the time of signing the transfer deed. Shares are, however, transferred in the name of M in the records of the company on May 10, 2023.

Ans.

1. "Transfer" takes effect from the date of execution of the sale deed (and not from the date of registration) Therefore in this case transfer takes place during the p/y 2022-23 and, consequently Capital Gain is taxable for the A/Y 2023-24.
2. Even if sale deed is not registered, an immovable property is transferred when the three conditions of section 53A of the Transfer of property Act are satisfied. The three conditions are satisfied on June 1, 2023. Therefore capital gains is taxable for the A/Y 2024-25.
3. When a movable property is delivered pursuant to a contract to sell, the ownership is transferred. In this case, ownership is transferred on March 1, 2023 and, consequently Gain is taxable for the assessment year 2023-24.

33. How will you calculate the period of holding in case of the following assets?

- (1) Shares held in a company in liquidation
- (2) Bonus shares
- (3) Flat in a co-operative society

Ans.

- (1) Shares held in a company in liquidation - The period after the date on which the company goes into liquidation shall be excluded while calculating the period of holding. Therefore, the period of holding shall commence from the date of acquisition and end with the date on which the company goes into liquidation.
- (2) Bonus shares - The period of holding shall be reckoned from the date of allotment of bonus shares and will end with the date of transfer.
- (3) Flat in a co-operative society - The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

Note - Any transaction whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a transfer as per section 2(47)(vi).

Hence, it is possible to take a view that any date from which such right is obtained may be taken as the date of acquisition.

34. A is the owner of a car. On 1-4-2023, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2024 and gets a profit of ₹ 1 lakh. Discuss the tax implication in his hands under the head "Capital gains".

Ans. Since car is a personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be trapped by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

35. X converts his capital asset (acquired on June 10, 2005 for ₹ 60,000) into stock-in-trade on March 10, 2023. The fair market value on the date of the above conversion was ₹ 5,50,000. He subsequently sells the stock-in-trade so converted for ₹ 6,00,000 on June 10, 2023. Discuss the year of chargeability of capital gain and business income.

Ans. Since the capital asset is converted into stock-in-trade during the previous year 2022-23 relevant to the A.Y. 2023-24, it will be a transfer u/s 2(47) during the P.Y. 2022-23. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2024-25, since the stock-in-trade has been sold only on June 10, 2023. For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2023) will be the full value of consideration for computation of capital gains. The business income of ₹ 50,000 (i.e., ₹ 6,00,000 (-) ₹ 5,50,000, being the fair market value on the date of conversion) would also be taxable in the A.Y. 2024-25. Thus, both capital gains and business income would be chargeable to tax in the A.Y. 2024-25.

36. M held 2000 shares in a company ABC Ltd., an Indian company. This company amalgamated with another Indian company XYZ Ltd. during the previous year ending 31-3-2024. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by ₹ 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax ₹ 50,000 as capital gain. Is he justified?

Ans. In the above example, the transaction is squarely covered by the exemption explained above and the proposal of the Assessing Officer to treat the transaction as a transfer is not justified.

37. In which of the following situations capital gains tax liability does not arise?

- (i) Mr. A purchased gold in 1970 for ₹ 25,000. In the P.Y. 2023-24, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹ 1,00,000.
- (ii) A house property is purchased by a Hindu undivided family in 1945 for ₹ 20,000. It is given to one of the family members in the P.Y. 2023-24 at the time of partition of the family. FMV on the date of partition was ₹ 12,00,000.

- (iii) Mr. B purchased 50 convertible debentures for ₹ 40,000 in 1995 which are converted into 500 shares worth ₹ 85,000 in November 2023 by the company.

Ans. We know that capital gains arises only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- (i) As per the provisions of section 47(iii), gift of a capital asset is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (ii) As per the provisions of section 47(i), distribution of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (iii) As per the provisions of section 47(x), conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

38. Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

Ans. Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.

39. Examine, with reasons, whether the following statements are True or False.

- (i) Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated as "transfer" for the purpose of capital gains.
- (ii) Zero coupon bonds of eligible corporation, held for 14 months, will be long-term capital assets.
- (iii) Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.

Ans.

- (i) False: As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as "transfer" for the purpose of capital gains.
- (ii) True: Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.
- (iii) True: As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.

40. Mr. A converts his capital asset acquired for an amount of ₹ 50,000 in June, 2003 into stock-in-trade in the month of November, 2022. The fair market value of the asset on the date of conversion is ₹ 4,50,000. The stock-in-trade was sold for an amount of ₹ 6,50,000 in the month of September, 2023. What will be the tax treatment?

Financial year	Cost Inflation Index
2003-04	109
2022-23	331

2023-24	348

Ans. The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. P.Y. 2022-23) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2023- 24). Profits from business will also be taxable in the year of sale of the stock-in- trade (P.Y. 2023-24).

The LTCG and business income for the A.Y.2024-25 are calculated as under:

Particulars	₹	₹
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	
Less: Cost of the stock-in-trade (FMV on the date of conversion)	4,50,000	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Indexed cost of acquisition (₹ 50,000 x 331/109)	1,51,835	2,98,165

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered.

41. Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2022. The depreciation on these machines is charged@15%. The opening balance of these machines after providing depreciation for P.Y. 2022-23 was ₹ 8,50,000. Three of the old machines were sold on 10th June, 2023 for ₹ 11,00,000. A second hand plant was bought for ₹ 8,50,000 on 30th November, 2023.

You are required to:

- determine the claim of depreciation for Assessment Year 2024-25.
- compute the capital gains liable to tax for Assessment Year 2024-25.
- If Singhania & Co. had sold the three machines in June, 2023 for ₹ 21,00,000, will there be any difference in your above workings? Explain.

Ans.

(i) **Computation of depreciation for A.Y.2024-25**

Particulars	₹
Opening balance of the block as on 1.4.2023 [i.e., W.D.V. as on 31.3.2023 after providing depreciation for P.Y. 2022-23]	8,50,000
Add: Purchase of second-hand plant during the year	8,50,000
	17,00,000
Less: Sale consideration of old machinery during the year	11,00,000
W.D.V of the block as on 31.03.2024	6,00,000

Since the value of the block as on 31.3.2024 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to $7\frac{1}{2}\%$. Therefore, the depreciation allowable for the year is ₹ 45,000, being $7\frac{1}{2}\%$ of ₹ 6,00,000.

(ii) The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

- (a) When one or some of the assets in the block are sold for consideration more than the value of the block.
- (b) When all the assets are transferred for a consideration more than the value of the block.
- (c) When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value of the block exceeds the sale consideration, the resultant figure would be a short-term capital loss of the block.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

(iii) If the three machines are sold in June, 2023 for ₹ 21,00,000, then short term capital

gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	₹	₹
Sale consideration		21,00,000
Less: Opening balance of the block as on 1.4.2023	8,50,000	
[i.e., W.D.V. as on 31.3.2023 after providing depreciation for P.Y. 2022-23]		
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		4,00,000

42. Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2023 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lacs. The fair market value of capital assets of unit 1 on 1.4.2023 is ₹ 30 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2023 is as under:

Liabilities	Total (₹)	Assets	Unit 1 (₹)	Unit 2 (₹)	Total (₹)
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Reserve (for building of unit 1)					
Bank loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	1,50,000	Other assets	1,50,000	60,000	2,10,000
Total	21,50,000	Total	17,50,000	4,00,000	21,50,000

Other information:

- Revaluation reserve is created by revising upward the value of the building of Unit 1.
- No individual value of any asset is considered in the transfer deed.
- Other assets of Unit 1 include patents acquired on 1.7.2021 for ₹ 50,000 on which no depreciation has been charged.

Compute the capital gain for the assessment year 2024-25.

Ans.

Computation of capital gains on slump sale of Unit 1

Particulars	₹
Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2023 or FMV of monetary consideration received]	30,00,000
Less: Expenses for transfer	28,000
	29,72,000
Less: Net worth (See Note 1 below)	12,50,625
Long-term capital gain	17,21,375

Notes:

1. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	₹	₹
Building (excluding ₹ 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (See Note 2 below)		28,125
Other assets (₹ 1,50,000 - ₹ 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors (25% of ₹ 1,50,000)	37,500	
Bank Loan (70% of ₹ 2,00,000)	1,40,000	1,77,500
Net worth		12,50,625

2. Written down value of patents as on 1.4.2023

Value of patents:	₹
Cost as on 1.7.2021	50,000
Less: Depreciation @ 25% for Financial Year 2021-22	12,500
Balance as on 1.4.2022	37,500
Less: Depreciation for Financial Year 2022-23	9,375
Balance as on 1.4.2023	28,125

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of ₹ 3 lakh and ₹ 9 lakh (₹ 12 lakh - ₹ 3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

43. Mr. Cee purchased a residential house on July 20, 2021 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2021. He sold the house property in April 2023 for ₹ 20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2023.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y.2024-25?

Ans. The house is sold before 24 months from the date of purchase. Hence, the house is a short-term capital asset and no benefit of indexation would be available.

Particulars	₹
Sale consideration	20,00,000
Less: Cost of acquisition	10,00,000
Cost of improvement	2,00,000
Short-term capital gains	8,00,000

Note - The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is ₹ 8,00,000.

44. Long term capital gain of ₹ 75 lakh arising from transfer of building on 1.5.2023 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI under section 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act, 1961.

Ans. False: The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAI or RECL or any other bond notified by Central Government in this behalf, redeemable after 5 years) to ₹ 50 lakh, whether such investment is

made during the relevant previous year or the subsequent previous year, or both. Therefore, in this case, the exemption under section 54EC can be availed only to the extent of ₹ 50 lakh, provided the investment is made before 1.11.2023 (i.e., within six months from the date of transfer).

45. Calculate the income-tax liability for the assessment year 2024-25 in the following cases:

Status	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
	Resident	Non-resident	Resident	Non-resident
Total income other than long-term capital gain	2,40,000	3,10,000	5,90,000	4,80,000
Long-term capital gain	85,000 from sale of vacant site	10,000 from sale of listed equity shares (STT paid on sale and purchase of shares)	60,000 from sale of agricultural land in rural area	Nil

11Subject to the notification issued by the Central Government to specify the nature of acquisition of equity share in a company on which the condition of payment of STT on acquisition would not be applicable. This notification will be discussed at Final level.

- If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.
- If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

Ans.

- If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.

Computation of income-tax liability for the A.Y.2024-25

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Resident	Non-resident	Resident	Non-resident

Applicable exemption limit	basic	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000
Asset sold	Vacant site		Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @20% u/s 112]	₹ 10,000 [exempt u/s 112A since it is less than ₹ 1,00,000]	₹ 60,000 (Exempt - not a capital asset)		-
Other income	₹ 2,40,000	₹ 3,10,000	₹ 5,90,000	₹ 4,80,000	
Tax liability					
On LTCG (after adjusting unexhausted basic exemption limit of ₹ 60,000)	₹ 5,000	-	-	-	
On Other income	Nil	₹ 500	₹ 14,500	₹ 9,000	
	₹ 5,000	₹ 500	₹ 14,500	₹ 9,000	
Less: Rebate u/s 87A	₹ 5,000	-	₹ 14,500	-	
	Nil	₹ 500	Nil	₹ 9,000	
Add: Health & education cess (HEC) @4%	Nil	₹ 20	Nil	₹ 360	
Total tax liability	Nil	₹ 520	Nil	₹ 9,360	

Note: Since Mr. A and Mr. C are residents whose total income does not exceed ₹ 7 lakhs, they are eligible for rebate of ₹ 25,000 or the actual tax payable, whichever is lower, under section 87A.

- (ii) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act

Computation of income-tax liability for the A.Y.2024-25

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)

Residential Status	Resident	Non-resident	Resident	Non-resident
Applicable basic exemption limit	₹ 2,50,000	₹ 2,50,000	₹ 5,00,000	₹ 2,50,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @20% u/s 112]	₹ 10,000 [exempt u/s 112A since it is less than ₹ 1,00,000]	₹ 60,000 (Exempt - not a capital asset)	-
	₹ 2,40,000	₹ 3,10,000	₹ 5,90,000	
Other income	₹ 15,000	-	-	₹ 4,80,000
Tax liability				
On LTCG (after basic exemption limit of ₹ 10,000)				-
On Other income	Nil	₹ 3,000	₹ 18,000	₹ 11,500
Less: Rebate u/s 87A	₹ 15,000 ₹ 12,500	₹ 3,000 -	₹ 18,000 -	₹ 11,500 -
Add: Health & education cess (HEC) @4%	2,500 100	₹ 3,000 ₹ 120	₹ 18,000 ₹ 720	₹ 11,500 ₹ 460
Total tax liability	2,600	₹ 3,120	₹ 18,720	₹ 11,960

Notes:

1. Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of ₹ 3,00,000 and ₹ 5,00,000 for persons over the age of 60 years and 80 years, respectively. Also, they are not eligible for rebate under section 87A even though their total income does not exceed ₹ 5 lakh.
2. Since Mr. A is a resident whose total income does not exceed ₹ 5 lakh, he is eligible for rebate of ₹ 12,500 or the actual tax payable, whichever is lower, under section 87A.

46. Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2022. He has also received dividend of ₹ 10 per share on 01.05.2023.

He has sold all the shares on 01.10.2023 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%.

Compute his total income and tax liability for A.Y. 2024-25 if Mr. Mithun pays tax under default tax regime, assuming that he is having no income other than given above. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

Ans. **Computation of total income & tax liability of Mr. Mithun for A.Y. 2024-25**

Particulars	₹
Long term capital gains on sale of original shares	
Gross sale consideration (100 × ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 × ₹ 2,000) (Refer Note 2)	2,00,000
Long term capital gains	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 × ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares	NIL
Short term capital gains	3,96,000
Income from other sources	
Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares × 10 per share]	2,000
Total Income	5,94,000
Tax Liability	
Tax on dividend (since it is lower than the basic exemption limit)	Nil
Tax on STCG u/s 11A	
15% of (₹ 3,96,000 - ₹ 2,98,000, being unexhausted basic exemption limit)	14,700

Tax on LTCG u/s 112A	
10% of (₹ 1,96,000 - ₹ 1,00,000)	9,600
	24,300
Less: Rebate u/s 87A	14,700
	9,600
Add: Health and education cess @4%	384
Tax liability	9,984
Tax liability (rounded off)	9,980

Notes:

- (1) Long-term capital gains exceeding ₹ 1 lakh on sale of original shares through a recognized stock exchange (STT paid at the time of acquisition and sale) is taxable under section 112A at a concessional rate of 10%, without indexation benefit.
- (2) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of
 - Cost of acquisition i.e., ₹ 1,000 per share and
 - lower ofFair market value of such asset i.e., ₹ 2,000 per share and Full value of consideration i.e., ₹ 4,000 per share.

Therefore, the cost of acquisition of original share is ₹ 2,000 per share.
- (3) Since bonus shares are held for less than 12 months before sale, the gain arising therefrom is a short-term capital gain chargeable to tax@15% as per section 111A after adjusting the unexhausted basic exemption limit (₹ 3,00,000 less ₹ 2,000, being the amount of dividend). Since Mr. Mithun is paying tax under default tax regime, he is entitled for a basic exemption limit of ₹ 3,00,000 for A.Y. 2024-25.
- (4) Brokerage paid is allowable since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48(i).
- (5) Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.
- (6) Securities transaction tax is not allowable as deduction.

47. Aarav converts his plot of land purchased in July, 2004 for ₹ 80,000 into stock-in-trade on 31st March, 2023. The fair market value as on 31.3.2023 was ₹ 3,00,000. The stock-in-trade was sold for ₹ 3,25,000 in the month of January, 2024.

Find out the taxable income, if any, and if so under which head of income and for which Assessment Year?

Cost Inflation Index: F.Y. 2004-05:113; F.Y. 2022-23: 331; F.Y. 2023-24: 348.

Ans. Conversion of a capital asset into stock-in-trade is a transfer within the meaning of section 2(47) in the previous year in which the asset is so converted. However, the capital gains will be charged to tax only in the year in which the stock-in-trade is sold.

The cost inflation index of the financial year in which the conversion took place should be considered for computing indexed cost of acquisition. Further, the fair market value on the date of conversion would be deemed to be the full value of consideration for transfer of the asset as per section

45(2). The sale price less the fair market value on the date of conversion would be treated as the business income of the year in which the stock-in-trade is sold.

Therefore, in this problem, both capital gains and business income would be charged to tax in the A.Y. 2024-25.

Particulars	₹
Capital Gains	
Full value of consideration (Fair market value on the date of conversion)	3,00,000
Less: Indexed cost of acquisition (₹ 80,000 × 331/113)	2,34,336
Long-term capital gain	65,664
Profits & Gains of Business or Profession	
Sale price of stock-in-trade	3,25,000
Less: Fair market value on the date of conversion	3,00,000
	25,000

Computation of taxable income of Mr. Aarav for A.Y.2024-25

Particulars	₹
Profits and gains from business or profession	25,000
Long term capital gains	65,664
Taxable Income	90,664

48. Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2023.

She started her real estate business on 21st March, 2023 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2024. She sold 10 flats at ₹ 30 lakhs per flat in March, 2024. The remaining 5 flats were held in stock as on 31st March, 2024.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2024 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2024.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for

A.Y. 2024-25 indicating clearly the reasons for treatment for each item. [Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2022-23: 331; F.Y. 2023-24: 348].

Ans. **Computation of capital gains and business income of Harshita for A.Y. 2024-25**

Particulars	₹
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [$₹ 35,00,000 \times 331/113$]	1,02,52,212
	1,07,47,788
Proportionate capital gains arising during A.Y. 2024-25 [$₹ 1,07,47,788 \times 2/3$]	71,65,192
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2024-25 Business Income	21,65,192
Sale price of flats [$10 \times ₹ 30$ lakhs]	3,00,00,000
Less: Cost of flats	1,40,00,000
Fair market value of land on the date of conversion [$₹ 210$ lacs $\times 2/3$]	1,00,00,000
Cost of construction of flats [$10 \times ₹ 10$ lakhs]	

Business income chargeable to tax for A.Y.2024-25

60,00,000

Notes:

- (1) The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade (i.e., P.Y.2022-23, in this case).
- (2) As per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- (3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y.2022-23) and not up to the year of sale of stock-in-trade (i.e., P.Y.2023-24).
- (4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.

In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2023-24, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2024-25.

- (5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between

the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.

- (6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be ₹ 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or

partly in the same financial year and partly in the next financial year.

Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHAI during the P.Y. 2023-24 and investment of ₹ 50 lakhs has been made in bonds of RECL during the P.Y. 2024-25, both within the stipulated six month period, the maximum deduction allowable for A.Y. 2024-25, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2023-24, is only ₹ 50 lakhs.

49. Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident.

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2023 (i.e., WDV as on 31.3.2023 after providing depreciation for P.Y. 2022-23) was ₹ 10,80,000.

During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000.

Mr. A received the following amounts from the insurance company:

• Towards loss of stock	₹ 4,80,000
• Towards damage of machinery	₹ 6,00,000
• Towards gold chain and diamond ring	₹ 1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961.

Ans. (i) Compensation towards loss of stock: Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head "Profit and gains of business or profession".

Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head "Profits and gains of business or profession".

(ii) Compensation towards damage to machinery: The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the

year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short-term capital loss.

Note - If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

- (iii) Compensation towards loss of gold chain and diamond ring: Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not "personal effects", which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the indexed cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.

50. Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2023 for ₹ 1,50,00,000.

The sale proceeds were to be paid in the following manner:

- 20% through account payee bank draft on the date of agreement.
- 60% on the date of the possession of the property.
- Balance after the completion of the registration of the title to the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2023 and the registration process was completed on 14.01.2024. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

- (a) on 16.08.2023 was ₹ 1,70,00,000;
- (b) on 15.12.2023 was ₹ 1,71,00,000; and
- (c) on 14.01.2024 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2024 and another in Delhi for ₹

35,00,000 on 28.5.2024.

Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the Assessment Year 2024-25. Cost Inflation Index for Financial Year(s): 2001-02 - 100; 2023-24 - 348

Ans. **Computation of income chargeable under the head "Capital Gains" of Mr. Sarthak for A.Y. 2024-25**

Particulars	₹
Capital Gains on sale of residential house	
Actual sale consideration ₹ 1,50,00,000	
Value adopted by Stamp Valuation ₹ 1,70,00,000 Authority on the date of agreement	
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.	
In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.	
In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp	
duty value on the date of agreement would be considered for determining the full value of consideration]	
Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]	1,70,00,000
Less: Indexed cost of acquisition of residential house [₹ 30 lakhs × 348/100]	1,04,40,000
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]	65,60,000
Less: Exemption u/s 54	55,00,000
Since, long-term capital gains does not exceed ₹ 2 crore,	

he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of ₹ 55,00,000 being ₹ 20,00,000 and ₹ 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.

Long term capital gains chargeable to tax

10,60,000

51. Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.08.2023 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-1-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

- Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2024 and 15.5.2024
- Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2024.
- Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 29-3-2024 and for ₹ 40 lakhs on 12-5-2024.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika

for A.Y.2024-25. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06 - 117; F.Y. 2007-08 - 129; F.Y. 2023-24 - 348.

Ans. **Computation of income chargeable under the head "Capital Gains" of Mrs. Yuvika for A.Y.2024-25**

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 810 lakhs		
Value adopted by Stamp Valuation Authority ₹ 890 lakhs		
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp		

Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement.		
In this case, since advance of ₹ 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration]		810.00
Gross Sale consideration (Actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration)		8.10
Less: Brokerage @1% of sale consideration (1% of ₹ 810 lakhs)	261.74	

Net Sale consideration		801.90
Less: Indexed cost of acquisition	269.77	
- Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 348/117]		531.51
- Construction cost of residential building (₹ 100 lakhs × 348/129)		
Long-term capital gains		270.39
Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]		
Less: Exemption under section 54		130.00
Where long-term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset.		
Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., ₹ 130 lakhs as exemption.		
Less: Exemption under section 54EC		50.00
Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2024), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 90 lakhs, even if the both the investments are made on or before 13.7.2024 (i.e., within six months after the date of transfer).		

Long term capital gains chargeable to tax

90.39

Note: Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

52. Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty value @10% on the stamp duty value of ₹ 3,50,000.

In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2023, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2024. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2023 was ₹ 39,00,000 and on 20th February, 2024 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2024-25.

CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2023-24: 348

Ans. **Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2024-25**

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement	39,00,000	
(Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement.		
In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)		39,00,000
Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]		30,500
Less: Expenses on transfer (Brokerage @1% of ₹ 30,50,000)	33,37,320	
Net sale consideration	5,34,331	
Less: Indexed cost of acquisition (Note 1)		
Less: Indexed cost of improvement (Note 2)		38,69,500
Long term capital loss		38,71,651
		(2,151)

Notes:

a. Computation of indexed cost of acquisition

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition, Being the higher of		10,70,000
(i) lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000)	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
Cost of acquisition for indexation		9,59,000
Indexed cost of acquisition (₹ 9,59,000 × 348/100)		33,37,320

b. Computation of indexed cost of improvement

Particulars	Amount (₹)
Cost of construction of first floor in August, 2015	3,90,000
Indexed cost of improvement (₹ 3,90,000 × 348/254)	5,34,331

- c. Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited [i.e. ₹ 10,70,000 - ₹ 1,11,000 (being the advance money forfeited during the P.Y.2008-09) = ₹ 9,59,000]. However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head "Income from Other Sources" and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head "Income from other sources" in the hands of Mr. Shiva in A.Y.2016-17.

Chapter – 8

INCOME FROM OTHER SOURCES

1. ABC Ltd. declared a dividend of ₹ 200,00,000 for the FY 2022-23 and distributed the same on 15th Jul 2023. Mr. A holds 10% shares and therefore receives ₹ 20,00,000 as dividend. Mr. B holds 4% shares and therefore receives ₹ 8,00,000 as dividend.

Ans. The tax treatment would be as under:

- Mr. A would include full amount of ₹ 20,00,000 as Income from other sources. He will be liable to pay tax at applicable slab rates.
- Mr. B would include full amount of ₹ 8,00,000 as Income from other sources. He will be liable to pay tax at applicable slab rates.
- The company would not be liable to pay Dividend Distribution Tax on the dividend distributed u/s 115-O as the same would be taxable in the hands of shareholder.

2. X is holding 29% shares in a company and he took a Loan of ₹ 20,00,000 from the Company on 15.07.2023 and on the date, the loan was granted, the accumulated profits stood at ₹ 12,00,000. Determine the tax treatment.

Ans. In this case, the company is one, where the public is substantially interested, the loan would not be treated as deemed dividend. However, in case the company is a closely held company, X holds > 10% stake, this loan upto 12,00,000 would be as deemed dividend and company will not be liable to pay DDT u/s 115O.

X would pay tax on such deemed dividend at applicable slab rates and entire amount of 12 lakhs would be included as Income under the head Other sources.

3. ABC Ltd. a closely-held company has bonus share capital of ₹ 10 lakhs, General Reserves of ₹ 6 lakhs and current profits of ₹ 2 lakhs. The company has given a loan of ₹ 9 lakhs to one of the shareholders, who is beneficial owner of equity shares holding 10% of the voting power. Compute amount of dividend in the hands of shareholder.

Ans. In this case dividend under section 2(22)(e) shall be ₹ 8 lakhs, i.e., to the extent of the accumulated profits of the company excluding capitalized profits. It shall be taxable in hands of shareholder under Other Sources.

4. Mr. Rohit Aggarwal is beneficial owner of equity shares holding 10% of the voting power in ABC Ltd, a closely held company. He is partner in a partnership firm XY and has 20% share in the firm. The company has given a loan of ₹ 5 lakhs to the firm and company's accumulated profits are ₹ 6 lakhs.

Compute amount of dividend in the hands of shareholder and the firm.

Ans. In this case deemed dividend is ₹ 5 lakhs as per section 2(22)(e). It shall be taxable in the hands of the receiver under Other Sources.

5. Mr. Goyal has one factory building along with machines and furniture in Mumbai which has been Let out @ ₹ 50,000 p.m. Repair charges of the building is ₹ 7,000 and that of furniture fixtures are ₹ 4,000, insurance premium paid ₹ 3,000 and depreciation is ₹ 27,000.

Compute his income under the head other sources.

Ans.

Particulars	₹
Gross Rent (50,000 × 12)	6,00,000
Less: Repair of building	(7,000)
Less: Repair of Furniture and fixtures	(4,000)
Less: Insurance premium	(3,000)
Less: Depreciation	(27,000)
Income under the head Other Sources	5,59,000

6. Nikhil, a dealer in shares received from his friend Anshul, the following without any consideration:

- (a) Cash Gift ₹ 100,000 on his birthday (14th April).
- (b) Bullion, FMV ₹ 75,000 on his anniversary (22nd April).
- (c) Plot of land at Gurgaon on 1st Jun 2023, stamp duty value ₹ 750,000 on that date.

Advise on tax treatment.

Ans. a) Cash Gift is > ₹ 50000, therefore, the entire amount of ₹ 100,000 is chargeable to tax as Income from Other Sources.

- b) Bullion received without consideration is taxable too in full as it is received without consideration, therefore, the entire amount of ₹ 75000 is chargeable to tax as Income from Other Sources.
- c) Plot of land received without consideration is taxable too in full as it is received without consideration, therefore, the entire amount of ₹ 750,000 is chargeable to tax as Income from Other Sources.

7. Nisha, on 1st Dec²³ took possession of a flat booked by her 2 years back, at ₹ 25,00,000. The Stamp Duty of the flat on the date of possession was ₹ 40,00,000 and on the date of booking was ₹ 32,00,000. She had paid ₹ 200,000 by account payee cheque, on date of booking.

Advise tax treatment.

Ans. It is to be noted that where the date of the agreement fixing the amount of consideration for the transfer of immovable property and the date of registration are not the same, the stamp duty value on the date of the agreement (in this case booking) may be taken. However, this exception shall apply only in a case where the amount of consideration referred to therein, or a part thereof, has been paid by any mode other than cash on or before the date of the agreement for the transfer of such immovable property.

Therefore, the difference between the Stamp Duty Value on date of booking (₹ 32,00,000) and the actual consideration (₹ 25,00,000); i.e., ₹ 700,000 would be taxable under the head "Income from Other Sources".

8. Discuss the taxability of the following transactions in the hands of the recipient:

1. An HUF received from the Karta's niece, ₹ 80,000 in cash.
2. Shruti, a member of her father's HUF, transferred to the HUF a property without any consideration. The Stamp Duty valuation was ₹ 12,00,000.
3. Robin received from his friend 100 shares of ₹ 200 each and jewellery worth ₹ 55,000 (FMV) from his nephew on the same day.
4. An HUF gifted a Car to the Karta's son, for brilliant performance in the board exams. The FMV of Car was 10,00,000.

Ans.

1. Taxable: Sum of money received exceeding ₹ 50,000 without consideration from a non-relative is taxable. Therefore ₹ 80,000 is taxable as his niece, not being a member of the HUF is not a relative of the HUF.
 2. Non-Taxable: Immovable property received without consideration from a relative is non-taxable. Since Shruti is a member of the HUF, she is a relative of the HUF and hence the same is not taxable.
 3. Taxable: In this case, the aggregate FMV of the property other than immovable property, received without consideration exceeds ₹ 50,000 (₹ 75,000 actually for the shares & jewellery together). Hence, the entire amount would be taxable.
 4. Non-taxable: Car is not a property for the purposes of Section 56 and hence the transaction is nontaxable.
9. Mr. X is getting family pension of ₹ 7,000 p.m. He also has dividend income from domestic company of ₹ 7,00,000. He has long term capital gain of ₹ 3,89,000. He is entitled to deduction of ₹1,00,000 u/s 80C Compute his tax liability for Assessment Year 2024-25
- Option 1: Assessee paying tax under normal tax regime
- Option 2: Assessee paying tax under Section 115BAC

Ans.

Option 1 : Assessee paying tax under normal tax regime

Particulars	Amount (₹)	Amount (₹)
Family Pension (7,000 x 12)	84,000	
Less: Deduction u/s 57(iia) [1/3 of ₹84,000 or ₹15,000 whichever is less]	(15,000)	69,000
Dividend income		7,00,000
Income under the head Other Sources		7,69,000
Income under the head Capital Gains		
Long term capital gain		3,89,000
Gross Total Income		11,58,000
Less: Deduction u/s 80C to 80U		(1,00,000)
Total Income		10,58,000

Computation of Tax Liability		
Tax on 3,89,000 @ 20% u/s 112		77,800
Tax on 6,69,000 at slab rate		46,300
Tax before health & education cess		1,24,100
Add: HEC @ 4%		4,964
Tax Liability		1,29,064
Rounded off u/s 288B		1,29,070

Option 2 : Assessee paying tax under Section 115BAC

Particulars	Amount (₹)	Amount (₹)
Family Pension (7,000 x 12)	84,000	
Less: Deduction u/s 57(iia)	(15,000)	69,000
Dividend income		7,00,000
Income under the head Other Sources		7,69,000
Income under the head Capital Gains		
Long term capital gain		3,89,000
Gross Total Income		11,58,000
Less: Deduction u/s 80C to 80U		N/A
Total Income		11,58,000
Computation of Tax Liability		
Tax on 3,89,000 @ 20% u/s 112		77,800
Tax on 7,69,000 at new slab rate 0 to 3,00,000 : Nil >3,00,001 to 6,00,000 : 15,000 i.e. 5% >6,00,001 to 7,69,000 : 16,900 i.e. 10%		31,900
Tax before health & education cess		109700
Add: HEC @ 4%		4388

Tax Liability		114088
Rounded off u/s 288B		114090

10. Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of ₹5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹4,00,000. The company is engaged in some manufacturing activity.

- (i) Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?
- (ii) What would be your answer, if the lending company is a private limited company (i.e. which is not a company in which the public are substantially interested)?

Ans. Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2(22)(e), to the extent the company possesses accumulated profits.

- (i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- (ii) However, if the loan is taken from a private company (i.e., a company in which the public are not substantially interested), which is a not a company where lending of money is a substantial part of the business of the company, the provisions of section 2(22)(e) would be attracted. In this case, since the company is a manufacturing company and not a lending company and Rahul holds more than 10% of the equity shares in the company, the provisions of section 2(22)(e) would be attracted.

The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., ₹ 4,00,000 and not the amount of loan which is ₹ 5,00,000.

11. Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2023-24 from his friend Mr. B, -

- (1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2023.
- (2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2023.
- (3) A plot of land at Faridabad on 1st July, 2023, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2009.

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

Further, on 1st November, 2023, Mr. A took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2023 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2024, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2024-25.

Ans.

Computation of "Income from other sources" of Mr. A for the A.Y. 2024-25

Particulars	₹
(1) Cash gift is taxable under section 56(2)(x), since it exceeds ₹ 50,000	75,000
(2) Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds ₹ 50,000	60,000
(3) Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
(4) Difference of ₹ 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been	-

mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	
(5) Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	3,00,000
Income from Other Sources	9,35,000

Computation of "Capital Gains" of Mr. A for the A.Y.2024-25

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

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

12. Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -

- (i) Akhil HUF received ₹ 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- (ii) Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.
- (iii) Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹ 100 per share. He also received jewellery worth ₹ 45,000 (FMV) from his nephew on the same day.
- (iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000.

	Taxable/ Non- taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	75,000	Sum of money exceeding ₹ 50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non- taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹ 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹ 10,000) and jewellery (₹ 45,000) exceeds ₹ 50,000. Hence, the entire amount of ₹ 55,000 shall be taxable.
(iv)	Non- taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

13. Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2024, when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2023 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12th July, 2022. Would your answer be different if Hari was a share broker instead of a property dealer?

Ans. Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised. Therefore, ₹ 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., ₹ 150 lakh, and the purchase price i.e., ₹ 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration	Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Case 2: Tax implications if Mr. Hari is a share broker

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Thus, ₹ 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., ₹ 150 lakh) and the purchase price (i.e., ₹ 75 lakh) would be chargeable as short-term capital gains.	There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker. Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration.
It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.	Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

14. Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.

Ans. The statement is not correct. As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

15. Interest on enhanced compensation received by Mr. G during the previous year 2023-24 is ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2019-20, ₹ 1,65,000 relates to previous year 2020-21 and ₹ 1,85,000 relates to previous year 2021-22. Discuss the tax implication, if any, of such interest income for A.Y.2024-25.

Ans.

The entire interest of ₹ 5,00,000 would be taxable in the year of receipt, namely, P.Y. 2023-24.

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) @50%	2,50,000
Interest chargeable under the head "Income from other sources"	2,50,000

16. Examine under which heads the following incomes are taxable:

- Rental income in case property held as stock-in-trade for 3 years
- Salary received by a partner from his partnership firm
- Rental income of machinery
- Winnings from lotteries by a person having the same as business activity
- Salaries received by a Member of Parliament
- Receipts without consideration
- In case of retirement, interest on employee's contribution if provident fund is unrecognized.
- Rental income in case of a person engaged in the business of letting out of properties.

Ans. Head under which following incomes are taxable:

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iii)	Rental income of machinery (See Note below)	Profits and gains of business or profession/Income from other sources
(iv)	Winning from lotteries by a person having the same as business activity	Income from other sources
(v)	Salaries payable to a Member of Parliament	Income from other sources
(vi)	Receipts without consideration	Income from other sources
(vii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(viii)	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

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

- A sum of ₹ 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.
- Interest on enhanced compensation of ₹ 96,000 received on 12-3-2024 for acquisition of urban land, of which 40% relates to P.Y.2022-23.

Ans. Taxability of Receipts

S. No.	Taxable/ Not Taxable	Answer Amount liable to tax (₹)	Reason
(i)	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x).
(ii)	Taxable	48,000	As per section 145B(1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of ₹ 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2023-24 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, ₹ 48,000 is chargeable to tax under the head "Income from other sources".

18. On 10.10.2023, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2015-16.

Out of this interest, ₹ 1,50,000 relates to the financial year 2016-17; ₹ 1,65,000 to the financial year 2017-18; and ₹ 1,85,000 to the financial year 2018-19. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax in the

A.Y.2024-25?

Ans. Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'. 50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y 2024-25:

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% × ₹ 5,00,000)	2,50,000
Taxable interest on enhanced compensation	2,50,000

19. The following details have been furnished by M^{rs} Hemali pertaining to the year ended 31.3.2024:

- Cash gift of ₹ 51,000 received from her friend on the occasion of her "Shastipatha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- On the above occasion, a diamond necklace worth ₹ 2 lacs was presented by her sister living in Dubai.
- When she celebrated her daughter's wedding on 21.2.2024, her friend assigned in M^{rs} Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 52,000.

Compute the income, if any, assessable as "Income from other sources" for A.Y.2024-25.

Ans. (i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of ₹ 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of M^{rs} Hemali, since the same exceeds ₹ 50,000.

(ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister, being a relative, is not taxable under section 56(2)(x), even though jewellery falls within the definition of "property".

(iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds ₹ 50,000 in a year. "Sum of money" has, however, not been defined under section 56(2)(x).

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of M^{rs} Hemali -

- (1) The first view is that fixed deposit does not fall within the meaning of "sum of money" and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of "property".
- (2) However, another possible view is that fixed deposit assigned in favour of M^{rs} Hemali falls within the meaning of "sum of money" received.

Income assessable as "Income from other sources"

If the first view is taken, the total amount chargeable to tax as "Income from other sources" would be ₹ 51,000, being cash gift received from a friend on her Shastipatha Poorthi.

As per the second view, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the "Income from other sources" of M^{rs} Hemali would be ₹ 1,03,000 (₹ 51,000 + ₹ 52,000).

20. Examine the following transactions in the context of Income-tax Act, 1961:

- Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2023 for ₹ 3,00,000 when the fair market value was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.

- Mr. Chezian is employed in a company with taxable salary income of ₹ 5,00,000. He received a sum of ₹ 1,00,000 from Atma Charitable Trust (registered under section 12AB) by account payee cheque in December 2023 for meeting his medical expenses.

Is the sum of money so received from the trust chargeable to tax in the hands of Mr. Chezian?

Ans. Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.

Thus, share received by M/s B. Co. (P) Ltd. from Mr B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares.

The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. B.

The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the sum of ₹ 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.

Chapter – 9

CLUBBING PROVISION AND SET – OFF AND OR CARRY FORWARD LOSSESS

1. A owns Debentures worth Rs 1,000,000 of ABC Ltd., (annual) interest being ₹ 100,000. On April 1, 2023, he transfers interest income to B, his friend without transferring the ownership of these debentures.

Ans. In this particular case during 2023-24, interest of ₹ 100,000 is received by B; it will be taxable in the hands of A as per Section 60.

2. Mr. X owns Debentures worth Rs 1,000,000 of ABC Ltd., (annual) interest being ₹ 100,000. On April 1, 2023, he transfers interest income to Mr. Y, his friend without transferring the ownership of these debentures.

Ans. Although during 2023-24, interest of ₹ 100,000 is received by Mr. Y, it is taxable in the hands of Mr. X as per Section 60.

3. X has a substantial interest in A Ltd. and M₹ X is employed by A Ltd. without any technical or professional qualification to justify the remuneration.

Ans. In this case, salary income of M₹ X shall be taxable in the hands of X

4. Mr. P is employed as Public Relation Officer in a company where M₹ P holds 21 per cent equity shares. She has been holding the share before marriage with Mr. P., Mr. P gets a salary of ₹ 1,500 per month.

Ans. The whole salary of ₹ 18,000 will be included in the income of M₹ P provided Mr. P has no technical or professional qualification. It is immaterial that the remuneration so paid is genuine and not excessive and that M₹ P had substantial interest in the company even before her marriage.

5. X transfers 500 debentures of IFCI to his wife without adequate consideration.

Ans. Interest income on these debentures will be included in the income of X.

6. Mr. Sharma invests Rs 10 lakh in a fixed deposit (FD) at a bank, in his wife's name. Interest of ₹ 1 lakh arises on this income. Mrs Sharma invests the interest on periodic basis and interest for an amount of ₹ 5,000 arises on the interest deposited by her in bank. Analyze the clubbing provisions and find out the taxability of interest accrued

Ans. ₹ 1 lakhs in the Now Interest income on FD will be clubbed with his (Mr. Sharma) income. Interest of ₹ 5,000 aroused out of Investment made by M^{rs} Sharma will be taxed as her own income.

7. Red holds 40% of shares in a Company. M^{rs} Red (a CS) is employed in the company as a Company Secretary and is getting salary of ₹ 15,000 per month. Compute total income and tax payable by Red and M^{rs} Red assuming other income of Red is ₹ 2,00,000 from a business.

Ans. In the present case, M^{rs} Red's salary income will be taxable in her hands only as she is earning the same through her professional qualification.

Computation of Total Income and Tax Liability

Particulars	Mr. Red (₹)	M ^{rs} Red (₹)
Income from Salary	Nil	1,80,000
Income from Business	2,00,000	Nil
Gross Total Income (or Total Income)	2,00,000	1,80,000
Tax Liability (as total income does not exceed	2,50,000	Nil

8. Mr. Amit is beneficially holding 21% equity shares of Essem Minerals Pvt. Ltd. M^{rs} Amit is employed as Manager (in accounts department) in Essem Minerals Pvt. Ltd. at a monthly salary of ₹ 84,000. M^{rs} Amit is not having any knowledge, experience or qualification in the field of accountancy. Will the remuneration (i.e., salary) received by M^{rs} Amit be clubbed with the income of Mr. Amit?

Ans. In this situation, Mr. Amit is having substantial interest in Essem Minerals Pvt. Ltd. and remuneration of M^{rs} Amit is not justifiable (i.e., she is employed without any technical or professional knowledge or experience) and, hence, salary received by M^{rs} Amit from Essem Minerals Pvt. Ltd. will be clubbed with the income of Mr. Amit and will be taxed in the hands of Mr. Amit.

9. Mr. Kapoor gifted ₹ 8,40,000 to his wife. The said amount is invested by his wife in debentures of a company. Will the income from the debenture purchased by M^{rs} Kapoor from gifted money be clubbed with the income of Mr. Kapoor?

Ans. ₹ 8,40,000 is transferred to spouse. Fund is transferred via gift (i.e., without adequate consideration) and, hence, the provisions of section 64(1)(iv) will be attracted. The provisions of clubbing will apply even if the form of asset is changed by the transferee-spouse.

In this case asset transferred is money and, subsequently, the form of asset is changed to debentures, hence, income from debentures acquired from money gifted by her husband will be clubbed with the income of her husband. Thus, interest on debenture received by M^{rs} Kapoor will be clubbed with the income of Mr. Kapoor.

10. Mr. Raj has given a bungalow owned by him on rent. Annual rent of the bungalow is ₹ 84,000. He transferred entire rental income to his friend Mr. Kumar. However, he did not transfer the bungalow.

Ans. In this situation, rent of ₹ 84,000 will be taxed in the hands of Mr. Raj.

11. Mr. Soham holds 8,400 debentures of Shyamal Minerals Ltd. He gifted these debentures to his wife. Will the income from debentures be clubbed with the income of Mr. Soham?

Ans. In this situation, the debentures are transferred to spouse. Transfer is via gift (i.e., without any consideration) and, hence, income generated from the transferred asset, i.e., interest on such debentures will be clubbed with the income of Mr. Soham.

12. Mr. Raja has two minor children, viz., Master A and Master B. Master A is a child artist and Master B is suffering from diseases specified under section 80U. Income of A and B are as follows:

Income of A from stage shows: ₹ 1,00,000

Income of A from bank interest: ₹ 6,000

Income of B from bank interest: ₹ 1,20,000.

Will the income of minor children be clubbed with the income of their parent (M^{rs} Raja is not having any income)?

Ans. As per section 64(1A), income of minor children is clubbed with the income of that parent whose income (excluding minor's income) is higher. In this case, M^{rs} Raja is not having any income and,

hence, if any income is to be clubbed then it will be clubbed with the income of Mr. Raja.

Income of minor child earned on account of manual work or income from the skill, knowledge, talent, experience, etc., of minor child will not be clubbed with the income of his/her parent. Thus, income of A from stage show will not be clubbed with the income of Mr. Raja but income of A from bank interest of ₹ 6,000 will be clubbed with the income of Mr. Raja. Income of a minor suffering from disability specified under section 80U will not be clubbed with the income of his/her parent. Hence, any income of B will not be clubbed with the income of Mr. Raja.

The taxpayer can claim an exemption under section 10(32)). Thus, in respect of interest income of ₹ 6,000 clubbed in the income of Mr. Raja, he will be entitled to claim exemption of ₹ 1,500 under section 10(32)), hence, net income to be clubbed will be ₹ 4,500 (i.e., ₹ 6,000 - ₹ 1,500).

13. Mr. A, aged 35 years, submits the following particulars pertaining to the A.Y.2024-25:

Particulars	₹
Income from salary (computed)	4,00,000
Loss from let-out property	(-) 2,20,000
Business loss	(-) 1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. A for the A.Y.2024-25, assuming that

- He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- He pays tax under the default tax regime.

Ans

- Computation of total income of Mr. A for the A.Y.2024-25 under normal provisions of the Act**

Particulars	Amount (₹)	Amount (₹)
Income from salary	4,00,000	
Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of section	(-) 2,00,000	2,00,000

71(3A)		
Balance loss of ₹ 20,000 from house property to be carried forward to next assessment year		
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income [See Note below]		2,00,000
Less: Deduction under Chapter VI-A		Nil
Total income		2,00,000

Notes:

- (i) Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.
- (ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

(ii) Computation of total income of Mr. A for the A.Y.2024-25 under default tax regime

Particulars	Amount (₹)	Amount (₹)
Income from salary		4,00,000
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-

Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income/ Total Income		4,00,000

Notes:

- (i) Under the default tax regime, loss from house property cannot be set off against income under any other head. The loss of ₹ 2,20,000 from house property can not be carried forward to next assessment year.
- (ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

14. Mr. B, a resident individual, furnishes the following particulars for the P.Y.2023-24:

Particulars	₹
Income from salary (computed)	45,000
Income from house property	(24,000)
Income from non-speculative business	(22,000)
Income from speculative business	(4,000)
Short-term capital losses	(25,000)
Long-term capital gains taxable u/s 112	19,000

What is the total income chargeable to tax for the A.Y.2024-25, assuming that he pays tax under section 115BAC?

Ans.

Total income of Mr. B for the A.Y. 2024-25

Particulars	Amount (₹)	Amount (₹)
Income from salaries		45,000
Income from house property		
Loss from house property to be carried forward [Note (i)]	(24,000)	
Profits and gains of business and profession		
Business loss to be carried forward [Note (ii)]	(22,000)	
Speculative loss to be carried forward [Note (iii)]	(4,000)	

Capital Gains		
Long term capital gain taxable u/s 112	19,000	
Short term capital loss ₹ 25,000 set off against long-term capital gains to the extent of ₹ 19,000 [Note (iv)]	(19,000)	
	Nil	
Balance short term capital loss of ₹ 6,000 to be carried forward [Note (iv)]		
Taxable income		45,000

Notes:

- Since Mr. B is paying tax under the default tax regime u/s 115BAC, loss from house property cannot be set off against income under any other head. Such loss can not be carried forward to the next assessment year.
- Business loss cannot be set-off against salary income. Therefore, loss of ₹ 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.
- Loss of ₹ 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.
- Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short term capital loss of ₹ 25,000 can be set-off against long-term capital gains to the extent of ₹ 19,000. The balance short term capital loss of ₹ 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.

15. During the P.Y. 2023-24, Mr. C has the following income and the brought forward losses:

Particulars	₹
Short term capital gains on sale of shares	1,50,000
Long term capital loss of A.Y.2022-23	(96,000)
Short term capital loss of A.Y.2023-24	(37,000)
Long term capital gain u/s 112	75,000

What is the capital gain taxable in the hands of Mr. C for the A.Y.2024-25?

Ans.

Taxable capital gains of Mr. C for the A.Y. 2024-25

Particulars	₹	₹
Short term capital gains on sale of shares	1,50,000	

Less: Brought forward short-term capital loss of the A.Y.2023-24	(37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward long-term capital loss of A.Y.2022-23 ₹ 96,000 set off to the extent of ₹ 75,000 [See Note below]	(75,000)	Nil
Taxable short-term capital gains		1,13,000

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of A.Y.2022-23 of ₹ 21,000 (i.e. ₹ 96,000 - ₹ 75,000) can be carried forward to the next year to be set-off against long-term capital gains of that year.

16. Mr. D has the following income for the P.Y.2023-24:

Particulars	₹
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss (relating to A.Y. 2023-24)	50,000
Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y.2021-22)	96,000

What is the total income in the hands of Mr. D for the A.Y. 2024-25?

Ans.

Total income of Mr. D for the A.Y. 2024-25

Particulars	₹	₹
Income from the activity of owning and maintaining race horses	75,000	35,000
Less: Brought forward loss of ₹ 96,000 from the activity of owning and maintaining race horses set-off to the extent of ₹ 75,000	75,000	
	Nil	
Balance loss of ₹ 21,000 (₹ 96,000 - ₹ 75,000) from the activity of owning and maintaining race horses to be carried forward to A.Y.2025-26		
Income from textile business	85,000	
Less: Brought forward business loss from textile business	50,000	
Total income		35,000

Note: Loss from the activity of owning and maintaining race horses cannot be set-off

against any other source/head of income.

17. Mr. E has furnished his details for the A.Y.2024-25 as under:

Particulars	₹
Income from salaries (computed)	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	80,000
Long term capital loss of A.Y.2022-23	(30,000)
Winning from lotteries (Gross)	20,000

Compute the total income of Mr. E for the A.Y.2024-25.

Ans.

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

Particulars	₹	₹
Income from salaries		1,50,000
Income from speculation business	60,000	
Less : Loss from non-speculation business	(40,000)	20,000
Short-term capital gain		80,000
Winnings from lotteries		20,000
Taxable income		2,70,000

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the next assessment year.

18. Compute the gross total income of Mr. F for the A.Y. 2024-25 from the information given below -

Particulars	₹
Income from house property (computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of unlisted shares	56,000
Long term capital loss from sale of property (brought forward from A.Y. 2023-24)	(90,000)
Income from tea business	1,20,000

Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

Ans.

Gross Total Income of Mr. F for the A.Y. 2024-25

Particulars	₹	₹
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	26,000	
Less: Brought forward business loss	45,000	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short-term capital gains		56,000
Income from Other Sources		
Dividend income (taxable in the hands of shareholders)		80,000
Gross Total Income		3,73,000

Notes:

- (1) Dividend from Indian companies is taxable at normal rates of tax in the hands of resident shareholders
- (2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- (3) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 90,000 brought forward from A.Y.2023-24 cannot be set-off in the A.Y.2024-25, since there is no long-term capital gains in that year. It has to be carried forward for set-off against long-term capital gains, if any, during A.Y.2025-26.

19. Mr. Soohan submits the following details of his income for the A.Y.2024-25:

Particulars	₹
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business for P.Y. 2018-19 (discontinued in P.Y. 2019-20)	(-) 1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss under section 111A	(-) 10,000
Bank interest on Fixed deposit	5,000

Calculate gross total income and losses to be carried forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. **Computation of Gross Total Income of Mr. Soohan for the A.Y.2024-25**

Particulars	₹	₹
Salaries		
Income from salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71	(40,000)	2,60,000
Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss of ₹ 1,20,000 from iron-ore business set-off as per section 72(1) to the extent of ₹ 50,000	(50,000)	Nil
Balance business loss of ₹ 70,000 of P.Y.2018-19 to be carried forward to A.Y.2025-26		

Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss of ₹ 60,000 set-off to the extent of ₹ 40,000	(40,000)	Nil
Balance short-term capital loss of ₹ 20,000 to be carried forward		
Short-term capital loss of ₹ 10,000 u/s 111A also to be carried forward		
Income from other sources		
Dividend (fully taxable in the hands of shareholders)	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank FD interest	5,000	66,000
Gross Total Income		3,26,000
Losses to be carried forward to A.Y.2025-26		
Loss of iron-ore business (₹ 1,20,000 - ₹ 50,000)	70,000	
Short term capital loss (₹ 20,000 + ₹ 10,000)	30,000	

Note: Agricultural income is exempt under section 10(1).

20. Mr. Batra furnishes the following details for year ended 31.03.2024:

Particulars	₹
Short term capital gain	1,40,000
Loss from speculative business	60,000
Long term capital gain on sale of land	30,000
Long term capital loss on sale of unlisted shares	1,00,000
Income from business of textile (after allowing current year depreciation)	50,000
Income from activity of owning and maintaining race horses	15,000
Income from salary (computed)	1,00,000
Loss from house property	40,000

Following are the brought forward losses:

a. Losses from activity of owning and maintaining race horses-pertaining to A.Y.

2021-22 - ₹ 25,000.

- b. Brought forward loss from business of textile ₹ 60,000 - Loss pertains to A.Y. 2016-17.

Compute gross total income of Mr. Batra for the Assessment Year 2024-25, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Also determine the losses eligible for carry forward to the A.Y. 2025-26.

Ans. **Computation of Gross Total Income of Mr. Batra for the A.Y. 2024-25**

Particulars	₹	₹
Salaries	1,00,000	
Less: Current year loss from house property	(40,000)	60,000
[Since Mr. Batra has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]		
Profit and gains of business or profession		
Income from textile business	50,000	
Less: Loss of ₹ 60,000 from textile business b/f from A.Y. 2016-17 set-off to the extent of ₹ 50,000	50,000	NIL
Income from the activity of owning and maintaining race horses	15,000	
Less: Loss of ₹ 25,000 from activity of owning and maintaining race horses b/f from A.Y. 2021-22 set-off to the extent of ₹ 15,000	15,000	NIL
Balance loss of ₹ 10,000 to be carried forward to A.Y. 2025-26 [See Note 2]		
Capital Gain		
Short term capital gain		1,40,000
Long term capital gain on sale of land	30,000	
Less: Long term capital loss of ₹ 1,00,000 on sale of unlisted shares set-off to the extent of ₹ 30,000	30,000	NIL

Balance loss of ₹ 70,000 to be carried forward to A.Y. 2025-26 [See Note 3]		
Gross Total Income		2,00,000

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

Particulars	₹
Current year loss from speculative business [See Note-4]	60,000
Current year long term capital loss on sale of unlisted shares	70,000
Loss from activity of owning and maintaining of race horse pertaining to A.Y.2021-22	10,000

Notes:-

- (1) As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of A.Y. 2016-17 expired in the A.Y. 2024-25, the balance unabsorbed business loss of ₹ 10,000 cannot be carried forward to A.Y. 2025-26.
- (2) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- (3) Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of ₹ 70,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.
- (4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

21. Mr. A furnishes you the following information for the year ended 31.03.2024:

	(₹)
(i) Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year)	3,20,000
(ii) Income from retail trade of garments (Computed as per books) (Sales turnover ₹ 1,35,70,000) Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y.2023-24. Assume 10% of the turnover during the P.Y.2023-24 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.	7,50,000
(iii) He has brought A.Y. 2022-23 forward depreciation Relating to	1,00,000

Compute taxable income of Mr. A and his tax liability for the A.Y. 2024-25 with reasons for your computation, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans.

**Computation of total income and tax liability of
Mr. A for the A.Y. 2024-25**

Particulars	₹
Income from retail trade - as per books (See Note 1 below)	7,50,000
Income from plying of vehicles - as per books (See Note 2 below)	3,20,000
	10,70,000
Less : Set off of b/f depreciation relating to A.Y. 2022-23	1,00,000
Total income	9,70,000
Tax liability	1,06,500
Add: Health and Education cess@4%	4,260
Total tax liability	1,10,760

Note:

- Income from retail trade: Presumptive business income under section 44AD is ₹ 8,41,340 i.e., 8% of ₹ 13,57,000, being 10% of the turnover received in cash and 6% of ₹ 1,22,13,000, being the amount of sales turnover received through A/c payee cheque. However, the income computed as per books is ₹ 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books.

However, if he does not declare profits as per presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore (the enhanced limit of ₹ 10 crore would not be available, since more than 5% of the turnover is received in cash). Also, his case would be falling under section 44AD(4) and hence, tax audit is mandatory. It may further be noted that he cannot declare income under presumptive provisions under section 44AD for next five assessment years, if he does not declared profits as per presumptive provisions under section 44AD this year.

2. Income from plying of light goods vehicles: Income calculated under section 44AE(1) would be ₹ 7,500 × 12 × 5 which is equal to ₹ 4,50,000. However, the income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. ₹ 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

It is to be further noted that in both the above cases, if income is declared under presumptive provisions, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If income is declared as per presumptive provisions, his total income would be as under:

Particulars	₹
Income from retail trade under section 44AD [₹ 13,57,000@ 8% plus ₹ 1,22,13,000 @6%]	8,41,340
Income from plying of light goods vehicles under section 44AE [₹ 7,500 × 12 × 5]	4,50,000
	12,91,340
Less: Set off of brought forward depreciation - not possible as it is deemed that it has been allowed and set off	Nil
Total income	12,91,340
Tax thereon	1,99,902
Add : Health and Education cess @4%	7,996
Total tax liability	2,07,898
Total tax liability (rounded off)	2,07,900

22. Mr. Aditya furnishes the following details for the year ended 31 -03-2024:

Particulars	Amount (₹)
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered under section 35AD	20,000
Income from salary (computed)	3,00,000
Loss from let out house property	2,50,000
Income from trading business	45,000
Long-term capital gain from sale of urban land	2,00,000
Long-term capital loss on sale of shares (STT not paid)	75,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,02,000

Following are the brought forward losses:

(1) Losses from owning and maintaining of race horses pertaining to A.Y. 2022-23 ₹ 2,000.

(2) Brought forward loss from trading business ₹ 5,000 relating to A.Y. 2019- 20.

Compute the total income of Mr. Aditya and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans.

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

Particulars	₹	₹
Salaries		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71(3A)	2,00,000	1,00,000
Loss from house property to the extent not set off i.e. ₹ 50,000 (₹ 2,50,000 - ₹ 2,00,000) to be carried forward to A.Y. 2025-26		
Profits and gains of business or profession		
Income from trading business	45,000	

Less: Brought forward loss from trading business of A.Y. 2019-20 can be set off against current year income from trading business as per section 72(1), since the eight year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	5,000	40,000
Income from speculative business B	5,000	
Less: Loss of ₹ 25,000 from speculative business A set-off as per section 73(1) to the extent of ₹ 5,000	5,000	Nil
Balance loss of ₹ 20,000 from speculative business A to be carried forward to A.Y.2025-26 as per section 73(2)		
Loss of ₹ 20,000 from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A.		
Capital Gains		
Long term capital gain on sale of urban land	2,00,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)]	75,000	
Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A	1,02,000	23,000
Total Income		1,63,000

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

Particulars	₹
Loss from House property As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 since Mr. Aditya is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A). As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y.2032-33, in this case.	50,000

Loss from speculative business A Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off	20,000
against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2028-29, in this case, as specified under section 73(4).	
Loss from specified business Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business. Mr. Aditya is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). He can, accordingly, carry forward loss from such business indefinitely for set off against profits of any other specified business.	20,000
Loss from the activity of owning and maintaining race horses Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2026-27, in this case, as specified under section 74A(3).	2,000

23. Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the P.Y. 2023-24.

	Particulars	₹
(1)	Income from Salary (computed)	15,000
(2)	Income from business	66,000
(3)	Long term capital gain on sale of land	10,800
(4)	Loss on maintenance of race horses	15,000
(5)	Loss from gambling	9,100

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

2023-24 are as follows:

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

Compute the Gross total income of Mr. Garg for the A.Y. 2024-25 and the amount of loss, if any that can be carried forward or not.

Ans. **Computation of Gross Total Income of Mr. Garg for the A.Y. 2024-25**

Particulars	₹	₹
(i) Income from salary		15,000
(ii) Profits and gains of business or profession	66,000	
Less: Unabsorbed depreciation brought forward from A.Y.2023-24 (Unabsorbed depreciation can be set-off against any head of income other than "salary")	11,000	55,000
(iii) Capital gains		
Long-term capital gain on sale of land	10,800	
Less: Brought forward short-term capital loss [Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)]	9,800	1,000
Gross Total Income		71,000

Amount of loss to be carried forward to A.Y.2025-26

	Particulars	₹
(1)	Loss from speculative business [to be carried forward as per section 73] [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y.2023-24 has to be carried forward to A.Y. 2025-26 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y.2027-28]	22,000

(2)	Loss on maintenance of race horses [to be carried forward as per section 74A] [As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2028-29]	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	

24. The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2024:

Particulars	₹
Income from salaries (computed)	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	45,000

Compute the total income and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Computation of total income of Mr. Srivatsan for the A.Y.2024-25

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property since Mr. Srivatsan has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)	1,90,000	30,000

Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business of ₹ 2,40,000 set off to the extent of ₹ 30,000	30,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Set-off of balance loss of ₹ 2,10,000 from cloth business	2,10,000	40,000
Income from other sources		
Income from betting		45,000
Gross Total Income		1,15,000
Less: Deduction under section 80C (life insurance premium paid) [See Note (iv) below]		30,000
Total income		85,000

Losses to be carried forward:

Particulars	₹
(1) Loss from cloth business (₹ 2,40,000 - ₹ 30,000 - ₹ 2,10,000)	Nil
(2) Loss from specified business covered by section 35AD	20,000

Notes:

- (i) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year.
- Mr. Srivatsan

is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Therefore, he can carry forward loss of ₹ 20,000 from specified business referred u/s 35AD indefinitely for set off against profits of any specified business.

- (ii) Business loss cannot be set off against salary income. However, the balance business loss of ₹ 2,10,000 (₹ 2,40,000 - ₹ 30,000 set-off against income from speculation business) can be set-off against long-term capital gains of ₹ 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 40,000.
- (iii) Loss from card games can neither be set off against any other income, nor can be carried forward.
- (iv) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction

under section 80C in respect of life insurance premium of ₹ 45,000 paid has to be restricted to ₹ 30,000 [i.e., Gross Total Income of ₹ 1,15,000 - ₹ 40,000 (LTCG) - ₹ 45,000 (Casual income)]. Mr. Srivatsan is entitled to deduction u/s 80C, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

25. Mr. Rajat submits the following information for the financial year ending 31st March, 2024. He decides to pay tax under the default tax regime u/s 115BAC. He desires that you should:

- (a) Compute the total income; and
(b) Ascertain the amount of losses that can be carried forward.

Particulars		₹
(i)	He has two let out house property:	
	(a) House No. I - Income after all statutory deductions	72,000
	(b) House No. II - Current year loss	(30,000)
(ii)	He has three proprietary businesses:	
	(a) Textile Business:	
	(i) Discontinued from 31st October, 2023 - Current year loss	40,000
	(ii) Brought forward business loss of A.Y. 2019-20	95,000
	(b) Chemical Business:	
	(i) Discontinued from 1st March, 2021 - hence no profit/loss	Nil
	(ii) Bad debts allowed in earlier years recovered during this year	35,000
	(iii) Brought forward business loss of A.Y. 2020-21	50,000
	(c) Leather Business: Profit for the current year	1,00,000
	(d) Share of profit in a firm in which he is partner since 2009	16,550
(iii)	(a) Short-term capital gain	60,000
	(b) Long-term capital loss	35,000
(iv)	Contribution to LIC towards premium	10,000

Ans. **Computation of total income of Mr. Rajat for the A.Y. 2024-25**

Particulars	₹	₹
1. Income from house property		
House No.1	72,000	
House No.2	(-) 30,000	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
Bad debts recovered taxable under section 41(4)	35,000	
	1,35,000	
Less: Current year loss of textile business	(-) 40,000	
	95,000	
Less: Brought forward business loss of textile business for A.Y.2019-20 set off against the business income of current year		
	95,000	Nil
3. Capital Gains		
Short-term capital gain		60,000
Gross Total Income		1,02,000
Less: Deduction under Chapter VI-A		
Under section 80C - LIC premium paid (not available since he is paying tax under the default tax regime)		-
Total Income		1,02,000

Statement of losses to be carried forward to A.Y. 2025-26

Particulars	₹
Brought forward chemical business loss of A.Y. 2020-21 to be carried forward u/s 72	50,000
Long term capital loss of A.Y. 2024-25 to be carried forward u/s 74	35,000

Notes:

- Share of profit from firm of ₹ 16,550 is exempt under section 10(2A).
- Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year.

26. Ms. Geeta, a resident individual, provides the following details of her income / losses for the year ended 31.3.2024:

- Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.
- Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
- Long-term capital gain on sale of land ₹ 5,00,000.
- ₹ 51,000 received in cash from friends in party.
- ₹ 55,000, being dividend income on listed equity shares of domestic companies.
- Brought forward business loss of A.Y. 2022-23 ₹ 12,50,000.

Compute gross total income of Ms. Geeta for the A.Y. 2024-25 and ascertain the amount of loss that can be carried forward.

Ans. **Computation of Gross Total Income of Ms. Geeta for the A.Y. 2024-25**

Particulars	₹
Profits and gains of business and profession	
Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession"	7,50,000
Less: B/f business loss of A.Y. 2022-23 ₹ 12,50,000 to be set-off to the extent of ₹ 7,50,000	7,50,000
	Nil
(Balance b/f business loss of ₹ 5,00,000 can be carried forward to the next year)	
Capital Gains	
Long term capital gain on sale of land	5,00,000
Less: Long-term capital loss on shares on STT paid (See Note 2 below)	3,00,000
	2,00,000
Income from other sources	
Cash gift received from friends - since the value of cash gift exceeds ₹ 50,000, the entire sum is taxable	51,000
Dividend income from a domestic company is fully taxable in the hands of shareholders	55,000
	1,06,000
Gross Total Income	3,06,000

Notes:

1. Balance brought forward business loss of assessment year 2022-23 of ₹ 5,00,000 has to be carried forward to the next year.
2. Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against long-term capital gain on sale of land as per section 70(3).

27. Mr. P, a resident individual, furnishes the following particulars of his income and other details for the previous year 2023-24:

Sl. No.	Particulars	₹
(i)	Income from salary (computed)	18,000
(ii)	Net annual value of house property	70,000
(iii)	Income from business	80,000
(iv)	Income from speculative business	12,000
(v)	Long term capital gain on sale of land	15,800
(vi)	Loss on maintenance of race horse	9,000
(vii)	Loss on gambling	8,000

Depreciation allowable under the Income-tax Act, 1961, comes to ₹ 8,000, for which no treatment is given above.

The other details of unabsorbed depreciation and brought forward losses (pertaining to A.Y. 2023-24) are:

Sl. No.	Particulars	₹
(i)	Unabsorbed depreciation	9,000
(ii)	Loss from speculative business	16,000
(iii)	Short term capital loss	7,800

Compute the gross total income of Mr. P for the A.Y. 2024-25, and the amount of loss that can or cannot be carried forward.

Ans. **Computation of Gross Total Income of Mr. P for the A.Y. 2024-25**

Particulars	₹	₹
(i) Income from salary		18,000
(ii) Income from House Property		
Net Annual Value	70,000	
Less: Deduction under section 24 (30% of ₹ 70,000)	21,000	49,000
(iii) Income from business and profession		
(a) Income from business	80,000	
Less : Current year depreciation	8,000	
	72,000	
Less : Unabsorbed depreciation	9,000	63,000
(b) Income from speculative business	12,000	
Less : B/f loss of ₹ 16,000 from speculative business s/o to the extent of ₹ 12,000	12,000	Nil
(Balance loss of ₹ 4,000 (i.e. ₹ 16,000 - ₹ 12,000) can be carried forward to the next year)		
(iv) Income from capital gain		
Long-term capital gain on sale of land	15,800	
Less: Brought forward short-term capital loss	7,800	8,000
Gross total income		1,38,000

Amount of loss to be carried forward to the next year

Particulars	₹
Loss from speculative business (to be carried forward as per section 73)	4,000
Loss on maintenance of race horses (to be carried forward as per section 74A)	9,000

Notes:

- Loss on gambling can neither be set-off nor be carried forward.
- As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and

maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment year

- (iii) Brought forward speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2025-26. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4).

Chapter – 10

DEDUCTION

1. Section 80D provides deduction to an individual in respect of premium paid towards medical insurance of his family. For the purpose of Section 80 D family means:

- a) The spouse
- b) The spouse and dependent children of the assessee.
- c) The spouse and any children of the assessee.
- d) The spouse, children and parents of the assessee.

Ans. (b) The spouse and dependent children of the assessee.

2. Assessment year 2024-25, an individual taxpayer can claim deduction of up to under Section 80D of the Income Tax Act, 1961, if he or his family members and his parents are 60 years or above:

- a) ₹ 50,000
- b) ₹ 60,000
- c) ₹ 1,00,000
- d) none of the above

Ans. (c) ₹ 1,00,000

3. If X, an individual incurs ₹ 1,80,000 expenditure on medical treatment of a specified disease for his mother (65 years) in a hospital recognised by Chief Commissioner and ₹ 8,000 are reimbursed by insurance company, what will be the amount of deduction available to him under section 80DDB?

- (a) ₹ 92,000
- (b) ₹ 72,000
- (c) ₹ 1,80,000
- (d) Any amount

Ans. (a) ₹ 92,000

4. If X, an individual incurs ₹ 1,80,000 expenditure on medical treatment of a specified disease for his grand mother (85 years) in a hospital recognised by Chief Commissioner and ₹ 8,000 are reimbursed by insurance company, what will be the amount of deduction available to him under section 80DDB?

- (a) ₹ 60,000
- (b) ₹ 1,80,000
- (c) ₹ 92,000
- (d) Nil

Ans. (c) ₹ 92,000

5. Maximum amount of deduction is allowed upto u/s 80DDB of the Income Tax Act, 1961, to an individual or HUF (Age below 60 years) towards the payment of medical treatment for critical illness for himself or family members:

- a) ₹ 1,00,000
- b) ₹ 60,000
- c) ₹ 40,000
- d) nil

Ans. (c) ₹ 40,000

6. What is the upper limit of deduction (including interest) on loan, taken by an individual from any financial institution or any approved charitable institution for the purpose of pursuing his/her higher education?

- (a) ₹ 30,000
- (b) ₹ 40,000
- (c) ₹ 50,000
- (b) Any amount

Ans. (d) Any amount

7.

Mr. ₹A₹ had income against the following heads	Amount (₹)
Taxable salary income	40,000
Income from house property	75,000
Income from other sources	20,000
Interest on securities of DCM Ltd. (gross)	8,000
Total	1,43,000

He made following payments:	Amount (₹)
Contribution to P.F. (recognised)	2,000
Donation to the Prime Minister's National Relief Fund	2,500
Donation to the Prime Minister's Drought Relief Fund	4,000
Donation to an approved association for promoting family planning	4,000
Donation to approved charitable trust	10,000

Compute Mr. A's taxable income for assessment year 2024-25.

Ans.

His taxable income for assessment year 2024-25 will be computed as follows:

Particulars	Amount (₹)
Net income from salary	40,000
Income from house property	75,000
Income from other sources	28,000
Gross Total Income	1,43,000
Less: Deduction under Section 80C	2,000
Less: Deduction permissible: Donation under Section 80G	13,500
(as worked out below)	
Taxable income	1,27,500
Income-tax on ₹1,27,500	NIL

Net tax payable (including health & education cess @ 4%)	NIL

Note: Under Section 80G the various items of donations will be dealt with as under:

1. Prime Minister's National Relief Fund deductible in full without any restrictions.
2. Donation to Prime Minister's Drought Relief Fund is deductible to the extent of 50% of donation without any restrictions.
3. Donation to approved family planning association is deductible in full so long as it is within the 10% limit imposed by Section 80G(4).
4. Donation to an approved charitable trust is deductible to the tune of 50% so long as it is also within the limit imposed by Section 80G(4).

Calculation of deduction under Section 80G:

	Gross Total Income	1,43,000
Less :	Deduction under Sections 80C to 80U	2,000
	Adjusted gross total income	1,41,000

(i) Donation on which qualifying limit is not applicable: (A) Allowed @ 100%

Prime Minister's national Relief fund 2,500

(B) Allowed @ 50%

Indira Gandhi Memorial Trust (4000) 2,000

(ii) Donation to which qualifying limit is applicable:

(1) for promotion of family planning 4,000

(2) Charitable trust 10,000

Limited to 10% of Adjusted Gross Total Income: 14,000

i.e., ₹14,100/- Since donation to family planning are lowest than maximum 9,000

allowable. Therefore, allowable amount is (4,000 + 5,000) ₹ 9,000/-

Total Deduction for Section 80G 13,500

8. Mr. ₹A had income against the following heads,

Particulars	Amount (₹)
Professional income	6,40,000
Income from STCG (covered under section 111A)	5,000

Income from LTCG	12,000
Income from other sources	10,000
Contribution to P.P.F.	70,000
Payment of Rent	84,000

Compute Mr. A's taxable income for assessment year 2024-25.

Ans.

His taxable income for assessment year 2024-25 will be computed as follows:

Particulars	Amount (₹)
Professional income	6,40,000
Income from capital gains	17,000
Income from other sources	10,000
Gross Total Income	6,67,000
Less: Deduction under Section 80C	(70,000)
Less: Deduction under Section 80GG (as worked out below)	(26,000)
Taxable income	571,000

Working Note:

Least of the following is deductible under section 80GG

- $84,000 - (10\% \text{ of } 5,80,000) = 26,000$
- $25\% \text{ of } 5,80,000 = 1,45,000$.
- $₹ 5,000 * 12 = 60,000$

Deduction under Section 80GG is lower of three above ₹ 26,000. Adjusted Total Income = $6,67,000 - 17,000 - 70,000 = 5,80,000$.

Note: If the Assessee opted to pay tax under section 115BAC, deduction under section 80C / 80GG is not available.

9. The maximum amount of deduction allowed u/s 80TTB of the Income Tax Act, 1961, with respect to interest income from deposits with banks or post office or co-operative banks is:

- ₹ 10,000
- ₹ 20,000
- ₹ 50,000
- Nil

Ans. (c) ₹ 50,000

10. Mr. Ram who is a person with disability submit the following information. Compute (a) the Taxable Income (b) the Tax payable for the assessment year 2024-25.

Particulars		Amounts (₹)
(i)	Salary (per annum)	3,00,000
(ii)	Rent received	48,000
(iii)	Dividend from Co-operative Society	1,000
(iv)	Interest on Savings Bank Deposits	18,000
(v)	Interest on government securities	1,000
(vi)	Winning from Lotteries (gross)	5,000
(vii)	NSC (VIII Issue) purchased during the year	10,000
(viii)	Deposit under PPF Scheme	30,000

He earned a Long-term capital gain of ₹ 15,000 on sale of gold during the year.

Ans.

A. Computation of Total Income	₹	₹
Income from Basic Salary		3,00,000
Less: Deduction under section 16(ia) - Standard Deduction		(50,000)
		2,50,000
Income from house property		
Rent Received	48,000	
Less : Statutory Deduction @ 30%	(14,400)	33,600
Capital Gains		
Long-term capital gains		15,000
Income from other sources		
Dividend from co-operative society	1,000	
Interest on saving bank deposits	18,000	
Interest on government Securities	1,000	

Winning from Lotteries	5,000	25,000
Gross Total Income		3,23,600
Less : Deduction under section 80C to 80U		
(i) Under section 80C ₹ (10,000 + 30,000)	(40000)	
(ii) Under section 80TTA	(10,000)	
(iii) Under section 80U	(50,000)	(1,00,000)
Total Income		2,23,600
B. Computation of Tax on Total Income		
Tax on winning from lotteries (30% of ₹5,000)		1,500
Tax on long-term capital gains (20% of ₹15,000)		3,000
Balance of Total Income ₹2,03,600		Nil
Tax payable, bring total income below ₹ 2,50,000		Nil

Note: The solution has been made assuming the assessee has not opted to pay tax under section 115BAC of the Income Tax Act, 1961.

11. Rahul who is a resident in India, is a person with disability, he provides the following particulars of his income for the year ended 31.3.2024.

(a)	Salary for working as a cable operator (per month)	18,000
(b)	Interest on government securities (gross)	45,000
(c)	Dividend from Indian Company	5,000
(d)	Honorarium from school of orphanage for giving his service	49,000

He has donated ₹ 20,000 to the school for orphanage which is approved as a charitable institution and contributed ₹ 2,000 to prime Minister national Relief Fund, he has also paid ₹3,000 by credit card as premium of mediclaim policy, his father is also a person with disability and is dependent on him for medical treatment and rehabilitation. Rahul spends ₹ 8,000 during the year on him.

Compute the Total Income for the Assessment Year 2024-25, assuming he has deposited ₹ 20,000 in public provident fund Account.

Ans.

Computation of Total Income for the Assessment Year 2024-25

Income from salary	₹	₹	₹
Gross Salary		2,16,000	
Less: Deduction (Standard)		(50,000)	1,66,000
Income from other sources			
Interest on Government Securities		45,000	
Dividend from Indian Company		Exempt	
Honorarium		49,000	94,000
Gross Total Income			2,60,000
Less: Deductions:			
Under section 80C		20,000	
(ii) Under section 80D		3,000	
(iii) Under section 80DD		75,000	
(iv) Under section 80U		75,000	
(v) Under section 80G			
Prime Minister Relief fund (100% of ₹ 2,000)	2,000		
Orphanage School (50% of ₹ 8,700) 10% of ₹ 87,000 ₹ (2,60,000 - 1,73,000)	4,350	6,350	(1,79,350)
Total Income			80,650

Note: The solution has been made assuming the assessee has not opted to pay tax under section 115BAC of the Income Tax Act, 1961.

12. Following are the particulars of income of Mr. Ram, who is 70 years old resident in India, for the Assessment year 2024-25:

Gross Total Income ₹ 8,10,040 which includes long-term capital gain of ₹ 2,55,000, Short-term capital gain of ₹ 88,000, interest income of ₹ 12,000 from savings bank deposits with banks. Mr. Ram invested in PPF ₹ 1,40,000 and also paid a medical insurance premium ₹ 31,000. Compute the total income of Mr. Ram.

Ans.

Computation of Total Income for the Assessment Year 2024-25

Particulars	₹
Gross total income	8,10,040
Less: Deductions:	
Under section 80C	1,40,000
Undersection80D	31,000
Undersection80TTA	10,000
Total income	6,29,040

Note: The solution has been made assuming the assessee has not opted to pay tax under section 115BAC of the Income-tax Act, 1961.

13. Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- For grant of deduction under section 80JJAA, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.
- Filing of belated return under section 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction under section 80QQB if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (i.e., he pays tax under the optional tax regime).

Ans.

- The statement is not correct. Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing the benefit of deduction, inter alia, under section 80JJAA.
- The statement is correct. As per section 80AC, the assessee has to furnish his return of income on or before the due date specified under section 139(1), to be eligible to claim deduction under, inter alia, section 80QQB.

14. Compute the eligible deduction under section 80C for A.Y.2024-25 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2023-24, the details of which are given

hereunder, if Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) -

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2023-24 (₹)
(i)	30/3/2012	Self	8,00,000	48,000
(ii)	1/5/2018	Spouse	1,50,000	20,000
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000

Ans.

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2023-24 (₹)	Deduct- ion u/s 80C for A.Y.2024-25 (₹)	Remark (restricted to % of sum assured) (₹)
(i)	30/3/2012	Self	8,00,000	48,000	48,000	20%
(ii)	1/5/2018	Spouse	1,50,000	20,000	15,000	10%
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000	60,000	15%
	Total				1,23,000	

15. An individual assessee, resident in India, has made the following deposit/payment during the previous year 2023-24:

Particulars	
Contribution to the public provident fund	1,50,000
Insurance premium paid on the life of the spouse (policy taken on 1.4.2018) (Assured value ₹ 2,00,000)	25,000

What is the deduction allowable under section 80C for A.Y.2024-25 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

Ans.

Computation of deduction under section 80C for A.Y.2024-25

Particulars	₹
Deposit in public provident fund	1,50,000
Insurance premium paid on the life of the spouse (Maximum 10% of the assured value ₹ 2,00,000, as the policy is taken after 31.3.2012)	20,000
Total	1,70,000
However, the maximum permissible deduction u/s 80C is restricted to	1,50,000

16. The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr. A if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

What would be your answer if Mr. A pays tax under the default tax regime under section 115BAC?

Ans.

- (i) Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD, where Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]

- (a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.

- (b) Mr. A's contribution to pension scheme is allowable as deduction under section 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, "salary" for the purpose of deduction under section 80CCD for Mr. A would

be -

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 =	12,00,000
Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	
50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000	2,40,000
Salary for the purpose of deduction under section 80CCD	14,40,000
Deduction under section 80CCD(1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction under section 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).	36,000

₹ 1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of

₹ 1,50,000 under section 80CCE. ₹ 36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of ₹ 1,50,000 under section 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction under section 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000 - ₹ 50,000) can be claimed as deduction under section 80CCD(1).

- (c) Employer's contribution to pension scheme would be allowable as deduction under section 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction under section 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary under section 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

17. The gross total income of Mr. X for the A.Y.2024-25 is ₹ 8,00,000. He has made the following investments/payments during the F.Y.2023-24 -

Particulars		₹
(1)	Contribution to PPF	1,10,000
(2)	Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
(3)	Repayment of housing loan taken from Standard Chartered Bank	25,000
(4)	Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deduction under Chapter VI-A for the A.Y.2024-25 if Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans.

Computation of deduction under Chapter VI-A for the A.Y.2024-25

Particulars	₹
Deduction under section 80C	
- Contribution to PPF	1,10,000
- Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
- Repayment of housing loan	25,000
	1,80,000
Restricted to ₹ 1,50,000, being the maximum permissible deduction u/s 80C	1,50,000
Deduction under section 80CCC	
- Contribution to approved pension fund of LIC	1,05,000
	2,55,000
As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD(1) has to be restricted to ₹ 1,50,000	
Deduction allowable under Chapter VIA for the A.Y. 2024-25	1,50,000

18. Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the P.Y. 2023-24 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2024-25 if Mr. A has exercised the option of shifting out of the default

tax regime provided under section 115BAC(1A).

Ans.

Deduction allowable under section 80D for the A.Y.2024-25

	Particulars	Actual Payment ₹	Maximum deduction allowable ₹
A.	Premium paid and medical expenditure incurred for self and spouse		
(i)	Medical insurance premium paid for self and spouse	20,000	20,000
(ii)	Contribution to CGHS	3,600	3,600
(iii)	Exp. on preventive health check-up of self & spouse	3,000	1,400
		26,600	25,000
B.	Premium paid or medical expenditure incurred for father, who is a senior citizen		
(i)	Mediclaime premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction under section 80D (₹ 25,000 + ₹ 50,000)		75,000

Notes:

- (1) The total deduction under A. (i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,400, being (₹ 25,000 - ₹ 20,000 - ₹ 3,600).
- (2) The total deduction under B. (i) and (ii) above should not exceed ₹ 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 - ₹ 47,000).
- (3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 4,400 (i.e., ₹ 1,400 + ₹ 3,000), which is within the maximum permissible limit of ₹ 5,000.

19. Mr. Y, aged 40 years, paid medical insurance premium of ₹ 22,000 during the P.Y. 2023-24 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of ₹ 20,000 on his father, aged 71 years, who is not covered under mediclaim policy. His father is also not dependent upon him. He contributed ₹ 6,000 to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y. 2024-25 if Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans.

Deduction allowable under section 80D for the A.Y. 2024-25

Particulars	₹	₹
(i) Medical insurance premium paid for self, spouse and dependent children	22,000	
(ii) Contribution to CGHS	6,000	
	28,000	25,000
restricted to		
(iii) Mediclaim premium paid for mother, who is over 60 years of age	33,000	
(iv) Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	20,000	50,000
restricted to	53,000	75,000

20. Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 80DD for the A.Y. 2024-25, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction

under section 80DD. The deduction is available if the individual assessee incurs any expense for a "dependant" disabled person. Grandfather does not come within the meaning of "dependant" as defined under section 80DD.

21. What will be the deduction if Mr. X had made this deposit for his dependant father?

Ans. Since the expense was incurred for a dependant disabled person, Mr. X will be entitled to claim a deduction of ₹ 75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹ 1,25,000.

22. Mr. B has taken three education loans on April 1, 2023, the details of which are given below:

	Loan 1	Loan 2	Loan 3
For whose education loan was taken	B	Son of B	Daughter of B
Purpose of loan	MBA	B. Sc.	B.A.
Amount of loan (₹)	5,00,000	2,00,000	4,00,000
Annual repayment of loan (₹)	1,00,000	40,000	80,000
Annual repayment of interest (₹)	20,000	10,000	18,000

Compute the amount deductible under section 80E for the A.Y.2024-25 if Mr. B has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Deduction under section 80E is available to an individual assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction under section 80E = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = ₹ 48,000.

23. Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India@11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.2024-25 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), assuming that the entire loan was outstanding as on 31.3.2024 and he does not own any other house property.

Ans.

Particulars	₹
Interest deduction for A.Y.2024-25	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction under section 24(b) ₹	
3,85,000 [₹ 35,00,000 × 11%]	
Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income	
Deduction under section 80EE ₹ 1,85,000 (₹ 3,85,000 - ₹ 2,00,000)	
Restricted to	50,000

24. The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2024-25 -

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of Disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019

Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	₹ 45 lakhs	₹ 48 lakhs	-	-
Cost of electric vehicle	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2024-25 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2024.

Ans.

Particulars	₹
Mr. A	
Interest deduction for A.Y.2024-25	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction u/s 24(b) ₹ 3,87,000 [₹ 43,00,000 × 9%]	
Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income	
Deduction u/s 80EEA ₹ 1,87,000 (₹ 3,87,000 - ₹ 2,00,000)	
Restricted to	1,50,000
Mr. B	
Interest deduction for A.Y.2024-25	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction u/s 24(b) ₹ 4,05,000 [₹ 45,00,000 × 9%]	
Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income	
Deduction u/s 80EEA is not permissible since:	Nil

(i) loan is taken from NBFC (ii) stamp duty value exceeds ₹ 45 lakh. Deduction under section 80EEA would not be permissible due to either violation listed above.	
Mr. C	
Deduction under Chapter VI-A from Gross Total Income	
Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs × 10% = ₹ 2,00,000, restricted to ₹ 1,50,000, being the maximum permissible deduction]	1,50,000
Mr. D	
Deduction under Chapter VI-A from Gross Total Income	
Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.	Nil

25. Mr. Shiva aged 58 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

- (i) Premium paid to insure the life of her major daughter (policy taken on 1.4.2018) (Assured value ₹ 1,80,000) – ₹ 20,000.
- (ii) Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.
- (iii) Donation to a public charitable institution ₹ 50,000 by way of cheque.
- (iv) LIC Pension Fund – ₹ 60,000.
- (v) Donation to National Children's Fund – ₹ 25,000 by way of cheque
- (vi) Donation to Prime Minister's Drought Relief Fund – ₹ 25,000 by way of cheque
- (vii) Donation to approved institution for promotion of family planning – ₹ 40,000 by way of cheque
- (viii) Deposit in PPF – ₹ 1,00,000

Compute the total income of Mr. Shiva for A.Y. 2024-25 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans.

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

Particulars	₹	₹
Gross Total Income		7,75,000
Less: Deduction under section 80C		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,18,000	
Deduction under section 80CCC in respect of LIC pension fund	60,000	
	1,78,000	
As per section 80CCE, deduction under section 80C & 80CCC is restricted to		1,50,000
Deduction under section 80D		
Medical Insurance premium in respect of self and spouse	26,000	
Restricted to		25,000
Deduction under section 80G (See Working Note below)		87,500
Total income		5,12,500

Working Note: Computation of deduction under section 80G

	Particulars of donation	Amount donated (₹)	% of deduction	Deduction u/s 80G (₹)
(i)	National Children's Fund	25,000	100%	25,000
(ii)	Prime Minister's Drought Relief Fund	25,000	50%	12,500
(iii)	Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
(iv)	Public Charitable Trust	50,000	50% subject to qualifying limit (See Note below)	10,000
				87,500

Note - Adjusted total income = Gross Total Income - Amount of deductions under section 80C to 80U except section 80G i.e., ₹ 6,00,000, in this case. ₹ 60,000, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 50,000 to public charitable trust is restricted to 20,000 (being, ₹ 60,000 - ₹ 40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be ₹ 10,000, which is 50% of ₹ 20,000.

26. Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2024-25 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 80GG for A.Y.2024-25 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. The deduction under section 80GG will be computed as follows:

- (i) Actual rent paid less 10% of total income

$$`1,44,000(-) \frac{(10 \times 4,60,000)}{100} = \text{Rs. } 1,15,000 \text{ (A)}$$

- (ii) 25% of total income = $\frac{25 \times 4,60,000}{100} = \text{Rs. } 98,000 \text{ (B)}$

- (iii) Amount calculated at `5,000 p.m. = `60,000 (C)

Deduction allowable u/s 80GG [least of (i), (ii) and (iii)] = `60,0000

27. During the P.Y. 2023-24, ABC Ltd., an Indian company,
(1) contributed a sum of ₹ 2 lakh to an electoral trust; and

⁴Not opting for section 115BAA/ 115BAB

⁵Now section 182 of the Companies Act, 2013

- (2) incurred expenditure of ₹ 25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming

that the contribution was made by cheque? If so, what is the quantum of deduction? ABC Ltd. does not opt for section 115BAA/115BAB.

Ans.

An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word "contribute" in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.

Therefore, ABC Ltd. is eligible for a deduction of ₹ 2,25,000 under section 80GGB in respect of sum of ₹ 2 lakh contributed to an electoral trust and ₹ 25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of ₹ 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

28. Mr. A has commenced the business of manufacture of computers on 1.4.2023. He employed 350 new employees during the P.Y. 2023-24, the details of whom are as follows -

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2023	Regular	24,000
(ii)	125	1.5.2023	Regular	26,000
(iii)	50	1.8.2023	Casual	24,500
(iv)	100	1.9.2023	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2024-25, if the profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2023?

Ans. Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2024-25 and he has employed "additional employees" during the P.Y. 2023-24.

I If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = ₹ 24,000 × 12 × 75 [See Working Note below]
= ₹ 2,16,00,000

Deduction under section 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

Working Note:

Number of additional employees

Particulars	No. of workmen	
Total number of employees employed during the year		350
Less: Casual employees employed on 1.8.2023 who do not participate in recognized provident fund	50	
Regular employees employed on 1.5.2023, since their total monthly emoluments exceed ₹ 25,000	125	
Regular employees employed on 1.9.2023 since they have been employed for less than 240 days in the P.Y.2023-24.	100	275
Number of "additional employees"		75

Notes -

- (i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2023 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 100 regular employees employed on 1.9.2023 do not qualify as additional employees for the P.Y.2023-24, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1.4.2023 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2023-24 is deemed to be the additional employee cost.

- (ii) As regards 100 regular employees employed on 1.9.2023, they would be treated as additional employees for previous year 2024-25, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2025-26.

II If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2023, since they have been employed for more than 150 days in the previous year 2023-24.

Additional employee cost = ₹ 2,16,00,000 + ₹ 24,000 × 7 × 100 = ₹ 3,84,00,000
Deduction under section 80JJAA = 30% of ₹ 3,84,00,000 = ₹ 1,15,20,000.

29. Mr. Aakash earned royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2024 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2025. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 80QQB if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. The net royalty of ₹ 2,48,000 (i.e., royalty of ₹ 2,88,000 less ₹ 40,000, being expenditure to earn such income) is includible in gross total income. Deduction u/s 80QQB would be ₹ 1,90,000 as calculated hereunder -

Particulars	₹
Royalty ₹ 2,88,000 × 15/18 = ₹ 2,40,000	
Restricted to	
Amount brought into India in convertible foreign exchange within the prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	40,000
Deduction u/s 80QQB	1,90,000

30. Mr. A, a resident individual aged 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the P.Y. 2023-24. He also has interest on Fixed Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2024-25

if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

Ans.

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

Particulars	₹	₹
Profits and gains of business or profession		1,35,000
Income from other sources		
- Interest on Fixed Deposit with banks		30,000
- lottery income		1,20,000
Gross Total Income		2,85,000
Less: Deductions under Chapter VIA [See Note below]		
Under section 80C		
- Deposit in Public Provident Fund	1,50,000	
Under section 80TTB		
- Interest on fixed deposits with banks	30,000	
	1,80,000	
Restricted to		1,65,000
Total Income		1,20,000

Note: In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto ₹ 50,000 under section 80TTB.

Though the aggregate of deductions under Chapter VI-A is ₹ 1,80,000, however, the maximum permissible deduction cannot exceed the gross total income exclusive of long term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings from lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = ₹ 2,85,000 - ₹ 1,20,000 = ₹ 1,65,000.

31. Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the previous year ended 31.03.2024. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the

assessment year 2024-25 from the following particulars, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

- (i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2020 and the sum assured on life of his dependent parents is ₹ 2,00,000.
- (ii) Life insurance premium of ₹ 19,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 3,50,000 and the life insurance policy was taken on 30.3.2012.
- (iii) Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2019 and the sum assured is ₹ 2,00,000.
- (iv) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
- (v) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
- (vi) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
- (vii) A sum of ₹ 5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

Ans.

**Computation of total income of Mr. Gurnam for the
Assessment Year 2024-25**

Particulars	₹	₹	₹
Income from salary			5,50,000
Interest on saving bank deposit			14,500
Gross Total Income			5,64,500
Less: Deduction under Chapter VIA			
Under section 80C (See Note 1)			
- major son	19,500		
- self ₹ 22,500 restricted to 10% of ₹ 2,00,000	20,000	39,500	
Under section 80D (See Note 2)			
Premium paid for ₹ 26,000 health insurance of self and wife by cheque, restricted to	25,000		
Payment made for health check-up for parents		29,500	

Under section 80E		
For payment of interest on loan taken from bank for MBA course of his daughter	6,500	
Under section 80TTA (See Note 4)		
Interest on savings bank account ₹ 14,500 restricted to	10,000	85,500
Total Income		4,79,000
Total Income		4,79,000

Notes:

- (1) As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable in respect of ₹ 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam.

In respect of insurance policy issued on or after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

Therefore, in the present case, deduction of ₹ 19,500 is allowable in full in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of

₹ 3,50,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of ₹ 2,00,000 since, the policy was issued on or after 01.04.2012 and the premium amount exceeds 10% of sum assured.

- (2) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to ₹ 25,000. Further, deduction up to ₹ 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-checkup can be made in any mode

including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, in respect of premium of ₹ 26,000 paid for health insurance of self and wife, deduction would be restricted to

₹ 25,000. Since the limit of ₹ 25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check-up for self and wife. However, deduction of ₹ 4,500 is allowable in respect of health check-up of his parents, since it falls within the limit of ₹ 5,000.

- (3) No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding ₹ 2,000. Therefore, deduction under section 80G is not allowable in respect of cash donation of ₹ 5,000 made to an institution approved for the purpose of section 80G for promotion of family planning.
- (4) As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of ₹ 10,000. Therefore, deduction of ₹ 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is ₹ 14,500.

32. Mr. Y furnishes you the following information for the year ended 31.3.2024:

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A received in India in convertible foreign exchange on or before 30.9.2024	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction under section 10AA for the A.Y. 2024-25, assuming that Mr. Y commenced operations in SEZ and DTA in the year 2019-20 and Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. 100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, since F.Y. 2023-24 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

$$= \text{Profit of the business of Unit A} \times \frac{\text{export turnover of unit A}}{\text{Total turnover of unit A}} \times 100\%$$

$$= ₹ 30 \text{ lakhs} \times \frac{50}{100} \times 100\% = ₹ 15 \text{ lakhs}$$

Note - No deduction under section 10AA is allowable in respect of profits of business of Unit B located in DTA.

33. Examine the following statements with regard to the provisions of the Income- tax Act, 1961:

- a. During the financial year 2023-24, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.
- b. Subscription to notified bonds of NABARD would qualify for deduction under section 80C.
- c. In order to be eligible to claim deduction under section 80C, investment/ contribution/ subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
- d. Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is ₹ 44,000 irrespective of the tax regime.
- e. Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs on 1.5.2023, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on

closure of the account is deemed to be her income for A.Y.2024-25.

- f. Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. (i) The statement is correct. The deduction under section 80E is available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction under section 80E in respect of interest on loan availed by him for his son's higher education, if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.

(ii) The statement is correct. Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C, if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(iii) The statement is not correct. There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.

(iv) The statement is not correct. An individual would not be eligible for deduction u/s 80E if he pays tax under default tax regime under section 115BAC. If he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), deduction under section 80E would be available in respect of interest paid on education loan. Hence, the deduction will be limited to interest of ₹ 14,000, if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(v) The statement is not correct. The proviso to section 80CCD(3) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2024-25.

- (vi) The statement is not correct. Contribution to Tier II account of NPS would qualify for deduction under section 80C and not section 80CCD.

34. Examine the allowability of the following if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

- Rajan, a resident individual, has to pay to a hospital for treatment ₹ 62,000 and spent nothing for life insurance or for maintenance of dependent disabled.
- Varun, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of dependant disabled.
- Hari, a resident individual, has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of dependant disabled.

Ans. (i) The deduction of ₹ 75,000 under section 80DD is allowable to Rajan, irrespective of the amount of expenditure incurred or paid by him. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is ₹ 1,25,000.

(ii) The assessee Varun has deposited ₹ 25,000 for maintenance of dependent disabled. He is, however, eligible to claim ₹ 75,000 since the deduction of ₹ 75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is ₹ 1,25,000.

(iii) Section 80DD allows a deduction of ₹ 75,000 irrespective of the actual amount spent on maintenance of a dependent disabled and/or actual amount deposited with LIC. Therefore, the deduction will be ₹ 75,000 even though the total amount incurred/deposited is only ₹ 45,000. If the dependant is a person with severe disability the quantum of deduction is ₹ 1,25,000.

35. For the A.Y. 2024-25, the Gross total income of Mr. Chaturvedi, a resident in India, was ₹ 8,18,240 which includes long-term capital gain of ₹ 2,45,000 taxable under section 112 and Short-term capital gain of ₹ 58,000. The Gross total income also includes interest income of ₹ 12,000 from savings bank deposits with banks and ₹ 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹ 1,20,000 and also paid a medical insurance premium ₹ 51,000. Mr. Chaturvedi also contributed ₹ 50,000 to Public Charitable

Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2024, in a tax efficient manner.

Ans.

**Computation of total income and tax liability of
Mr. Chaturvedi for the A.Y. 2024-25 under default tax regime**

Particulars	₹
Gross total income incl. long term capital gain	8,18,240
Less: Deductions under Chapter VI-A	-
No deduction would be available under default tax regime u/s 115BAC	
Total income	8,18,240
Tax on total income	
LTCG ₹ 2,45,000 × 20%	49,000
Balance total income ₹ 5,73,240	13,662
	62,662
Add: Health and Education cess @4%	2,506
Total tax liability	65,168
Total tax liability (Rounded off)	65,170

**Computation of total income and tax liability of
Mr. Chaturvedi for the A.Y. 2024-25 under the optional tax
regime (i.e., the normal provisions of the Act)**

Particulars	₹	₹
Gross total income incl. long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
		5,73,240
Less: Deductions under Chapter VI-A		
Under section 80C in respect of PPF deposit	1,20,000	
Under section 80D (it is assumed that premium of ₹ 51,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 50,000, since Mr. Chaturvedi is a senior citizen)	50,000	
Under section 80G (See Notes 1 & 2 below)	17,662	
Under section 80TTB (See Note 3 below)	50,000	2,37,662
Total income (excluding long term capital gains)		3,35,578

Total income (including long term capital gains)	5,80,578
Total income (rounded off)	5,80,580
Tax on total income (including long-term capital gains of ₹ 2,45,000)	
LTCG ₹ 2,45,000 × 20%	49,000
Balance total income ₹ 3,35,580 (See Note 4 below)	1,779
	50,779
Add: Health and Education cess @4%	2,031
Total tax liability	52,810

Since the tax liability is lower under the optional tax regime (i.e., normal provisions of the Act) as compared to the default tax regime, Mr. Chaturvedi should exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Notes:

1. Computation of deduction under section 80G:

Particulars	₹
Gross total income (excluding long term capital gains)	5,73,240
Less : Deduction under section 80C, 80D & 80TTB	2,20,000
	3,53,24
10% of the above	35,324
Contribution made	50,000
Lower of the two eligible for deduction under section	35,324
Deduction under section 80G - 50% of ₹ 35,324	17,662

- Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
- Deduction of upto ₹ 50,000 under section 80TTB is allowed to a senior citizen if gross total income includes interest income on bank deposits, both fixed deposits and savings account.
- Mr. Chaturvedi, being a senior citizen is eligible for a higher basic exemption of ₹ 3,00,000.

36. Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2023-24, furnishes you the following information:

- Repayment of loan taken from SBI for acquisition of residential house (self-occupied) - ₹ 50,000.
- Five year post office time deposit - ₹ 20,000.
- Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction under section 80G at the applicable rate.
- Interest on loan taken for higher education of spouse paid during the year - ₹ 10,000.

Compute the total income of Mr. Rajmohan for the A.Y. 2024-25 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Computation of total income of Mr. Rajmohan for the A.Y.2024-25

Particulars	₹	₹
Gross Total Income		6,40,000
Less: Deduction under Chapter VI-A		
<u>Under section 80C</u>		
Repayment of loan taken for acquisition of residential house	50,000	
Five year time deposit with Post Office	20,000	
	70,000	
<u>Under section 80E</u>		
Interest on loan taken for higher education of spouse, being a relative.	10,000	
<u>Under section 80G (See Note below)</u>		
Donation to recognized charitable trust (50% of ₹ 25,000)	12,500	92,500
Total Income		5,47,500

Note: In case of deduction under section 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore, ₹ 5,60,000 (i.e. 6,40,000 - ₹ 80,000), 10% of which is ₹ 56,000, which is higher than the actual donation of ₹ 25,000. Therefore, the deduction

under section 80G would be ₹ 12,500, being 50% of the actual donation of ₹ 25,000.

37. Compute the eligible deduction under Chapter VI-A for the A.Y. 2024-25 of Ms. Roma, aged 40 years, who has a gross total income of ₹ 15,00,000 for the A.Y. 2024-25 and has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). She provides the following information about her investments/payments during the P.Y. 2023-24:

Sl. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 31-03-2012 and sum assured is ₹ 4,40,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaime Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

Ans.

Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2024-25

Particulars	₹	₹
Deduction under section 80C		
Life insurance premium paid ₹ 35,000 (allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2012)	35,000	
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
	2,05,000	
Restricted to a maximum of ₹ 1,50,000	1,50,000	
Deduction under section 80CCC for payment towards LIC pension fund	1,40,000	
	2,90,000	
As per section 80CCE, aggregate deduction under,		

inter alia, section 80C and 80CCC, is restricted to		1,50,000
Deduction under section 80D		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	
Medical insurance premium paid ₹ 52,000 for parents, being senior citizens, restricted to	50,000	
Eligible deduction under Chapter VI-A		

38. Mr. Rudra has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2023-24.

Particulars	Mr. Rudra (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	5,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2024 is ₹ 3,00,00,000. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2024-25, in the following situations:

- If both the units were set up and start manufacturing from 22-05-2015.
- If both the units were set up and start manufacturing from 14-05-2019.

Ans. Computation of deduction u/s 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Mr. Rudra from his unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 01.04.2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years.

Since Mr. Rudra has exercised the option of shifting out of the default tax regime provided under

section 115BAC(1A), he would be eligible for deduction u/s 10AA.

The deduction u/s 10AA would be available only if Mr. Rudra furnishes report of chartered accountant before the date specified in section 44AB and files return of income on or before due date u/s 139(1).

Computation of eligible deduction under section 10AA:

- (i) If Unit in SEZ was set up and began manufacturing from 22-05-2015:

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

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$$

$$= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\% = ₹ 22.50 \text{ lakhs}$$

Export turnover of Unit in SEZ is the export sales in SEZ received in convertible foreign exchange by 30.9.2024 which is ₹ 3,00,00,000.

- (ii) If Unit in SEZ was set up and began manufacturing from 14-05-2019:

Since A.Y. 2024-25 is the 5th assessment year from A.Y. 2020-21, relevant to the previous year 2019-20, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \frac{\text{Profits of unit in SEZ}}{\text{Profits of unit in SEZ}} \times \frac{\text{export turnover of unit in SEZ}}{\text{total turnover of unit of SEZ}} \times 100\%$$

$$= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 100\% = ₹ 45 \text{ lakhs}$$

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

Working Note:

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

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,00,00,000	2,00,00,000	4,00,00,000
Export Sales	4,60,00,000	1,60,00,000	3,00,00,000
Net Profit	80,00,000	20,00,000	60,00,000

Chapter – 11

COMPUTATION OF TOTAL INCOME AND TAX LIABILITY OF VARIOUS ENTITIES

1. Compute Income Tax liability in following situations for Assessment Year 2024-25 given that in none of the cases assessee wants to opt for the regular tax regime i.e. computation is to be done under section 115BAC and the assessees are resident individuals. Given are the Total Incomes.

1. Mr. Ishank (30 yea₹): ₹7,00,000.
2. Ms. Shirin (29 yea₹): ₹7,27,000.
3. Mr. Aroha (21 yea₹): ₹7,80,000.
4. Mr. Nirvan (23 yea₹): ₹8,00,000.

Ans.

Computation of Tax liability for the Assessment Year 2024-25:

PARTICULARS	Mr. Ishank	Ms. Shirin	Mr. Aroha	Mr. Nirvan
Total Income (1)	7,00,000	7,27,000	7,80,000	8,00,000
Tax on Total Income as per section 115BAC (2)	25,000	27,700	33,000	35,000
Less: Rebate u/s 87A (3)	(25,000)	(Nil)	(Nil)	(Nil)
Less: Amount deductible as per proviso (b) to section 87A {i.e. Marginal Relief Adjustment} (4) Excess of tax in step 2 over Total Income (-) ₹7 lakhs in case of Mr. Ishank {There is no such excess tax in situation of Mr. Aroha & Mr. Nirvan}		(700)	(Nil)	(Nil)
Therefore, Income Tax after Rebate u/s 87A	Nil	27,000	33,000	35,000
Add: Health and Education Cess @ 4%	Nil	1,080	1,320	1,400
Therefore, Total Tax Liability	Nil	28,080	29,120	36,400

2. Mr. DP, has earned gross salary of ₹ 655000 including HRA of ₹ 45000. He has paid ₹ 15000 p.m. as rent for his residential accommodation. Besides that, he earned ₹ 12000 from saving bank deposit during the year 2023-24 and at the same time he has deposited to ₹ 65000 to PPF. You are required to compute total income and tax

payable by DP if

- He opts to pay tax as per old scheme.
- He pays tax under Section 115BAC (Default scheme)

Ans. Statement showing computation of Total income and tax liability

Particulars ₹	Opts to pay tax as per regular scheme		He pays tax under section 115BAC	
	Amount (₹)	Amount (₹)	Amount (₹)	Amount (₹)
Salary received	655000		655000	
Less: HRA Exempted u/s 10(13A)	(45000)		Nil	
	610000		655000	
Less: Standard Deduction	(50000)		(50000)	
Income under the head salary		560000		605000
Income from saving bank deposit		12000		12000
Gross Total Income		572000		617000
Less:	65000			
Deduction u/s 80C Deduction u/s 80TTA	10000			
(a) Actual 12000		(75000)		Nil
(b) Limit 10000 Whichever is less				
Total Income		497000		617000
Tax on total Income		12350		16700
Less: Rebate u/s 87A				
(a) 100% of Tax				
(b) Limit 12500 or ₹ 25000 (as applicable)		(12350)		(16700)
Whichever is less				
Balance		Nil		Nil
Add: HEC @4%		Nil		Nil
Total Tax Payable (R/O)		Nil		Nil

3. Gross total income of Mr. X, a tax consultant based at Mumbai, is ₹ 18,00,000 (income from profession ₹ 17,00,000 and interest on bank fixed deposit ₹ 1,00,000). He pays ₹ 3,00,000 as house rent. He deposits ₹ 50,000 in public provident fund. Compute his taxable income for the assessment year 2024-25.

Option 1: Assessee has opted to pay tax under regular scheme

Option 2: Assessee is paying tax as per Section 115BAC

Ans.

Option 1: Assessee has opted to pay tax under regular scheme

Computation of Taxable Income of Mr. X for the A.Y. 2024-25

Particular	Amount (₹)	Amount (₹)
Professional Income - PGBP		17,00,000
Interest on Bank Deposit - Other sources		1,00,000
Gross Total Income		18,00,000
Less: Deductions under Chapter VI-A		
u/s 80C (PPF)	(50,000)	
u/s 80 GG (Note-1)	(60,000)	(1,10,000)
Total Income		16,90,000

Note 1: Deduction u/s 80GG is Least of the following:

- ₹ 60,000 (i.e., ₹ 5000 × 12 months)
- ₹ 4,37,500 [25% of total income (₹ 18,00,000 - 50,000)]
- ₹ 1,25,000 [Excess of rent paid over 10% of total income (₹ 3,00,000 - 1,75,000)]

Option 2: Assessee pays tax as per section 115BAC

Computation of Taxable Income of Mr. X for the A.Y. 2024-25

Particular	Amount (₹)
Professional Income - PGBP	17,00,000
Interest on Bank Deposit - Other sources	1,00,000
Gross Total Income	18,00,000
Less: Deductions under Chapter VI-A	Nil
Total Income	18,00,000

Note 1: Deduction u/s 80C & 80GG not allowed.

4. From the following profit and loss account of Vinay for the year ended 31st March 2024, compute his total income and tax liability for the assessment year 2024-25:

Particulars ₹	Amount ₹	Particulars ₹	Amount ₹
Interest on capital	12,000	Gross profit	5,10,000
Insurance	2,000	Brokerage	30,000
Bad debts	30,000	Bad debts recovered (earlier allowed as deduction)	15,000
Depreciation	34,000	Sundry receipts	18,000
Advance tax	25,000	Interest on debentures (gross) [TDS ₹ 4,000]	40,000
General expenses	12,000		
Advertisement	5,000		
Salary (including salary to Vinay ₹20,000)	85,000		
Interest on loan	8,000		
Net profit	4,00,000		
Total	6,13,000	Total	6,13,000

Additional information:

- The amount of depreciation allowable as per income-tax rules is ₹ 42,000.
- General expenses include ₹5,000 given as Health insurance Premium.
- Vinay pays ₹ 5,200 as premium on his own life insurance policy of ₹ 50,000 issued in 2016-17.
- Loan was obtained for payment of income-tax.

Option 1: Assessee has opted to pay tax as per regular scheme Option 2: Assessee is paying tax as per Section 115BAC

Ans.

Option 1: Assessee has opted to pay tax as per regular scheme

Particulars ₹	Amount (₹)	Amount (₹)
(I) Income from business		
Net profit for the year		4,00,000
Add: Expenses not allowed under Income tax Act but debited to P & L A/c		
Interest on capital (Note 2)	12,000	
Depreciation as per books of a/c	34,000	
Advance tax	25,000	
General Expenses	5,000	
Salary to Vinay	20,000	
Interest on loan (Note 2)	8,000	1,04,000
Less: Income not related to business and profession but Credited to P & L a/c		
Interest on debentures	40,000	
Deductible expenses not debited to P&L Account		
Depreciation as per Income tax Act	42,000	(82,000)
Profits and Gains of Business & Profession		4,22,000
(II) Income from other sources Interest on debenture		40,000
Gross Total Income (I + II)		4,62,000
Less: Deduction U/S 80C - 80U		
(i) Premium on Life insurance policy (u/s 80C) (Note 1)		(5,000)
(ii) Health insurance Premium (u/s 80 D)		(5,000)
Total Taxable Income		4,52,000

Note

- Under section 80C deduction of Life insurance premium cannot exceed 10% of the sum assured.
- Under Section 36(1)(iii) Interest paid on borrowed capital is allowed as a deduction. Interest on own capital is not deductible. Similarly, interest on money borrowed to pay income tax is not allowed as a deduction.

Option 2: Assessee is paying tax as per Section 115BAC

Particulars	Amount (₹)	Amount (₹)
(I) Income from Business		
Net profit for the year		4,00,000
Add: Expenses not allowed under Income tax act but debited to P & L A/c		
Interest on capital (Note 2)	12,000	
Depreciation as per books of A/c	34,000	
Advance tax	25,000	
General Expenses	5,000	
Salary to Vinay	20,000	
Interest on Loan (Note 2)	8,000	1,04,000
Less: Income not related to business and profession but Credited to P & L A/c		
Interest on debentures	40,000	
Deductible expenses not debited to P&L Account		
Depreciation as per Income tax Act (Working Note)	42,000	(82,000)
Profits and Gains of Business & Profession		4,22,000
(II) Income from other sources Interest on debenture		40,000
Gross total income (I + II)		4,62,000
Less: Deduction U/S 80C - 80U		NIL
Total Taxable Income		4,62,000

Note:

1. Deduction u/s 80C is not allowed under section 115BAC.
2. Under Section 36(1)(iii) Interest paid on borrowed capital is allowed as a deduction. Interest on own capital is not deductible. Similarly, interest on money borrowed to pay income tax is not allowed as a deduction.
3. Depreciation u/s 115BAC is allowed except Additional depreciation as per prescribed manner.

5. For the Assessment Year 2024-25, Mr. Ram, who is 58 years old, resident in India, furnishes the following information:

Basic salary	₹ 15000 pm
Dearness Allowance (20% forming part for retirement benefits)	40% of basic salary
City Compensatory Allowance	₹ 300 pm
Children education allowance	₹ 200 pm per child for 2 children
Transport allowance	₹ 2000 pm
House Rent Allowance	₹ 6000 pm
Actual rent paid for a house in Delhi	₹ 7000 pm
He travels via Delhi metro from his residence to office and back in which he spends	₹ 1500 pm
Medical allowance	₹ 1000 pm
Lunch allowance	₹ 200 pm

He owns a house property in Mumbai whose construction is completed in 2005 and which is let out for ₹ 40,000 pm. The standard rent as per Rent Control Act is ₹ 3,10,000. He pays ₹ 32,000 for municipal taxes and interest on capital borrowed for construction of house ₹ 75,000. Further, he incurs ₹ 10,000 on repairs of the house.

Long-term capital gains ₹ 225,000

Short term capital gains for the year ₹1,01,000 (STT not applicable).

Dividend received from Indian Company X Ltd. ₹ 12,000.

Interest received @10% on listed debentures of face value 14,00,000 Diwali Gift of gold coins received from a friend. Market value ₹ 50,000

Computation of Total Income and Tax Liability of various Entities

Share of profit from:

Firm	40,000
HUF	34,000
Income from Lotteries (gross)	50,000

Mr. Ram invested in PPF ₹1,50,000 and also paid a Life insurance premium of ₹ 21,000.

Donation to National Defence Fund ₹10,000.

Compute the total income and Tax liability of Mr. Ram for the Assessment

year 2024-25.

Option 1 : Assessee has opted to pay tax as per the regular scheme Option 2 : Assessee is paying tax as per section 115BAC

Ans.

Option 1: Assessee has opted to pay tax as per the regular scheme

(A) Computation of Total Income

Particular ₹	Amount ₹	Amount ₹
Income from Salary		
Basic salary (15000 *12)		180,000
Dearness Allowance (180,000*0.40)		72,000
CCA (fully taxable) (300*12)		3600
Children Education Allowance	4800	
Less: Exempt	(2400)	2400
Transport allowance	24000	
Less: Exempt (Exemption withdrawn by Finance Act, 2018)	NIL	24000
House Rent Allowance (Note)		7440
Lunch Allowance		2400
Medical Allowance		12000
Less: Deduction under section 16 (ia) Standard Deduction		(50,000)
Taxable Salary		2,53,840
Income from house property		
Gross annual Value (Rent Received 40,000*12)		4,80,000
Less: Municipal Taxes		(32,000)
Net annual Value		4,48,000
Less: Standard Deduction @ 30% of 4,48,000		(1,34,400)
Less: Interest on capital borrowed		(75,000)
Income from House property		2,38,600
Income from Business/Profession		

Firm (Exempt)		NIL
HUF (Exempt)		NIL
Income under the head Capital Gains		
Long-term capital gains u/s 112		2,25,000
Short term Capital Gain u/s 111A		1,01,000
Income from other sources		
Dividend received from Indian Company X Ltd.	12,000	
Interest received on listed debentures	1,40,000	
Winning from Lotteries	50,000	
Gift in kind	50,000	252,000
Gross Total Income		10,70,440
Less: Deduction under section 80C to 80U		
(i) Under section 80C (maximum)		(150,000)
(ii) Under section 80G		(10,000)
Total Income		9,10,440

(B) Computation of Tax on Total Income

Tax on winning from lotteries (30% of ₹ 50,000)	15,000
Tax on long-term capital gains (20% of ₹ 2,25,000)	45,000
Balance of Total Income ₹ 6,35,440	39,588
Total tax	99,588
Add: Health and Education cess at 4%	3,983.52
Total liability	1,03,571.52
Total liability (round off)	1,03,570

Notes:

1. House Rent Allowance: Least of three is exempt
 - i. 50% of the salary* because the house is in Delhi = $0.50 \times 194,400 = ₹ 97,200$
 - ii. HRA received = ₹ 72,000
 - iii. Rent paid - 10% of the salary = $(7,000 \times 12) - 0.10 \times 194,400 = 84,000 - 19,440 = ₹ 64,560$
Exempted HRA = ₹ 64,560

Taxable HRA = 72,000 - 25,680 = ₹ 7,440

*Salary here = Basic salary + Dearness allowance (forming part only) = 180,000 +
180000 * 0.40 * 0.20 = ₹ 1,94,400

2. The tax liability is subject to set-off of TDS for winning from lotteries and interest from listed debentures Option 2: Assessee is paying tax as per section 115BAC

(A) Computation of Total Income

Income from salary	₹	₹
Basic salary (15000 *12)		180,000
Dearness Allowance (180,000*0.40)		72,000
CCA (fully taxable) (300*12)		3600
Children Education Allowance	4800	
Less: Exempt	NA	4800
Transport allowance	24000	
Less: Exempt	NA	24000
House Rent Allowance (Note)		72,000
Lunch Allowance		2400
Medical Allowance		12000
Less: Deduction under section 16		(50000)
Taxable Salary		3,20,800
Income from house property		
Gross annual Value (Rent Received 40,000*12)		4,80,000
Less: Municipal Taxes		(32,000)
Net annual Value		4,48,000
Less: Standard Deduction @ 30% of 4,48,000		(1,34,400)
Less: Interest on capital borrowed		(75,000)
Income from House property		2,38,600
Income from Business/Profession		
Firm (Exempt)	NIL	

HUF (Exempt)	NIL	NIL
Income under the head Capital Gains		
Long-term capital gains u/s 112		2,25,000
Short term Capital Gain u/s 111A		1,01,000
Income from other sources		
Dividend received from Indian Company X Ltd.	12,000	
Interest received on listed debentures	1,40,000	
Winning from Lotteries	50,000	
Gift in kind	50,000	252,000
Gross Total Income		11,37,400
Less: Deduction under section 80C to 80U		NA
Total Income		11,37,400

(B) Computation of Tax on Total Income

Tax on winning from lotteries (30% of ₹ 50,000)	15,000
Tax on long-term capital gains (20% of ₹ 2,25,000)	45,000
Balance of Total Income ₹ 8,62,400	41,240
Total tax	1,01,240
Add: Health and Education cess at 4%	4,050
Total liability	1,05,290

Notes:

1. Exemption from House Rent Allowance / Children Education allowance, Deduction under section 80C & 80G is not allowed
2. The tax liability is subject to set-off of TDS for winning from lotteries and interest from listed debentures.

6. Mr. X aged 62 years; resident individual furnishes the following particulars relevant for the assessment year 2024-25:

Profit and Loss Account			
Particulars	Amount (₹)	Particulars	Amount (₹)
Salaries	30000	Gross profit	436000
General Expenses	45000	Commission	120000
Bad Debts	15000	Sundry Receipts	40000
Reserve for losses	3000	Short term capital gain	30000
Insurance	5200	Discount	2000
Advertisement	10000	Profit on sale of import license	100000
Add: outstanding 2000	12000		
Interest on capital	4500		
Interest on bank loan	12500		
Expenditure on acquisition of patent and put to use on 30.06.21	16000		
Depreciation on Plant	24000		
Depreciation on building	10000		
Depreciation on Furniture	4000		
Provision for outstanding GST liability	12000		
Taxation reserve	12000		
Loss by fire of a part of building (Uninsured)	8000		
Net profit	514800		
Total	728000	Total	728000

Other information

1. Bank loan is used for business purposes.

2. The amount of depreciation as per tax rates, in respect of plant, building, furniture, amounts to ₹ 20000, 12000, 7400 respectively.
3. Salary includes payment to a relative which is unreasonable to the extent of ₹ 5000.
4. Out of GST liability ₹ 2000 is paid on 04.07.24 and ₹ 6000 is paid on 03.10.24. The balance is still outstanding. Due date of filling the return of income is 31.7.24.
5. Income of X from other sources is ₹ 24000.
6. X paid medical insurance premium ₹ 16000 for himself and ₹ 16000 for his mother (dependent)
7. X repaid housing loan to the extent of ₹ 45000.

Determine the taxable income and tax liability of Mr. X for the assessment year 2024-25 assuming STT is not applicable on STCG.

Assume Assessee has not opted for section 115BAC.

Ans.

Computation of total income of Mr. X for the AY 2024-25

Particulars	₹
Profit and gain from business profession (Note)	537900
Income under the head capital gain [STCG]	30000
Income from other sources	24000
Gross Total Income	591900
Less: Deduction	
80C Repayment of Housing Loan	(45000)
80D Medical Insurance Premium	(32000)
Total Income	514900

Computation of Tax on Total Income

Tax on ₹ 300000	Nil
Tax on ₹ 200000 @ 5%	10000
Balance of Total Income 14900 @ 20%	2980
Total tax	12980

Add: Health and Education cess at 4%	519.2
Total liability	13499.2
Total liability (round off)	13,500

Working Note:

Calculation of Business Income

Particulars	₹
Profit as per P&L A/C	514800
Add: Inadmissible Expenses	
Reserve for losses	3000
Interest on capital	4500
Patent right [16000- 25% of 16000]	12000
Excess salary paid to relative	5000
Outstanding GST liability [12000-2000]	10000
Taxation reserve	12000
Loss by fire of part of building	8000
Less: Admissible Expenses Depreciation [39400-38000]	(1400)
Less: Income taxable under head capital gain (STCG)	(30000)
Business Income	537900

7. Ram Manhar & Sons HUF, running Raghuveer Departmental Stores consists of Karta, his wife, two sons and daughter. Both the sons who are having professional/technical qualifications as a Chartered Accountant and as an Automobile Engineer started in partnership, a garage for the repairing of motor cars, with a clear understanding that the technical side of the business be looked after by the Engineer while the general administration and finance part be taken care by the Chartered Accountant. They had taken an interest-free loan of ₹ 5,00,000 from the HUF for starting the venture. The business of garage resulted in a net profit of ₹ 15,00,000 for the year ended 31.03.2024. The Assessing Officer proposes to assess the income from the business of motor garage in the hands of HUF. Examine the validity of the proposition of the Assessing Officer in the light of a decided case law.

Ans. The facts of the case are similar to that of the case of CIT v. Charan Dass Khanna & Sons (1980)

123ITR194, where the Delhi High Court observed that if the investment made by the HUF in the business started by the coparcene ₹ plays a minor role and it is primarily the pe ₹onal efforts, specialized skill and enterprise of the individual coparcene ₹ which resulted in setting up of a new business and earning of goods profits, then it may not essentially be said that the income belongs to the HUF.

The Supreme Court has also supported this view in the case of K.S. Subbiah Pillai v. CIT (1999) 237 ITR 11 and held that where the remuneration and commission earned by the Karta were on account of the pe ₹onal qualifications and exertions and not on account of the investment of the family funds, such income cannot be treated as income of the HUF.

Thus, in the given case, profits were earned primarily because of the specialized skills acquired by both the partne ₹ in their respective fields and used in the business of motor garage. The initial capital taken from the HUF as interest free loan, of cou ₹e, has its role but it is nevertheless a minor one. Therefore, the income from the business set up by the brothe ₹ is assessable in their individual hands and not as the income of the family.

Further, the proposition of the Assessing Officer to tax the profits of the business of motor garage earned by the two sons in the hands of the HUF is not valid.

8. Ram (59 yea ₹) and his two brothe ₹ (Ramesh (57 yea ₹) and Somesh (50 yea ₹) are engaged in family business of cultivation of wheat. Last year they had losses to the extent of ₹ 12,000 but this year, due to good season the Business earned a Profit of ₹ 2,20,000.

The family owns a house property, the municipal valuation of which is ₹ 280000 and the market rent of similar property is ₹ 2,85,000. The standard rent as per Rent Control Act is ₹ 3,50,000. The family pays ₹ 48,000 for municipal taxes during the previous year out of which ₹ 20,000 pertains to earlier year which could not be paid due to business loss. Interest on capital borrowed for repaying original loan for construction of house ₹ 75,000. Further, the rental income of the property is ₹ 3,10,000.

Dividend received from Indian Company X Ltd. ₹ 12,000.

Interest received on listed debentures ₹8,10,000 (net).

Compute the total income and Tax liability of the family X (HUF) for the Assessment year 2024-25.

Option 1: Assessee has opted to pay tax as per the regular scheme.

Option 2: Assessee is paying tax as per Section 115BAC.

Ans.

Option 1: Assessee has opted to pay tax as per the regular scheme:

Computation of Total Income of X (HUF) for the Assessment Year 2024-25

Income from House Property	(₹)
Gross annual Value	3,10,000
Less: Municipal Taxes	(48,000)
Net annual Value	2,62,000
Less: Standard Deduction @ 30% of 2,62, 000	(78,600)
Less: Interest on capital borrowed	(75,000)
Income from House property	1,08,400
Income from Business/Profession	
Agricultural income (Exempt)	NIL
Income from other sources	
Dividend received from Indian Company X Ltd.	12,000
Interest on listed debentures	9,00,000
Gross Total Income	10,20,400
Less: Deduction under section 80C to 80U	NIL
Total Income	10,20,400

Note: The share of Karta and other coparcene ₹ in the profits of HUF will be exempt under section 10(2)

Computation of tax on Total Income of X (HUF) for the Assessment Year 2024-25

Particulars	Amount (₹)
(a) Agricultural income (2,20,000-12,000)	2,08,000
(b) Non-agricultural income	10,20,400
(c) Total of (a) and (b)	12,28,400
(d) Tax payable on (c)	1,81,020
Tax on first 2,50,000 NIL	
Tax on next 250,000 @ 5% = ₹ 12,500	
Tax on next 500,000 @ 20% = ₹ 100,000	

	Tax on remaining income ₹ 2,28,400@ 30% = 68,520	
(e)	Total of agricultural income and basic exemption limit	4,58,000
(f)	Tax payable on (e) (As per slab rates)	10,400
(g)	Net tax payable = (d)-(f)	1,70,620
(h)	Add: Health and Education cess of 4% on ₹170620	6,824
(i)	Total tax (round off)	1,77,440

Option 2: Assessee is paying tax as per section 115BAC

Computation of Total Income of X (HUF) for the Assessment Year 2024-25

Income from House Property	(₹)
Gross annual Value	3,10,000
Less: Municipal Taxes	(48,000)
Net annual Value	2,62,000
Less: Standard Deduction @ 30% of 2,62,000	(78,600)
Less: Interest on capital borrowed	(75,000)
Income from House property	1,08,400
Income from Business/Profession	(₹)
Agricultural income (Exempt)	NIL
Income from other sources	
Dividend received from Indian Company X Ltd.	12,000
Interest on listed debentures	9,00,000
Gross Total Income	10,20,400
Less: Deduction under section 80C to 80U	NIL
Total Income	10,20,400

Note: The share of Karta and other coparcene ₹ in the profits of HUF will be exempt under section 10(2). Computation of Tax on Total Income of X (HUF) for the Assessment Year 2024-25

Particulars	Amount (₹)
(a) Agricultural income (2,20,000-12,000)	2,08,000
(b) Non-agricultural income	10,20,400
(c) Total of (a) and (b)	12,28,400
(d) Tax payable on (c)	95,680
Tax on first 3,00,000 NIL	
Tax on next 3,00,000 @ 5% = ₹ 15,000	
Tax on next 3,00,000 @ 10% = ₹ 30,000	
Tax on next 3,00,000 @ 15 % = ₹45,000	
Tax on next 28,400 @ 20 % = ₹5,680	
(e) Total of agricultural income and basic exemption limit	5,08,000
(f) Tax payable on (e) (As per slab)	10,400
(g) Net tax payable = (d)-(f)	85,280
(h) Add: Health and Education cess of 4% on ₹ 85,280	3,411
(i) Total tax (round off)	88,690

9. Ram, 66 years is the Karta of a HUF with his two sons Ramesh (39 years) and Somesh (25 years). The family owns a house property, the rental income of the same is ₹ 3,10,000. Family business profits ₹ 2,80,000. Long- term capital gains ₹ 25,000 and short-term capital gains for the year ₹11,000 (STT applicable). Dividend received from Indian Company X Ltd. ₹ 12,000. Interest received on listed debentures ₹8,000 (gross) Ram invested in PPF ₹ 1,50,000 out of family funds and received share of profits from a firm in which he represented HUF being Karta. Ram gifts ₹ 1,00,000 to family. Salary income of Ramesh ₹ 6,00,000 Interest on Government Securities ₹ 10,000(gross) out of own funds of Ram. Compute the total income and Tax liability of the family X (HUF) and Ram, Ramesh and Somesh for the Assessment year 2024-25. Assume that assessee are opting to pay tax as per regular scheme .

Computation of Total Income and Tax Liability of various Entities

Ans.

Computation of Total Income of X (HUF) for the Assessment Year 2024-25

Income from house property	Amount (₹)
Rent	3,10,000
Less: Standard Deduction @ 30%	93,000
Income from House property	2,17,000
Income from Business/Profession	
Business Profits	2,80,000
A Firm (Exempt)	NIL
Income under the head Capital Gains	
Long-term Capital Gain	25,000
Short term Capital Gain	11,000
Income from other sources	
Dividend received from Indian Company X Ltd.	12,000
Interest received on listed debentures	8,000
Gift (Exempt)	NIL
Gross Total Income	5,53,000
Less: Deduction under section 80C to 80U	
Under section 80C (maximum)	1,50,000
Total Income	4,03,000

Note: The share of Karta and other coparcene ₹ in the profits of HUF will be exempt under section 10(2) Computation of tax on Total Income of HUF for the assessment year 2024-25

Tax on long-term capital gains (20% of ₹ 25,000)	5,000
Tax on short-term capital gains (15% of ₹ 11,000)	1,650
Balance of Total Income ₹ 3,67,000	5,850
Total tax	12,500
Add: Health and Education cess at 4%	500
Total liability (round off)	13,000

Note: The share of Karta and other coparcene ₹ in the profits of HUF will be exempt under section 10(2) Computation of taxable income of Ram, Ramesh and Somesh for the assessment

year 2024-25

Particulars	Ram	Ramesh	Somesh
Salary Income		6,00,000	
Business Income:			
Profit share in HUF	Exempt	Exempt	Exempt
Income from other sources			
Interest on Government Securities	10,000		
Gross Total Income	10,000	6,00,000	
Deductions u/s 80C to 80U			
Taxable Income	10,000	6,00,000	
Tax liability	NIL	33,800	NIL

10. D Patel & Associates, a firm carrying on business provides details for the FY 2024-25 stated a book profit before adjusting unabsorbed depreciation and b/f business loss of ₹ 185000. However, the unabsorbed depreciation of earlier year and b/f business loss would be ₹ 85000 and ₹ 115000 respectively. Kindly advise towards treatment of Brought forward business losses and allowable remuneration under section 40(b).

Ans. Provision for Brought forward business losses

Brought forward business losses are not to be deducted from "book profit" (Adjust b/f unabsorbed depreciation from earlier year); and for allowing unabsorbed depreciation, b/f business loss shall have to be notionally allowed first from current business income.

Computation of allowable remuneration under section 40(b)

Particulars	Amount ₹
Book profit before adjusting unabsorbed depreciation and b/f business loss	185000
Less: B/F business loss (Notional Deduction)	(115000)
Balance	70000
Less: Set off unabsorbed depreciation (To the extent of ₹70000)	(70000)
Balance	0

Add: B/F business Loss (Notional Deduction) but not allowed to be set off as carried under section 72	115000
Book Profit	115000
Allowable Remuneration under section 40(b)	150000
a) 150000	
b) 90% of Book profit (i.e. 90% of 115000) = 103500	
Whichever is higher	

Summarized provisions of carry forward and set off of loss in the case of Firm

11. XL and Associates (A firm) having 3 partneर sharing profit in the ratio of 2:2:1 provides you the following details for the PY 2023-24.

Profit (Before) setting of b/f loss and depreciation 360000

B/F depreciation for AY 2023-24 (i.e. PY 2022-23) 150000

B/F loss of AY 2023-24 200000

You are requested to advice on Tax Treatment in case of change in constitution of firm when one of the partneर retired on 31.8.2023 from the firm.

Ans.

Particulars	Amount
Step 1: Share of outgoing partner in the profit of the firm in the year of change in the constitution of firm $(360000 \times 2/5 \times 5/12)$ [Period from 1.4.2023-31.8.2023]	60000
Step 2: Share of loss of outgoing partner in the brought forward loss. $(200000 \times 2/5)$	80000
Step 3: Set off loss to the extent of profit	
Loss 80000 Less: Set off of profit (60000)	
Balance of Loss (Canर be carried forward and set off by firm)	20000
Firm is allowed to set off b/f loss $(200000 - 20000)$ to the extent of	180000

12. A, B and C are the partneर for 3:2:1 share respectively, in a firm engaged in medical profession. Compute the total income of the firm for the year ended 31st March, 2024:

Particular	₹	Particular	₹
Office Expenses	15,400	Gross Profit	40,000
Income Tax	1,000	Net Loss A	8,700
Salary to A	5,000	Net Loss B	5,800
Salary to B	4,000	Net Loss C	2,900
Salary to C	10,000		
Bonus to A	10,000		
Bonus to B	12,000		
Total	57,400	Total	57,400

Ans.

Computation of Book Profit of the Firm	₹	₹	₹
Net Loss as per P & L A/c			(17,400)
Add: Inadmissible Expenses:			
Income-tax		1,000	
Salary to partne₹:			
A	5,000		
B	4,000		
C	10,000	19,000	
Bonus to partne₹			
A	10,000		
C	12,000	22,000	42,000
Book Profit			24,600

Permissible Remuneration to Partne₹

90% of fi₹₹ 3,00,000 of Book-profit or ₹ 1,50,000 whichever is more, is allowed as deduction.
Here the permissible remuneration comes to ₹ 1,50,000, but as the partne₹ have claimed ₹ 41,000 only, hence the entire amount will be allowed.

Computation of total income of the firm

Book Profit		24,600
Less: Salary to Partne₹	19,000	

Bonus to Partner	22,000	(41,000)
Loss of the Firm		(16,400)

Note: Loss of the firm will be carried forward by the firm to the next year(s).

13. M, N and O are partners sharing profits and Losses in the ratio of 2:1:1 respectively. Their summarized Profit and Loss A/c for the year ending 31st March, 2024 is appended below:

Particulars	Amount (₹)	Particulars	Amount (₹)
Office salaries	5,680	Gross Profit	60,570
Telephone and Telegram	2,000	Rent received	6,000
Interest on loan from M	2,000	Interest on securities	4,000
Local taxes (let out property)	1,000		
Salary to N	3,000		
Commission to partner			
M	4,000		
N	5,000		
O	6,000		
Collection charges of interest on securities	50		
Bad debts reserve	1,000		
Net Profit to partner:			
M	20,420		
N	10,210		
O	10,210		
Total	70,570	Total	70,570

Compute total income of the firm for the assessment year 2024-25 and tax liability thereon. Interest paid to M has been calculated at the rate of 20% p.a.

Ans.

Computation of Book-Profit

Particulars	₹	₹
Net Income as per P & L A/c		40,840

Add: Inadmissible items -		
Local taxes (on let out property)	1000	
Salary to N (Partner)	3000	
Commission to partne₹	15,000	
Collection charges	50	
Bad debts reserve	1,000	20,050
		60,890
Less: Other Incomes -		
Rent received	(6,000)	
Interest on securities	(4,000)	(10,000)
Book Profit		50,890

Maximum remuneration payable to partne₹

Here ₹ 1,50,000 will be allowed as maximum remuneration. But as the partne₹ have drawn only ₹ 18,000 by way of salary and commission, the entire amount will be allowed as deduction.

Computation of Total Income of the Firm [Assessment Year 2024-25]

Particulars	₹	₹
Book Profit:		50,890
Less: Salary and commission to partne₹		(18,000)
- Taxable Business Profit		32,890
- Income from house property		
Rent received		6,000
Less: Municipal taxes		(1,000)
Net adjusted annual value (NAAV)		5,000
Less: Repai₹ (30% of NAAV) u/s 24		(1,500)
Income from House Property		3500
- Income from other sources:		
Interest on Securities	4,000	
Less: Collection charges	(50)	3,950
Gross Total Income (32,890 + 3,500 + 3,950)		40,340

The firm will have to pay tax on ₹ 40,340 @ 30%, which comes to ₹ 12,102 plus health and

education cess @ 4% on 12,102 making the total liability as ₹ 12,586.

14. Compute tax liability of the firm X & Co. for the assessment year 2024-25 considering the provisions of Section 115JC. The business income of the firm is ₹ 21,00,500 before deduction under section 32 and before deduction under section 35AD ₹ 11,00,000, because of which depreciation of ₹ 40,000 cannot be claimed. Deduction under section 80IB ₹ 1,00,000. Donation paid to a political party ₹ 85,000.

Ans.

Particulars	(₹)
GTI - Business Income (₹ 21,00,500 less 11,00,000)	10,00,500
Less: Deductions	
Under section 80IB	1,00,000
Under section 80GGC	85,000
Net Income	8,15,500
Tax on ₹ 8,15,500 @ 30%	2,44,650
Add: Health and Education Cess @ 4%	9786
Tax liability	2,54,436
Adjusted total income and alternate minimum tax for the purpose of section 115JC	
Net Income	8,15,500
Add: Under section 80IB	1,00,000
Add: under section 35AD (₹ 11,00,000 less 40,000)	10,60,000
Adjusted total income	19,75,500
AMT on ₹ 19,75,500 @ 18.5%	3,65,467
Add: Health and Education Cess @ 4%	14,618
AMT liability	3,80,085
AMT liability (round off)	3,80,090
Tax payable is ₹ 3,80,090 being higher of tax liability ₹ 2,54,436 and AMT ₹ 3,80,090.	

15. Income & Expenditure A/c of Lawye₹ & Co. for the year ending March 31, 2024

Particulars	Amount (₹)	Particulars	Amount (₹)
To Expenses	1,50,000	By Professional Receipts	3,80,000
To Depreciation	20,000	By Other fees	90,000
To Remuneration to partne₹	1,50,000		
Interest on Capital to partne₹ @ 20 per cent	20,000		
To Net Profit	1,30,000		
Total	4,70,000	Total	4,70,000

Other Information:

- Expenses include ₹ 18,000 and ₹ 12,000 paid in cash as brokerage to a single party on a single day.
- Depreciation calculated as per section 32 is ₹ 40,000.

Compute the Total Income of the Firm.

Ans.

Computation of Total Income of Lawye₹ & Co. for A. Y. 2024-25

Particulars		Amount (₹)
Net profit as per profit and loss account		1,30,000
Add: Expenses not allowable		
Section 40A(3)- Cash payments to a broker exceeding ₹ 10,000 (Note 1)	30,000	
Section 40(b)-Excess interest on capital to partne₹ 20%-12%, i.e., (20000*8/20) (Note 2)	8,000	38,000
Add: Remuneration to partne₹ debited to profit and loss account		1,50,000
Less: Depreciation u/s 32 (₹ 40,000 - ₹ 20,000 debited in profit and loss account)		(20,000)
Book profit (Note 3)		2,98,000

Maximum permissible remuneration (higher of the two: (i.e., 90 per cent of ₹ 2,98,000 or ₹ 1,50,000) OR	2,68,200	
Actual (Subject to actual)	1,50,000	(1,50,000)
Business Income of the Firm		1,48,000
Tax Liability (30% of 1,48,000)		44,400
Add: Health and Education Cess @ 4%		1,776
Total Tax Liability		46,176

Notes:

1. As per section 40A(3) of the Act, if the aggregate payment made (otherwise than by an account payee cheque/draft) to the same person during a day exceeds ₹ 10,000/- the entire amount of such payment is disallowed.
2. As per section 40 (b) of the Act, if the interest payable to the partner exceeds simple interest of 12% per annum, the excess amount is not deductible.
3. The remuneration paid to the working partner cannot exceed the permissible limits specified under section 40 (b) of the Act.

16. Mr. X, carrying on the business of operating a warehousing facility for storage of sugar, has a total income of ₹ 80 lakhs. In computing the total income, he had claimed deduction under section 35AD to the tune of ₹ 70 lakhs on investment in building (on 1.4.2023) for operating the warehousing facility for storage of sugar. Compute his tax liability for A.Y. 2024-25. Show the calculations of Alternate Minimum Tax also.

Option 1: Assessee paying tax under normal tax regime Option 2: Assessee paying tax under Section 115BAC

Ans. Option1: Assessee paying tax under normal tax regime

Computation of Tax payable by Mr. X for AY 2024-25 Computation of Normal Tax

Particulars	Amount (₹ in lakh)
Tax liability under the normal provisions of the Income-tax Act, 1961	22.125
Add: Surcharge @ 10% of Total income > 50 lacs	2.2125
Add: Health and Education Cess @ 4% of 24.3375	0.9735
Total Tax Liability	25.311

Computation of Alternate Minimum Tax

Particulars	Amount (₹ in lakh)
Adjusted Total Income	80.00
Add: Deduction under section 35AD	70.00
Less: Depreciation under section 32	(7.00)
Adjusted Total Income	143.00
AMT @18.5%	26.46
Surcharge @ 15% (since adjusted total income > ₹ 100 lakh)	3.97
Tax	30.43
Add: Health and Education Cess @ 4%	1.217
Total tax Liability	31.647

Since the regular income tax payable is Less than the AMT payable, the adjusted total income of ₹ 143 Lakhs shall be deemed to be the total income of Mr. X and tax is payable @18.5% thereof plus surcharge @ 15% and cess @4%. Therefore, tax liability is 31.647 lakhs.

However, Mr. X would be eligible for credit in 15 subsequent year to the extent of difference between the AMT and Normal Tax, i.e. ₹, 6.336 lakhs.

Option 2: : Assessee paying tax under Section 115BAC

Computation of Tax payable by Mr. X for AY 2024-25 Computation of Normal Tax

Particulars	Amount (₹ in lakh)
Tax liability under the normal provisions of the Income-tax Act, 1961	21.000
Add: Surcharge @ 10% of Total income > 50 lacs	21.000
Add: Health and Education Cess @ 4% of 23.10	0.924
Total Tax Liability	24.024

Note: Alternate Minimum Tax is not applicable if assessee covered u/s 115BAC

17. Mr. A, 42 year, and Mr. B, 50 year, are equal partners in a partnership firm AB and Co. engaged in furniture business. From the profit and loss account of the firm compute net income and tax liability of the firm as well as the partners for the assessment year 2024-

25. Profit and Loss Account For the year ending March 31, 2024

Particulars	Amount (₹)	Particulars	Amount (₹)
Cost of goods sold	5,10,000	Sales	1,90,0000
Salary to staff	6,00,000	Long term capital gain	1,00,000
Depreciation	1,20,000	Lottery prize	35,000
Fees for technical service	40,000	Other business receipts	1,47,000
Remuneration to partner A 140000 B 60000	2,00,000		
Other Expenses	2,10,000		
Interest on capital @20%			
A 43000			
B 60000	10,3000		
Provision for bad debts	10,000		
Net profit	3,89,000		
Total	2,18,2000	Total	2,18,2000

Other Information

- 1) Remuneration and interest to partner is paid as per partnership deed
- 2) Depreciation as per income tax rules ₹ 100000
- 3) Firm paid bonus to employees ₹ 20,400 relating to last year on 15-12-2023.
- 4) Other expenses include donation to approved charitable institution for the purpose of family planning ₹ 45,000.
- 5) Fees for technical services are paid out of India wherein TDS rules apply. Tax has been deducted at source on time on 31 July, 2023 but it is deposited to Government 21 days late on 28 August, 2023.
- 6) The firm complies with conditions of section 184 and 40(b)
- 7) Income and investments of Mr. A and Mr. B are as follows:

Particulars	Mr. A (₹)	Mr. B (₹)
Interest on Government Securities	60,000	56,000

Interest on Bank Deposit (gross)	4,500	5,000
Dividend from Indian Company	20,000	22,000
Contribution to PPF	1,00,000	1,10,000
Interest on listed Debentures (net)	6,300	6,300

8) Mr. A received gift of ₹ 80,000 from a friend.

9) Assessee paying tax under normal tax regime Solution:

Computation of Total Income of AB and Co. for the Assessment Year 2024-25

Calculation of Business Income

Particulars	Amount (₹)
Net Profit as per P&L A/C	3,89,000
Add: Inadmissible Expenses	
Excess depreciation [120000-100000]	20,000
Remuneration to partner	2,00,000
Interest on capital in excess of 12% p.a.	
A: $43000 \times 8/20 = 17200$	
B: $60000 \times 8/20 = 24000$	41,200
Provision for bad debts	10,000
Donations	45,000
Less: Admissible Expenses	
Bonus to employees	(20,400)
Less: Income taxable under head capital gain and other sources	
LTCG	(1,00,000)
Lottery prize	(35,000)
Book profit	5,49,800
Less: Remuneration to partner	
On ₹ 3,00,000 of book profit @90%	=2,70,000
Balance 2,34,800 @60%	=1,40,880
4,10,880 or ₹ 2,00,000 whichever is less	(2,00,000)

Business Income	3,49,800
Income under the head capital gain [LTCG]	1,00,000
Income from other sources	
Lottery prize $35,000 \times 100/70$	50,000
Gross total income	4,99,800
Less: Deduction u/s 80	
80G [100% of 45,000 or 10% of {4,99,800 - 1,00,000}]	(39,980)
Taxable Income	4,59,820

Share of A and B in the income of the firm ₹ 2,29,910 (4,59,820/2)

Computation of Tax on Total Income of AB and Co. for the Assessment Year 2024-25

Particulars	Amount (₹)
Tax on winning from Lotteries (30% of ₹ 50,000)	15,000
Tax on Long-term capital gains (20% of ₹ 1,00,000)	20,000
Balance of Total Income 3,09,820 @ 30%	92,946
Total tax	1,27,946
Add: Health and Education Cess @ 4%	5,118
Total liability	1,33,064

₹ 1,33,060 (round off, subject to setoff of TDS for winning from Lotteries)

Computation of Taxable Income of partner for the Assessment Year 2024-25

Particulars	A (₹)	B (₹)
Business Salary		
Remuneration	1,40,000	60,000
Interest on capital	25,800	36,000
Profit share in firm	Exempt	Exempt
Income from other sources		
Interest on Government securities	60,000	56,000
Interest on Bank deposits	4,500	5,000
Dividend from Indian companies	20,000	22,000
Interest on listed debentures $(6,300 \times 100)/90$	7,000	7,000

Gift from a friend	80,000	-
Gross Total Income	3,37,800	1,86,000
Deductions u/s 80-80C PPF	1,00,000	1,10,000
Taxable Income	2,37,800	76,000
Tax liability	NIL	NIL
TDS amounting to ₹ 700 to be claimed for refund		

18. Mr. A (40 years) and Mr. B (49 years) are equal partners in a firm of Chartered Accountants, AB Co. On April 1, 2023 they amended their partnership deed and provided for salary and interest to partners as follows:

Particulars	Amount (₹)
Salary to A	2,50,000 p.a.
Salary to B	3,00,000 p.a.
Interest to A and B	24 % p.a.

From the income and expenditure account of the firm compute net income and tax liability of the firm as well as the partners for the assessment year 2024-25. Assessee has not opted for section 115BAC and paying tax under normal tax regime.

Income and Expenditure Account For the year ending March 31, 2024

Particulars	Amount (₹)	Particulars	Amount (₹)
Office expenses	2,51,000	Receipts from clients	8,40,000
Salary to staff	82,000	Interest on drawings	3,500
Income Tax	39,000		
Salary to A	2,50,000		
Salary to B	3,00,000		
Interest on loan to minor son of X @15%	6,000		
Interest on capital@24%			
A 17000			
B 19000	36,000		
Net profit	1,14,5		

Total	843500	Total	8,43,50

Other Information

- 1) The firm does not comply with conditions of section 184 and 40(b)
- 2) The firm has received funds from minor son of X as loan.
- 3) Income and investments of Mr. A and Mr. B are as follows:

Particulars	Mr. A (₹)	Mr. B (₹)
Investment in 5% Government Loan	12,00,000	11,20,000
Interest from Post office savings bank	4,500	5,000
Medical Insurance Premium	12,000	15,000
Dividend from Foreign Companies	40,000	30,000

Ans.

Computation of Total Income of AB and Co. for the Assessment Year 2024-25

Calculation of Business Income

Particulars	₹
Net Profit as per P&L A/C	1,14,500
Add: Inadmissible Expenses	
Income Tax	39,000
Salary to A	2,50,000
Salary to B	3,00,000
Interest on capital in excess of 12% p.a.	
A: 17000*12/24 8,500	
B: 19000*12/24 9,500	18,000
Book profit	7,21,50
Less: Remuneration to partner (not allowed as conditions of section 184 & 40(b) are not met)	NIL
Business Income	7,21,50
Taxable Income	7,21,50

Share of A and B in the income of the firm ₹ 7,21,500/2= 3,60,750

Computation of tax on Total Income for the Assessment Year 2024-25

Particulars	Amount(₹)
Tax on ₹ 7,21,500@30%	2,16,450
Add: Health and Education Cess @ 4%	8,658
Total liability	2,25,108
Total (round off)	2,25,110

Computation of taxable income of partner for the Assessment Year 2024-25

Particulars	A	B
Business Salary		
Remuneration	-	-
Interest on capital	8500	9500
Profit share in firm	Exempt	Exempt
Income from other sources		
Interest on Government Loan (5% of 12,00,000; 5% of 11,20,000)	60,000	56,000
Interest on Post office savings bank (exempt upto ₹ 3500 u/s 10(15)(i))	1,000	1,500
Dividend from Foreign companies	40,000	30,000
Gross Total Income	1,09,500	97,000
Deductions u/s 80		
80D Mediclaim Insurance	(12,000)	(15,000)
Taxable Income	97,500	82,000
Tax liability	NIL	NIL

19. Tax on total income as per normal provision of Income Tax Act is ₹ 205,000 and AMT is ₹ 305,000. Compute the tax liability and implications assuming Foreign Tax Credit (FTC) will be ₹ 45,000 and ₹ 60,000 attributable to Normal provision and AMT respectively.

Ans.

Computation of tax liability and adjustment of FTC

Particulars	Amount (₹)	Amount (₹)
Tax on total income as per normal provision of Income Tax Act	205000	
Less: FTC attributable to Normal Tax	(45000)	
A. Tax on total income as per normal provision of Income Tax Act		160000
Alternate Minimum Tax	305000	
Less: FTC attributable to AMT	(60000)	
B. Tax as per AMT	245000	
Amount of tax payable = (A) or (B) whichever is higher	245000	
Tax Implications:		
A < B > Non-Corporate has to pay AMT u/s 115JC > Non-Corporate can only avail AMT credit. AMT Credit Available = B - A = 245000 - 160000 = ₹ 85000		

20. The taxable income for the year 2023-24 of Mr. Shah (resident and age 40 years) computed as per the provisions of Income-tax Act is ₹ 28,40,000. The taxable income has been computed after deduction of ₹ 2,00,000 under section 80QBB in respect of royalty on books. Compute the tax liability and tax implications with reference to AMT assuming Mr. Shah does not opt to be taxed under section 115BAC/BAD and paying tax under normal tax regime.

Ans.

Check the eligibility	
Applicable to Non-Corporate Assessee (i.e. Mr Shah)	Yes
If claimed deduction	Yes
• u/s/ 10AA/80H to 80RRB (Except 80P) for AY 13-14 or 14-15 or • u/s 10AA/35AD/80H to 80RRB (Except 80P) for AY 15-16 onwards	
ATI > ₹ 2000000 (i.e. 30,40,000 Refer Note:2)	Yes
Provision of AMT apply	Yes
Computation of Adjusted Total Income (ATI)	

Net Income or Total Income	28,40,000
Add:	
Deduction under section 10AA	Nil
Deduction under section 80H to 80RRB (Except 80P) (i.e. 80QQB)	2,00,000
Deduction claimed, if any, under section 35AD (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction under that section is claimed).	Nil
Adjusted Total Income (ATI)	30,40,000

A

Tax on total income as per normal provision of Income Tax Act

Tax on 28,40,000	6,64,500
Less: Rebate u/s 87A	N.A.
Balance	6,64,500
Add: Surcharge	N.A.
Tax and Surcharge	6,64,500
Add: HEC@4%	26,580
Total Tax Payable	6,91,080

6,91,080

18.5% (+SC+HEC) of Adjusted Total Income

18.5% on 30,40,000	5,62,400	
Add: Surcharge	N.A.	
Tax and Surcharge	5,62,400	
Add: HEC@4%	22,496	
Total Tax Payable	5,84,896	
Amount of tax payable = (A) or (B) whichever is higher		6,91,080

Tax Implications

A>B	> Non-Corporate (i.e. Mr. Shah) has to pay normal income tax > Non-Corporate can utilize amount of AMT credit in that year if available. Maximum Amount of Credit Utilized = A-B = 6,91,080 - 5,84,896 = 1,06,184

21. The taxable income for the financial year 2023-24 of Mr. Jay (resident and age 35 years) computed as per the provisions of Income-tax Act is ₹ 20,84,000. The taxable income has been computed after deduction of ₹ 5,00,000 under section 80JJA. Will he be liable to AMT? What will be his tax liability for the year? Assuming Mr. Jay does not opt to be taxed Under section 115BAC/BAD and paying tax under normal tax regime.

Ans.

Check the eligibility	
Applicable to Non-Corporate Assessee (i.e. Mr. Jay)	Yes
If claimed deduction	Yes
- u/s/ 10AA/80H to 80RRB (Except 80P) for AY 13-14 or 14-15 or - u/s 10AA/35AD/80H to 80RRB (Except 80P) for AY 15-16 onwards	
ATI > ₹20,00,000 (i.e. 25,84,000 Refer Note:2)	Yes
Provision of AMT apply	Yes

Computation of Adjusted Total Income (ATI)	
Net Income or Total Income	20,84,000
Add:	
Deduction under section 10AA	Nil
Deduction under section 80H to 80RRB (Except 80P) (i.e. 80JJA)	5,00,000
Deduction claimed, if any, under section 35AD (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction is claimed).	Nil
Adjusted Total Income (ATI)	25,84,000

(A) Tax on total income as per normal provision of Income Tax Act	4,55,208	
Tax on 20,84,000	4,37,700	
Less: Rebate u/s 87A	N.A.	
Balance	4,37,700	
Add: Surcharge	N.A.	
Tax and Surcharge	4,37,700	
Add: HEC@4%	17,508	
Total Tax Payable	4,55,208	
18.5% on 25,84,000	4,78,040	
Add: Surcharge	N.A.	
Tax and Surcharge	4,78,040	
Add: HEC@4%	19,122	
Total Tax Payable	4,97,162	
Amount of tax payable = (A) or (B) whichever is higher		4,97,162

Tax Implications

$A < B$

> Non-Corporate (i.e. Mr Jay) has to pay AMT u/s 115JC

> Non-Corporate (i.e. Mr Jay) can only avail AMT credit. AMT Credit Available = $B - A = 4,97,162 - 4,55,208 = ₹ 41,954$

22. The tax liability of SP Enterprises (a partnership firm) for the financial year 2023-24 under the normal provisions of the Income-tax Act is ₹ 8,40,000 and the liability as per the provisions of AMT is ₹ 10,00,000. Will it be entitled to claim any AMT credit in the subsequent year(s)?

Ans.

A	Tax on total income as per normal provision of Income Tax Act	840000
B	18.5% (+SC+HEC) of Adjusted Total Income	1000000
Amount of tax payable = (A) or (B) whichever is higher		1000000

Note: Tax Implications

$A < B$

- > Non-Corporate has to pay AMT u/s 115JC
- > Non-Corporate can only avail AMT credit.

AMT Credit Available = $B - A = 1000000 - 840000 = ₹ 160000$

23. The taxable income for the financial year 2023-24 of Mr. Dixy (resident and age 35 year) who established unit located in IFSC and derived income solely in convertible forex computed as per the provisions of Income-tax Act is ₹ 20,84,000. The taxable income has been computed after deduction of ₹ 5,00,000 under section 80JJA. Will he be liable to AMT? What will be his tax liability for the year? Assuming Mr. Jay does not opt to be taxed under section 115BAC/BAD.

Ans.

Computation of Adjusted Total Income (ATI)	
Net Income or Total Income	20,84,000
Add:	
• Deduction under section 10AA	Nil
• Deduction under section 80H to 80RRB (Except 80P) (i.e. 80JJA)	5,00,000
• Deduction claimed, if any, under section 35AD (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction is claimed).	Nil
Adjusted Total Income (ATI)	25,84,000

A

Tax on total income as per normal provision of Income Tax Act 4,55,208

Tax on 20,84,000	4,37,700
Less: Rebate u/s 87A	N.A

Balance	4,37,700
Add: Surcharge	N.A.
Tax and Surcharge	4,37,700
Add: HEC@4%	17,508
Total Tax Payable	4,55,208

B

9% (+SC+HEC) of Adjusted Total Income 2,41,862

9% on 25,84,000	2,32,560
Add: Surcharge	N.A.
Tax and Surcharge	2,32,560
Add: HEC@4%	9,302
Total Tax Payable	2,41,862

Amount of tax payable = (A) or (B) whichever is higher 4,55,208

Tax Implication

A > B > Non-Corporate (i.e. Mr. Dixy) has

24. Mr. A, Mr. B and a foreign company X Ltd. are members of a AOP sharing profits and losses in the ratio of 2:2:1. The total income of the AOP is ₹ 2,50,000 including long term capital gains ₹ 40,000. Calculate tax liability of the AOP for AY 2024-25.

Ans. Foreign Company X Ltd. is taxable at a rate higher than maximum marginal rate (i.e., 40%)

Tax on LTCG	40,000 at 20%	8,000
Tax on share of X Ltd. (2,10,000 *40%*1/5)		16,800
Balance	(2,10,000 *40%*4/5)	50,400
Total Tax		75,200
Add Cess (4%)		3,008
Tax liability		78,208
Total		78,210 (round off)

o pay normal income tax

> Non-Corporate can utilize amount of AMT credit in that year if available.

Maximum Amount of Credit Utilized = A-B = 455208 - 241862 = 213346

25. P Co-operative Society engaged in procession of agriculture produce and running its activities without aid of power furnishes following details of income, compute taxable income and tax liability for the purpose of A.Y. 2024-25 if it does not opt to be taxed under section 115BAD and if opts to be taxed under section 115BAD.

• Income from processing of agricultural produce of its member	38500
• Income from marketing of the agricultural produce	12000
• Dividend from another co-operative society	41400
• Income from letting of godown	24000
• Commission income	91000

Ans.

Statement showing computation of Total income and tax liability

Particulars	Remarks	Not opt to be taxed under section 115BAD	Opts to be taxed under section 115BAD
Income from letting of godown [a]		24000	24000
Income from processing of agricultural produce of its member		38500	38500
Income from marketing of the agricultural produce		12000	12000
Commission income		91000	91000
Income from PGBP [b]		141500	141500
Dividend from another co-operative society		41400	41400
Income from other Source [c]		41400	41400
Gross Total Income [a+b+c]		206900	206900
Deduction under section 80C to 80U			
Deduction under section 80P			
Income of agricultural produce	38500*100%	38500	Nil
Income from marketing of the agricultural	12000*100%	12000	Nil

produce			
Commission income	Exempt up to 50000	50000	Nil
Letting out of godowns	24000*100%	24000	Nil
Dividend income	41400*100%	41400	Nil
Total Income		41000	206900
Tax on total income		At Slab rate	At 22%
Up to 10000 = 10% (10%*10000)=1000 10000-20000=20%(20%*10000) =2000 20000-41000=30% (30%*21000)=6300		9300	45518
Add: Surcharge		NA	NA
Tax and Surcharge		9300	45518
Add: HEC@4%		372	1821
Tax Payable (Rounded off)		9670	47340

26. Delhi Co-operative Society derived the following incomes during the previous year 01.4.2023 to 31.3.2024 - Assessment Year 2024-25.

(1)	Marketing of agricultural produce of its members	10,000
(2)	Interest from members on delayed payment of the price of goods purchased	1,000
(3)	Processing (without aid of power) of agricultural produce of its members	8,000
(4)	Supplying milk to the Government (raised by its members)	15,000
(5)	Agency business	25,000
(6)	Dividends from other Co-operative Societies	15,000
(7)	Income from letting of godowns	20,000
(8)	Income from House Property	30,000

Ans.

Option 1: Assessee has not opted for Section 115BAD

Computation of total income of Delhi Co-operative Society

Particulars	Amount (₹)	Amount (₹)
Income from House Property	30,000	

Letting of godowns	20,000	50,000
Income from Business		
Marketing of agricultural product	10,000	
Processing of goods	8,000	
Supplying milk	15,000	
Agency business	25,000	58,000
Income from other sources		
Interest from membe₹	1,000	
Dividends	15,000	16,000
Gross Income		1,24,000
Deductions under Section 80P		
Letting of godowns	20,000	
Marketing of agricultural produce	10,000	
Processing of goods	8,000	
Supplying milk	15,000	
Agency business	25,000	
Dividends	15,000	(93,000)
Total income		31,000

Notes:

- (1) Interest from membe₹ ₹ 1,000 is not deductible as it is not from the credit facilities provided to the member and for this purpose society cannot be said to be a credit society [Rodier Mill Employees₹ Co- operative Stores Ltd. v. CIT (1982) 135ITR 355].
- (2) The gross total income of the society exceeds ₹ 20,000 hence deduction regarding income from house property is not available.

Option 2: Assessee has opted for Section 115BAD

Computation of total income of Delhi Co-operative Society

Particulars	Amount (₹)	Amount (₹)
Income from House Property	30,000	
Letting of godowns	20,000	50,000
Income from Business		

Marketing of agricultural product	10,000	
Processing of goods	8,000	
Supplying milk	15,000	
Agency business	25,000	58,000
Income from other sources		
Interest from membe₹	1,000	
Dividends	15,000	16,000
Gross Income		1,24,000
Deductions under Section 80P		NA
Total income		1,24,000

Notes:

- (1) Interest from membe₹ ₹ 1,000 is not deductible as it is not from the credit facilities provided to the member and for this purpose society cannot be said to be a credit society [Rodier Mill Employees₹ Co- operative Stores Ltd. v. CIT (1982) 135 ITR 355].
- (2) The gross total income of the society exceeds ₹ 20,000 hence deduction regarding income from house property is not available.
- (3) Deduction under section 80P is not allowed u/s 115BAD * (i)

27. A trust has a capital asset costing ₹ 2,00,000 and 1/2 of its income is utilised for charitable purpose. It is sold for ₹ 3,50,000. If the trust buys another capital asset for ₹ 3,50,000 then appropriate fraction of the capital gain deemed to have been applied for charitable purpose. Supposing that the trust buys another asset for ₹ 2,90,000.

Ans.

Particulars	(₹)
Sale proceeds of Capital asset	3,50,000
Cost of the asset sold	2,00,000
Capital gain on transfer of capital asset	1,50,000
Appropriate fraction i.e. 1/2	75,000
Another asset purchased	2,90,000
Appropriate fraction utilised (1/2 of ₹ 2,90,000)	1,45,000

Appropriate fraction of the original capital asset	
1/2 of ₹ 2,00,000	(1,00,000)
Capital gain utilised	45,000
Capital gain not utilised	30,000

Chapter – 12

CLASSIFICATION AND TAX INCIDENCE ON COMPANIES

1. State with reason whether in the following cases Companies are widely held or closely held:

(a) The shares of ABC Private Limited are held as follows:

i	A corporation owned by RBI	15%
ii	Central Govt.	18%
iii	R.B.I.	10%
iv	Mr. Raman	28%
v	Mr. Bhuvan	27%

(b) 85% equity shares of Progressive Private Limited were held by the public and its affairs during the relevant previous year were controlled by seven persons.

Ans. (a) Shares held by Govt., RBI and Corporation owned by RBI = $18\% + 10\% + 15\% = 43\%$.

As shares held by CG along with RBI are more than 40%, therefore, ABC Pvt. Ltd. is a Govt. Participating company. Hence it is a company in which Public is substantially interested, i.e., widely held.

(b) As none of the criteria mentioned in Section 2(18) are met in case of Progressive Pvt. Ltd. (such as Govt. Participating, Section 8 Company or Nidhi etc.) therefore, it is a closely held company. * (i)

2. Number of years for which credit of MAT excess paid under section 115JB can be carried forward is -

(a) 7 Assessment years

(b) 8 Assessment years

(c) 15 Assessment years

(d) 9 Assessment years

Ans. (c) 15 Assessment years

3. A domestic company ABC Ltd furnishes the following particulars for AY 2024-25 and solicits your advice on the application of section 115JB. You are also required to compute the total income and tax payable.

Particulars		Amount (₹)
	Profits as per P&L Account as per Companies Act, 2013	1,95,00,000
	This includes:	
a)	Excess realized on sale of land held as investment	30,00,000
b)	Depreciation on SLM basis	1,00,00,000
c)	Provision for losses of subsidiaries	60,00,000
	Depreciation allowable per Income Tax Rules, 1962	1,50,00,000
	STCG on sale of land mentioned above	40,00,000
	B/f losses	50,00,000
	Unabsorbed Depreciation	60,00,000

The Company has also represented to you that the excess realized on sale of land cannot form part of the book profits u/s 115 JB. You will have to deal with the issue assuming that the Co. is not required to comply with Ind. AS. The annual turnover of ABC Ltd. was ₹ 40 Crores.

Ans.

Computation of Total Income

Particulars		Amount (₹)	Amount (₹)
	Net Profit per P&L Account		1,95,00,000
Less:	Excess realized on sale of Land (treated separately)		(30,00,000)
			1,65,00,000
Add:	Depreciation on SLM Basis	1,00,00,000	
	Provisions for losses of subsidiaries	60,00,000	
			1,60,00,000
	Total		3,25,00,000
Less:	Depreciation allowable per Income-tax Act		(1,50,00,000)
	Business Income		1,75,00,000
Less:	Set-off of B/F losses		(50,00,000)

	Net Business Income		1,25,00,000
	Capital Gains		40,00,000
	Total Income		1,65,00,000
Less:	Unabsorbed Depreciation		(60,00,000)
	Total Income per as Income-tax Act, 1961		1,05,00,000

Computation of Book Profit u/s 115JB

Particulars		Amount (₹)	Amount (₹)
	Net Profit per P&L Account		1,95,00,000
Add:	Depreciation on SLM Basis	1,00,00,000	
	Provisions for losses of subsidiaries	60,00,000	1,60,00,000
			3,55,00,000
Less:	Depreciation		(1,00,00,000)
	Business Income		2,55,00,000
Less:	B/f Business Loss as it's less than Unabsorbed Depreciation		(50,00,000)
	Book Profits		2,05,00,000

(a) Note that the profit on sale of Land held as investment is not excluded from the P&L for purposes of computing the Book Profits.

(b) Note that the least of the B/f loss and the Unabsorbed Depreciation is reduced to compute Book Profits.

Income Tax Liability under Normal Provisions		
Tax Liability @ 25% as the Turnover is < 400 Crores		26,25,000
Add:	Surcharge @ 7% as the Income is > 1 Cr.	1,83,750
	Total Tax Payable	28,08,750
Add:	Health and Education Cess @ 4%	1,12,350
	Total Income Tax Liability	29,21,100

Income Tax Liability per MAT Provisions		
15% of Book Profits		30,75,000
Add:	Surcharge @ 7% as the Income is > 1 Cr.	2,15,250
	Total Tax Payable	32,90,250
Add:	Health and Education Cess @ 4%	1,31,610
	Total Income Tax Liability	34,21,860

Note:

- (a) Since 15% of book profits exceeds the tax payable per Income-tax Act, 1961, the book profit would be deemed to be the total income and the tax payable on such total income, which is ₹ 34,21,860 (rounded off) would become the liability for AY 2024-25 for the Company.
- (b) With regards to the company's representation, in respect of the capital gains, whether liable for book profit tax u/s 115JB, it may be noted that since the excess realised on sale of land which was held as investment, has been included in the net profit computed per Sch. III of the Companies Act, 2013, it shall form part of Book Profits (Bombay HC Judgement in CIT vs. Veekay Lal Investment Co Pvt Ltd.).

4. Mona Ltd., a resident Co., earned a profit of ₹ 15,00,000/- after debit / credit of the following amounts: Items debited

- a) Provisions for the losses of Subsidiaries; ₹ 70,000
 - b) Provision for doubtful debts; ₹ 75,000
 - c) Provision for Income Tax; ₹ 105,000
 - d) Provision for Gratuity basis actuarial valuation; ₹ 200,000
 - e) Depreciation; ₹ 360,000
 - f) Interest to Financial Institution (unpaid before filing of return); ₹ 100,000
 - g) Penalty for infraction of law; ₹ 50,000
- Items credited
- a) Profits from unit(s) established in SEZ; ₹ 500,000
 - b) Share in income of an AOP as a member; ₹ 175,000
 - c) Long Term Capital Gains; ₹ 300,000
- Other Information
- a) Depreciation includes ₹ 150,000 on account of revaluation of fixed assets
 - b) Depreciation per Income Tax Rules is ₹ 280,000

- c) Balance of P&L Account on the assets side of B/S as at 31st March, 2020 was ₹ 10,00,000; of which the unabsorbed depreciation was ₹ 400,000
- d) Capital Gains has been invested in specified assets u/s 54EC
- e) The AOP, of which the Co. is a member has paid the tax at maximum marginal rate
- f) Provision for Income Tax includes ₹ 45,000 as interest

You are required to compute the MAT u/s 115JB of the Income Tax Act, 1961 for AY 2024-25, assuming that the Co. is not required to comply with IND AS.

Ans.

Computation of Book Profit u/s 115JB

Particulars		Amount (₹)	Amount (₹)
	Net Profit per P&L Account		15,00,000
Add:	Provisions for subsidiaries ₹ losses	70,000	
	Provision for doubtful debts	75,000	
	Provision for Income Tax	1,05,000	
	Depreciation	3,60,000	
			6,10,000
			21,10,000
Less:	Share in income of an AOP	1,75,000	
	Depreciation (excl. Reval. Amounts)	2,10,000	
	Unabsorbed Business Losses	4,00,000	
			(7,85,000)
	Book Profits		13,25,000
	MAT Liability @ 15%		19,87,50
Add:	Health and Education Cess @ 4%		7,950
	MAT Liability (rounded off)		20,6700

Note:

1. Interest to FI₹s / Banks which are unpaid prior to filing of return and penalties are not specified items u/s 115JB and hence not added back

2. Provision for Gratuity Liability based on actuarial valuation is an ascertained liability and hence should not be added back to ascertain book profits (CIT vs. Echjay Forgings P. Ltd.)
 3. Capital Gains reflected in the P&L will form a part of the book profits even if the investments u/s 54EC have been made. Therefore, these cannot be reduced. (CIT vs. Veekaylal Investment Co. P Ltd.)
 4. Share of the AOP's income as a member is reduced as the AOP has already paid the tax at maximum marginal rate
5. The table below highlights and explains the modus of MAT Credit, and how it is utilised and carried forward.

MAT CREDIT UTILISATION AND C/F					
A.Y.	Normal Tax Liability	Liability (MAT)	Tax Payable	Credit utilised	Credit c/f
2014-15	100	300	300	-	200
2015-16	120	90	120	30	170
2016-17	150	110	150	40	130
2017-18	180	200	200	-	150
2018-19	200	190	200	10	140
2019-20	300	280	300	20	120
2020-21	250	230	250	20	100
2021-22	225	175	225	50	50
2022-23	250	240	250	10	40
2023-24	275	270	275	5	35
2024-25	350	315	350	35	0

6. DP Ltd (A Domestic Company) provides you the information related to AY: 2024-25. Dividend received from ACC Ltd. (A Domestic Company) ₹1200000 (Interest paid for borrowed money for investment in ACC Ltd ₹300000 and dividend collection charges paid would be ₹7000). Income from Mutual Fund (HDFC Equity Oriented) ₹300000 (Interest paid for borrowed

money for investment in MF ₹16000 and other charges paid would be ₹4000). DP Ltd company has distributed the dividend to shareholders:

Particulars	FY	Date of Payment	Amount
Interim Dividend	2023-24	23-7-2023	2,50,000
Interim Dividend	2023-24	29-11-2024	90,000

You are required to compute Taxable Dividend Income and Deduction under section 80M and Section 57 of Income Tax Act.

Ans.

Computation of Taxable Dividend Income and deduction u/s 57

Particulars		Amount
Dividend received from ACC Ltd		1,20,0000
Less: Deduction u/s 57 in terms of Interest		
(a) Actual Amount	3,00,000	
(b) 20% of income (i.e. 20% *12,00,000)	2,40,000	
a or b whichever is lower		(2,40,000)
Dividend income received		9,60,000
Income from Mutual Fund (HDFC Equity oriented)		3,00,000
Less: Deduction u/s 57 in terms of Interest		
(a) Actual Amount	16,000	
(b) 20% of income (i.e. 20% *3,00,000)	60,000	
a or b whichever is lower		(16,000)
Income received		2,84,000

Computation of Deduction u/s 80M

Due date of filling of return	30.9.2022
(a) Amount of dividend received from domestic companies (As per above)	9,60,000
(b) Amount of dividend distributed 1 month prior to the due date of filing return (i.e.30-9-2024)	2,50,000

Amount of Deduction u/s 80M = A or B Whichever is lower	2,50,000

Note: Dividend collection charges and other charges are not allowed as a deduction.

The domestic company can claim deduction for any expense incurred by it for the purposes of earning such dividend income.

Nature of Dividend	Taxability
Final	In the year of declaration at the AGM by Company
Deemed	In the year of distribution or paid by the Company
Interim	In the year of receipt by the shareholders

7. ABC Ltd.; a domestic company purchases its own unlisted shares, on 14th October, 2023. The consideration for the buyback amounted to ₹ 50,00,000, which was paid on the very same day. The amount received by the company 2 years ago, for the issue of such shares was ₹ 27,00,000.

The tax on such buy back was deposited by the company to the credit of the Central Government on 27th February, 2024.

You are required to compute the tax and the interest payable.

Ans.

Particulars	Amount (₹)
Buy Back Consideration	50,00,000
Less: Cost of Shares	27,00,000
Net paid for buy-back	23,00,000
Tax payable @20%	4,60,000
Surcharge	55,200
Cess (on Tax + SC) @ 4%	20,608
Total additional tax payable	5,35,808
Additional Tax Payable (rounded off)	5,35,810
Interest payable	21,432

Note: The tax had to be deposited to the credit of the Central Government within 14 days of

the payment of buy- back consideration, i.e., on or before 28th October, 2023. However, the tax was deposited on 27th February, 2024 and hence interest for 4 months @ 1% per month is applicable.

8. DEF Ltd. is in the business of manufacture and sale of formal apparels and in order to expand its footprints globally, has launched a massive online campaign. For the purpose of the online advertisements, it utilized the services of GHI Ltd., based out of Singapore. During the PY, DEF Ltd. paid a consideration of ₹ 20,00,000 to GHI Ltd. for such services. Entail the implications if:

- (a) GHI Ltd. has no permanent establishment in India.
- b) GHI Ltd. has a permanent establishment in India.

Ans.

- (a) In case GHI Ltd. has no permanent establishment in India, the consideration paid to GHI Ltd. by DEF Ltd. would attract Equalization Levy to be deducted @ 6%. Hence, ₹ 120,000 has to be deducted by DEF Ltd. and deposited to the credit of the Central Government within 7th of the following month. Non- deduction of equalization levy would attract a disallowance u/s 40(a)(ib) of 100% of the amount paid, while computing business income.
- (b) In case GHI Ltd. has a permanent establishment in India, Equalization Levy would not be attracted. Therefore DEF Ltd. need not deduct Equalization Levy from the payment of consideration to GHI Ltd. However, tax has to be deducted u/s 195 in respect of such payments towards TDS. Non-deduction of TDS would attract a disallowance u/s 40(a)(i) of 100% of the amount paid, while computing business income.

9. Mr. DP has advertised on Facebook for his business purpose. For that, he has to pay ₹ 200000 to Facebook for said advertising services. Discuss the tax implications under chapter VIII of Finance Act, 2016 read with Section 10(50) of Income Tax Act, 1961.

Ans. Mr. DP deduct Equalization Levy = 6% of 200000 = ₹ 12,000 and Pay balance ₹ 1,88,000 to Facebook, the said advertisement. As per section 10(50) of the Income tax Act, 1961, ₹ 200000 shall be exempted in the hands of Facebook.

10. Mama web online portal owned by Kremal corp. (US Based Company) providing online platform to Indian and foreign customer. Goods and services provided to Indian customer's amounts to ₹ 20 crores where provided to Non-resident amounting to ₹ 70 crores (other than u/s 165 & 165A). However, online services provided to Indian Customer XL Virtual by way of online advertisement amounts to ₹ 10,00,000. Discuss the tax implications in relation to Equalization Levy?

Ans.

1. If Mama web online portal has PE in India. In above case, Equalization Levy is not applicable and company is required to pay tax as per normal income tax provisions.
2. If Mama web online portal does not have PE in India. In above case, Equalization Levy is applicable.
 - EL payable by Mama Web online portal to Govt. = $2\% \times 20 \text{ Crores} = ₹ 4,00,000$
 - XL Virtual is required to deduct Equalization Levy for online advertisement = $6\% \text{ of } 10,00,000 = ₹ 60,000$

11. Nozy Inc., a USA based company, is carrying on the business of manufacture and sale of "Cosmetic". In order to increase its Indian Market share, Company launched a massive advertisement campaign of its products. For the purpose of online advertisement, it utilized the services of Kuka Inc., a Ghana based company which also owns and operates a digital platform. The gross receipt of Kuka Inc from provision of such services during the P.Y. 2021-22 is Rs 3 crores. During the previous year 2021-22, Nozy Inc. paid ₹ 5 lakhs to Kuka Inc. for such services. Discuss the tax implications in line with reference to Equalization Levy If -

- (a) Nozy Inc. and Kuka Inc. have no PE in India
- (b) Nozy Inc. has a PE in India but Kuka Inc. has not PE in India
- (c) Kuka Inc. has a PE in India and the advertisement services are effectively connected with such PE

Ans.

(1) Nozy Inc. and Kuka Inc. have no PE in India

- Equalization levy would not be applicable. Therefore, the Nozy Inc. is not required to deduct equalization levy @ 6%
- Equalization levy @2% under section 165A is leviable on ₹ 5 lakhs as the amount of

consideration received by Kuka Inc, an e-commerce operator from e-commerce services provided by it to Nozy Inc., a non-resident in the specified circumstance (i.e. sale of advertisement) which targets a customer, who is resident in India, since the gross receipt of Kuka Inc. in the P.Y. 2021-22 exceeds ₹ 2 crores.

(2) Nozy Inc. has a PE in India but Kuka Inc. has not

- Equatization tevy @6% is teviabte on Rs 5,00,000 received by Kuka Inc., a non-resident not having a PE in India.
- Hence, Nozy Inc. is required to deduct equatisation tevy of Rs 30,000 (6% * 5 takhs) as Services provided by Nozy Inc., a non-resident having no permanent estabtishment in India.
- Since, equatisation tevy is attracted on the amount of Rs 5 takhs, the said amount is exempt from income-tax by virtue of section 10(50) of the Income-tax Act, 1961.

(3) Kuka Inc. has a PE in India and the advertisement services are connected with such PE

- Equatisation tevy would not be appticabte as the non-resident service provider Kuka Inc., has a PE in India and the service is effectivety connected to the permanent estabtishment in India.
- Hence, Nozy Inc. is not required to deduct equatisation tevy on Rs 5 takhs, being the amount paid towards ontine advertisement services to Kuka Inc, in this case.
- Since equatisation tevy is not appticabte in this case hence no exemption under section 10(50) of the Income-tax Act, 1961 would be avaitabte.
- It is immateriat whether Nozy Inc. has a PE in India or not for the purpose of equatisation tevy implication of advertisement transaction, as in both the cases, equatisation tevy would not be attracted.

12. XP Private Ltd. went into Liquidation on 1.6.2023. The company was apprehended and controlLled of the foLLowing funds prior to the distribution of assets to the sharehoLders: Share capital of ₹ 500000 which was issued on 1st April 2015, AccumuLated profit till date wouLd be ₹ 300000. Moreover, ₹ 500000 has been an excess realisation on Liquidation. There are five shareholders, each of whom received ₹ 2,60,000 from the liquidator in full settlement. Being Company Secretary of Company, throw light on the various issues and advice the shareholders and company about their liability to Income tax.

Ans. Facts: XP Private Ltd. went into liquidation on 1.6.2023 and having accumulated profit prior to liquidation would be ₹ 300000.

Issue: Taxability in case of liquidation i.e. in the hands of company and shareholder.

Analysis:

In the hands of Company:

- Distribution made to the shareholders of the company on liquidation is treated as "Deemed Dividend" u/s 2(22)(c)
- If the assets of company are distributed in the event of liquidation, then such distribution shall not be considered as "Transfer". Hence, Capital Gain shall not be applicable to company.

In the hands of Shareholders:

- If the money or other sums received by shareholders on liquidation, then capital gain is applicable to Shareholders in the year of receipt of assets.

In this case, the accumulated profits immediately before liquidation is Rs 3,00,000. The share of each shareholder is Rs 60,000 (i.e. 300000/5) shall be treated as deemed dividend under section 2(22) (c). The same is taxable in the hands of the shareholder under the head "Income from other sources".

Consideration received	260000
Add: Fair Market Value of the assets received on date of distribution	-
Less: Amount assessed as dividend u/s 2(22) (c)	(60000)
Sale Consideration in the hands of each shareholder as per section 46(2)	200000

13. The following details of the shares issued by the following closely held companies are available. You are required to advise the Company on the applicability or otherwise of Section 56(2) (viib).

Company	No. of Shares	FV of Shares (₹)	FMV of Shares (₹)	Issue Price (₹)	Applicability & Chargeable Tax
A (P) Ltd.	10000	100	120	130	Section 56(2) (viib) attracted as the shares are issued at premium. $10000 \times (130-120) = ₹ 100,000$ would be chargeable to tax under the head "Income from other sources"

B (P) Ltd.	20000	100	120	110	Section 56(2) (viib) attracted as the shares are issued at premium. However, no amount is chargeable to tax as the Issue Price is < the FMV
C (P) Ltd.	30000	100	90	98	Section 56(2) (viib) are not attracted as the shares are not issued at premium, rather at a discount on FV, even though the issue price is > FMV
D (P) Ltd.	40000	100	90	110	Section 56(2) (viib) attracted as the shares are issued at premium. $40000 \times (110-90) = ₹ 800,000$ would be chargeable to tax under the head "Income from Other Sources"

Chapter – 13

PROCEDURAL COMPLIANCE

1. Calculate Advance Tax Payable by Mr. Arun from the following estimated incomes for the previous year

2023-24 :

- Business Income : ₹ 4,75,000;
- Rent from house property : ₹ 36,000 per month;
- Municipal taxes : ₹ 27,000;
- Winning from games : ₹ 70,000 (net of TDS);
- Life insurance premium paid for himself (sum assured : ₹ 5,00,000) : ₹ 30,000.

Ans.

Computation of Advance Tax payable by Mr. Arun - Previous Year 2023-24 (Assessment Year 2024-25) Step 1 : Compute Estimated Total Income for the year :

Particulars	₹	₹
Income from house property :		
Gross Annual Value [Rental Income (36,000 × 12)]	4,32,000	
Less : Municipal taxes paid by owner	(27,000)	
Net Annual Value (NAV)	4,05,000	
Less : Standard Deduction @ 30% of NAV	(1,21,500)	2,83,500
Profits and gains of Business or Profession		4,75,000
Income from other sources :		
Winning from games (gross) [70000 × 100(100% - 30%)]		1,00,000
Gross Total Income (GTI)		8,58,500
Less: Deductions under Section 80C		(30,000)
Total Income		8,28,500

Step 2 : Computation Estimated of Tax Liability and Advance Tax Payable

Particulars	₹	₹
Tax on :		
Winning from Games @ 30% [1,00,000 × 30%]	30,000	
Balance Income @ Slab Rate [12,500 + 20% of (7,28,500 - 5,00,000)]	58,200	
Tax Payable		88,200
Add: Surcharge, if any		Nil
Add: Cess @ 4%		3,528
Tax Liability		91,728
Less : TDS		(30,000)
Advance Tax Liability		61,728
Advance Tax (Rounded off)		61,730

Step 3 : Advance Tax Instalments - Advance tax is payable as follows :

Upto	% (Rate)	Cumulative (₹)	Each Instalment (₹)
15.06.2023	15	9,259 [61,730×15%]	9,259
15.09.2023	45	27,778 [61,730×45%]	18,519
15.12.2023	75	46,297 [61,730×75%]	18,519
15.03.2024	100	61,730 [61,730×100%]	15,433

Note: Assuming assessee has, not opted for section 115BAC of the Income Tax Act, 1961.

2. Red Ltd. (an Indian company) has estimated its income for previous year 2023-24. Calculate advance tax payable by it from the following :

- Business Income : ₹ 10,80,000;
- Income from house property (after deduction under section 24) : ₹ 7,20,000;
- Long term capital gain (LTCG) on transfer of immovable property on 1st November, 2023 : ₹ 3,60,000;
- Interest on bank deposits (other than saving bank account) : ₹ 45,000;
- TDS on business income and interest was ₹ 60,000;

- Deduction under section 80G is ₹1,00,000.

Ans.

Computation of advance tax payable by Red Ltd. for Previous Year 2023-24 (Assessment Year 202425) :

Step 1 : Compute Estimated total income for the year :

Particulars	₹
Profits and gains of Business or Profession	10,80,000
Income from house property	7,20,000
LTCG	3,60,000
Income from other sources :	
Interest on bank deposits	45,000
Gross Total Income (GTI)	22,05,000
Less: Deductions under Section 80G	(1,00,000)
Total Income	21,05,000

Step 2: Computation of Estimated Tax Liability and Advance Tax Payable (It is presumed that Red Ltd is a regular company which is not satisfying the conditions of 115BA, 115BAA and 115BAB and its turnover/ Gross receipts during PYr. 2022-23 exceeds Rs 400 Crores, hence rate of tax is taken as 30%)

Particulars	₹	₹
Tax on :		
LTCG @ 20% (3,60,000 × 20%)	72,000	
Balance Income @ 30% [(21,05,000 - 3,60,000) × 30%]	5,23,500	5,95,500
Add: Surcharge, if any		Nil
Add: Cess @ 4%		23,820
Tax Liability		6,19,320
Less : TDS		(60,000)
Advance Tax Liability		5,59,320
Advance Tax (rounded off)		5,59,320

Step 3: Advance Tax Instalments - Advance Tax is payable as follows:

Note: Advance Tax is payable by all Assessee in four installments during the previous year, i.e., by 15th June (15%), 15th September (45%), 15th December (75%) and 15th March (100%).

However, in case of LTCG arising after one or more installments, advance tax on installments prior to date of LTCG can be paid without including tax on LTCG and advance tax on installments after LTCG must be paid in the remaining installments on the amount of total tax liability including that on LTCG.

Therefore, in this case, advance tax payable by 1st and 2nd installment would be based on Tax excluding Tax on LTCG and advance tax payable by 3rd and 4th installment would be based on tax including tax on LTCG.

Tax excluding tax on LTCG : ₹ 5,23,500 + Cess @ 4% = ₹ 5,44,440 - TDS ₹ 60,000 = ₹ 4,84,440

Upto	Cumulative %	Cumulative (₹)	Each installment (₹)
15.06.2023	15	72,666 [4,84,440×15%]	72,666
15.09.2023	45	2,17,998 [4,84,440×45%]	1,45,332
15.12.2023	75	4,19,490 [5,59,320×75%]	2,01,492
15.03.2024	100	5,59,320 [5,59,320×100%]	1,39,830

Individual and spouse governed by Portuguese Civil Code of 1860 and Tax Audit applicability:

Section 139 has been amended so as to align the due dates of filing of return of income for the assessee with his / her spouse, in case the provisions of tax audit are applicable, and they are governed by the Portuguese Civil Code of 1860 and Section 5A is applicable. In the erstwhile provisions there was a mismatch whereby the spouse had to file his / her return earlier by 31 July and the assessee was required to do so by 31 October, if the provisions of Section 44AB were applicable. Thus, the due date of 31st October would now be applicable to both the said assessee as well as his / her spouse, if either one of them is required to get his / her books audited.

- Firm (cases where 92E applicable) & Partner: The earlier provisions for filing of return of income had a mismatch in case the provisions of Section 92E were applicable to the firm as the due date of filing return of income was 31st October for the partners but 30th November for the firm. It is proposed to align the due date of filing Return of

income under Section 139 to 30th November, for the partners of the firm to whom the provisions of Section 92E are applicable.

Practice Questions:

1. Miss Saroj is a salaried employee. Her taxable salary income for the year 2021-22 is ₹ 8,40,000 (she does not have any other income). What will be the due date of filing the return of income for the financial year 2021-22?

Ans: 31st July, 2022

2. Mr. Rupen is a doctor. Gross receipts for the year 2021-22 came to ₹ 18,40,000. He opts for the presumptive taxation scheme of section 44ADA. What will be the due date for filing of return of income by Mr. Rupen for the financial year 2021-22?

Ans: The gross receipts for the year are less than ₹ 50,00,000 and Mr. Rupen has opted for the presumptive taxation scheme of section 44ADA. Hence Mr. Rupen will not be liable to get his accounts audited i.e. he is not covered by audit. Hence, the due date for filing the return of income of the year 2021-22 will be 31st July, 2022.

3. Mr. Rahul is running a garments factory. Turnover of his business for the year 2021-22 amounted to ₹ 1,84,00,000. He opts for the presumptive taxation scheme of section 44AD. What will be the due date for filing of return of income by Mr. Rahul for the financial year 2021-22?

Ans: The turnover for the year is less than ₹ 2,00,00,000 and hence Mr. Rahul will not be liable to get his accounts audited i.e. he is not covered by audit as he opts for the presumptive taxation scheme of section 44AD. Hence, the due date of filing the return of income of the year 2021-22 will be 31st July, 2022.

4. Mr. Kaushal is a partner in Essem Trading Company. The turnover of the firm for the financial year 2021-22 amounted to ₹ 2,84,00,000. Apart from remuneration, interest and share of profit from the firm, Mr. Kaushal is not having any other source of income. What will be the due date for filing the return of income by the partnership firm and by Mr. Kaushal for the financial year 2021-22?

Ans: The turnover of the firm exceeds ₹ 2,00,00,000 and, hence, the firm will not be eligible for presumptive taxation scheme under section 44AD. Further, the firm shall be liable to get its

accounts audited under section 44AB. Hence, the due date for filing the return of income of the year 2021-22 (in case of the firm as well as Mr. Kaushal) will be 31st October, 2022.

5. Mr. Kiran is a partner in SM Enterprises. The turnover of the firm for the financial year 2021- 22 amounted to ₹ 1,84,00,000. The firm has declared income @ 8% on presumptive basis under section 44AD of the Act. Apart from remuneration, interest and share of profit from the firm, Mr. Kiran is not having any other source of income. What will be the due date of filing of return of income by the partnership firm and by Mr. Kiran for the financial year 2021-22?

Ans: The turnover of the firm is below ₹ 2,00,00,000 and, hence, it will not be liable to get its accounts audited. Hence, the due date for filing the return of income of the year 2021-22 (in case of firm as well as Mr. Kiran) will be 31st July, 2022.

6. Essem Minerals Pvt. Ltd. is a company engaged in trading of minerals. What will be the due date for filing the return of income for the financial year 2021-22?

Ans: The due date for filing the return of income of the year 2021-22 will be 31st October, 2022.

7. Essem Minerals Pvt. Ltd. is a company engaged in trading of minerals and liable to furnish a report in Form No. 3CEB under section 92E. What will be the due date for filing the return of income for the financial year 2021-22?

Ans: The due date for filing the return of income of the year 2021-22 will be 30th November, 2022.

8. Mrs. Gupta is house wife and has no source of income. During the financial year 2021- 22, she made payment towards electricity bills of her house. Total payment of ₹ 1,50,000 lakhs were made through bank account. Whether M^{rs} Gupta will be liable to file return of income?

Ans: W.e.f., Assessment Year 2020-21, a person shall be liable to file return of income if he has incurred aggregate expenditure in excess of ₹ 1 lakh towards payment of electricity bill. In this case, M^{rs} Gupta has made payment of ₹ 1,50,000 towards electricity bills. Thus, she will be liable to file return of income for the financial year 2021-22 by 31st July, 2022.

9. Mr. Raghav is a salaried employee. He gifted a holiday package of Dubai to his brother. Mr. Raghav paid total amount of ₹ 2.5 lakhs to tour operator for the holiday package. His salary income for the financial year 2021-22 is ₹ 2,00,000 and has no other income. Whether Mr. Raghav is liable to file return of income?

Ans: W.e.f Assessment Year 2020-21, a person shall be liable to file return of income if he has incurred aggregate expenditure in excess of ₹ 2 lakh for himself or any other person for travel to a foreign country. So whether a person incurred expense for self or for any other person, filing of return is mandatory if expenses on foreign travel is in excess of ₹ 2 Lakh. In this case, Mr. Raghav has purchased holiday package worth ₹ 2.5 lakhs. Thus, he will be liable to file return of income for the financial year 2021-22 by 31st July, 2022 even though his total income doesn't exceed the maximum amount not chargeable to tax.

3. Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹ 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

Ans.	₹
Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	1,20,000
	8,50,000
Less: Standard deduction under section 16(ia)	50,000
	<u>8,00,000</u>
Tax Liability	75,400
Average rate of tax ($\text{₹ } 75,400 / \text{₹ } 8,00,000 \times 100$)	9.425%

Mr. A can deduct ₹ 75,400 at source from the salary of the General Manager at the time of payment.

Alternatively, Mr. A can pay tax on non-monetary perquisites as under - Tax on non-monetary perquisites = 9.425% of ₹ 1,20,000 = ₹ 11,310 Balance to be deducted from salary = ₹ 64,090

If Mr. A pays tax of ₹ 11,310 on non-monetary perquisites, the same is not a deductible expenditure as per section 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per section 10(10CC).

4. Examine the TDS implications under section 194A in the cases mentioned hereunder-

- (i) On 1.10.2023, Mr. Harish made a six-month fixed deposit of ₹ 10 lakh@9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2024.
- (ii) On 1.6.2023, Mr. Ganesh made three nine months fixed deposits of ₹ 3 lakh each, carrying interest@9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2024.
- (iii) On 1.10.2023, Mr. Rajesh started a six months recurring deposit of ₹ 2,00,000 per month@8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2024.

Ans.

- (i) ABC Co-operative Bank has to deduct tax at source@10% on the interest of ₹ 45,000 ($9\% \times ₹ 10 \text{ lakh} \times \frac{1}{2}$) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, ₹ 4,500.
- (ii) XYZ Bank has to deduct tax at source@10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [$3,00,000 \times 3 \times 9\% \times 9/12$], which exceeds the threshold limit of ₹ 40,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 60,750 exceeds the threshold limit of ₹ 40,000, tax has to be deducted@10% u/s 194A.
- (iii) No tax has to be deducted under section 194A by PQR Bank on the interest of ₹ 28,000 falling due on recurring deposit on 31.3.2024 to Mr. Rajesh, since such interest does not exceed the threshold limit of ₹ 40,000.

5. ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y.2023-24-

₹ 20,000 on 1.5.2023

₹ 25,000 on 1.8.2023

₹ 28,000 on 1.12.2023

On 1.3.2024, a payment of ₹ 30,000 is due to Mr. X on account of a contract work.

Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. X.

Ans. In this case, the individual contract payments made to Mr. X does not exceed ₹ 30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2023-24 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 30,000, due on 1.3.2024, taking the total from ₹ 73,000 to ₹ 1,03,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted @1% on the entire amount of ₹ 1,03,000 from the last payment of ₹ 30,000 and the balance of ₹ 28,970 (i.e., ₹ 30,000 - ₹ 1,030) has to be paid to Mr. X.

6. Certain concessions are granted to transport operators in the context of cash payments u/s 40A(3) and deduction of tax at source u/s 194-C. Elucidate.

Ans. Section 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds ₹ 10,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft or use of electronic clearing system through bank account or through other prescribed electronic modes.

However, in case of payment made to transport operators for plying, hiring or leasing goods carriages, the disallowance will be attracted only if the payment made to a person in a day exceeds ₹ 35,000. Therefore, payment or aggregate of payments up to ₹ 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic system through bank account or through other prescribed electronic modes, without attracting disallowance u/s 40A(3).

Under section 194C, tax had to be deducted in respect of payments made to contractors at the

rate of 1%, in case the payment is made to individual or Hindu Undivided Family or at the rate of 2%, in any other case.

However, no deduction is required to be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled:-

- (1) He owns ten or less goods carriages at any time during the previous year.
- (2) He is engaged in the business of plying, hiring or leasing goods carriages;
- (3) He has furnished a declaration to this effect along with his PAN.

7. Moon TV, a television channel, made payment of ₹ 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss.

Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

Ans. In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of ₹ 50 lakhs made by Moon TV to the production house would be subject to tax deduction at source under section 194C.

If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source under section 194C.

8. XYZ Ltd. pays ₹ 50,000 per month as rent to the Mr. Kishore for a building in which one of its branches is situated. Discuss whether TDS provisions under section 194-I are attracted.

Ans. Section 194-I, which governs the deduction of tax at source on payment of rent, exceeding ₹ 2,40,000 p.a., is applicable to all taxable entities except individuals and HUFs, whose total sales, gross receipts or turnover from the business or profession carried on by him does not exceed ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the financial year immediately preceding financial year in which such rent was credited or paid, is liable to deduct tax at source.

Since the rent paid by XYZ Ltd. to Mr. Kishore exceeds ₹ 2,40,000, the provisions of section 194-I for deduction of tax at source attracted.

The rate applicable for deduction at source under section 194-I on rent paid is 10%, assuming that Mr. Kishore had furnished his PAN to XYZ Ltd.

Therefore, the amount of tax to be deducted at source = ₹ 6,00,000 × 10% = ₹ 60,000

9. Mr. X, a salaried individual, pays rent of ₹ 55,000 per month to Mr. Y from June, 2023. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.

Would your answer change if Mr. X vacated the premises on 31st December, 2023? Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

Ans. Since Mr. X pays rent exceeding ₹ 50,000 per month in the F.Y. 2023-24, he is liable to deduct tax at source @5% of such rent for F.Y. 2023-24 under section 194-IB. Thus, ₹ 27,500 [₹ 55,000 × 5% × 10] has to be deducted from rent payable for March, 2024.

If Mr. X vacated the premises in December, 2023, then tax of ₹ 19,250 [₹ 55,000 × 5% × 7] has to be deducted from rent payable for December, 2023.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @20%, instead of 5%.

In case 1 above, this would amount to ₹ 1,10,000 [₹ 55,000 × 20% × 10], but the same has to be restricted to ₹ 55,000, being rent for March, 2024.

In case 2 above, this would amount to ₹ 77,000 [₹ 55,000 × 20% × 7], but the same has to be restricted to ₹ 55,000, being rent for December, 2023.

10. XYZ Ltd. makes a payment of ₹ 28,000 to Mr. Ganesh on 2.8.2023 towards fees for professional services and another payment of ₹ 25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted.

Ans. TDS provisions under section 194J would not get attracted, since the limit of ₹ 30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2023-24.

11. Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y.2023-24
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2022-23	Contract Payment for repair of residential house	₹ 5 lakhs
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2022-23.	Contract Payment for reconstruction of residential house (made during the period January-March, 2024)	₹ 20 lakhs in January, 2024, ₹ 15 lakhs in Feb 2024 and ₹ 20 lakhs in March 2024.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2024	₹ 51 lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2023 for reconstruction of residential house	₹ 48 lakhs

Ans.

	Particulars of the payer	Nature of payment	Aggregate of payments in the F.Y.2023-24	Whether TDS provisions are attracted?
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2022-23	Contract Payment for repair of residential house	₹ 5 lakhs	No; TDS under section 194C is not attracted since the payment is for personal purpose. TDS under section 194M is not attracted as aggregate of contract payment to the payee in the P.Y.2023-24 does not exceed ₹ 50 lakh.
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000	Yes, u/s 194H, since the payment exceeds ₹ 15,000, and Mr. Ganesh's turnover exceeds ₹ 1 crore in the P.Y.2022-23.
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2022-23	Contract Payment for reconstruction of residential house	₹ 55 lakhs	Yes, u/s 194M, since the aggregate of payments (i.e., ₹ 55 lakhs) exceed ₹ 50 lakhs. Since, his turnover does not exceed 1 crore in the P.Y.2022-23, TDS provisions under section 194C are not attracted in respect of payments made in the P.Y. 2023-24.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house	₹ 51 lakhs	Yes, u/s 194M, since the payment of ₹ 51 lakhs made in March 2024 exceeds the threshold of ₹ 50 lakhs. Since Mr. Satish is a salaried individual, the provisions of section 194H are not applicable in this case.
4.	Mr. Dheeraj, a pensioner	Contract payment for	₹ 48 lakhs	TDS provisions under section 194C are not

		reconstruction of residential house		attracted since Mr. Dheeraj is a pensioner. TDS provisions under section 194M are also not applicable in this case, since the payment of ₹ 48 lakhs does not exceed the threshold of ₹ 50 lakhs.

12. Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases -

- (a) Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 31.3.2024, towards maturity proceeds of LIC policy taken on 1.4.2021, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000.
- (ii) Mr. Y, a resident, is due to receive ₹ 3.95 lakhs on 31.3.2024 on LIC policy taken on 31.3.2012, for which the sum assured is ₹ 3.50 lakhs and the annual premium is ₹ 26,100.
- (iii) Mr. Z, a resident, is due to receive ₹ 95,000 on 1.8.2023 towards maturity proceeds of LIC policy taken on 1.8.2017 for which the sum assured is ₹ 90,000 and the annual premium was ₹ 10,000.

Ans.

- (i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 4.50 lakhs due on 31.3.2024 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @ 5% under section 194DA on the amount of income comprised therein i.e., on ₹ 75,000 (₹ 4,50,000, being maturity proceeds - ₹ 3,75,000, being the aggregate amount of insurance premium paid).
- (ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of ₹ 3.95 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.
- (iii) Even though the annual premium exceeds 10% of sum assured in respect of a policy

taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 95,000 due on 1.8.2023 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.

13. Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 1.8.2023. He has purchased the house property and the land in the year 2022 for ₹ 40 lakh and ₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2023, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

Ans.

(i)	Tax implications in the hands of Mr. X
	As per section 50C, the stamp duty value of house property (i.e. ₹ 85 lakh) would be deemed to be the full value of consideration arising on transfer of property, since the stamp duty value exceeds 110% of the consideration received. Therefore, ₹ 45 lakh (i.e., ₹ 85 lakh - ₹ 40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.2024-25. Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.
(ii)	Tax implications in the hands of Mr. Y
	In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds the higher of ₹ 50,000 and 10% of the consideration. Therefore, in this case ₹ 25 lakh (₹ 85 lakh - ₹ 60 lakh) would be taxable in the hands of Mr. Y under section 56(2)(x). Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of "property" under section 56(2)(x) includes only capital assets specified thereunder.
(iii)	TDS implications in the hands of Mr. Y

Since the sale consideration of house property or the stamp duty value of house property exceeds ₹ 50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be ₹ 85,000, being 1% of ₹ 85 lakhs (higher of ₹ 60 lakhs or ₹ 85 lakhs). TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

14. Mr. Sharma, a resident Indian aged 77 years, gets pension of ₹ 52,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest @ 8% p.a. on fixed deposit of ₹ 20 lakh with the said bank. Out of the deposit of ₹ 20 lakh, ₹ 2 lakh represents five year term deposit made by him on 1.4.2023. Interest on savings bank credited to his SBI savings account for the P.Y. 2023-24 is ₹ 9,500.

- (1) From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2024-25, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (2) What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y. 2024-25, if tax deductible at source has been fully deducted? Examine.
- (3) Is Mr. Sharma required to file his return of income for A.Y. 2024-25, if the fixed deposit of ₹ 20 lakh was with Canara Bank instead of SBI, other facts remaining the same?

Ans.

(1) **Computation of total income of Mr. Sharma for A.Y. 2024-25**

Particulars		₹	₹
I	Salaries		
	Pension (₹ 52,000 × 12)	6,24,000	
	Less: Standard deduction u/s 16(ia)	50,000	
			5,74,000
II	Income from Other Sources		
	Interest on fixed deposit (₹ 20 lakh × 8%)	1,60,000	

Interest on savings account	9,500	1,69,500
Gross total income		7,43,500
Less: Deductions under Chapter VI-A		
Under Section 80C		
Five year term deposit (₹ 2 lakh, restricted to ₹ 1.5 lakh)	1,50,000	
Under section 80TTB		
Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 year	50,000	2,00,000
Total Income		5,43,500

Computation of tax liability for A.Y.2024-25

Particulars	₹
Tax payable [₹ 43,500 × 20% + ₹ 10,000]	18,700
Add: Health and Education Cess@4% Tax liability	748
	19,448
Tax liability (rounded off)	19,450

- (2) SBI, being a specified bank, is required to deduct tax at source u/s 194P and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.
- (3) If the fixed deposit of ₹ 20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a "specified senior citizen". In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI-A) exceeds the basic exemption limit.

15. Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2022-23 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2023-24 was ₹ 95 lakh (₹ 20 lakh on 1.6.2023, ₹ 25 lakh on 12.8.2023, ₹ 22 lakh on 23.11.2023 and ₹ 28 lakh on 25.3.2024). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2022-23 was ₹ 15 crores.

- (1) Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
- (2) Would your answer be different if Mr. Gupta's turnover for F.Y.2022-23 was ₹ 8 crores, all other facts remaining the same?
- (3) Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required?

Ans.

- (1) Since Mr. Gupta's turnover for F.Y.2022-23 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the P.Y.2023-24, he is liable to deduct tax@0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner -

No tax is to be deducted u/s 194Q on the payments made on 1.6.2023 and 12.8.2023, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 22 lakh on 23.11.2023 [₹ 22 lakh - ₹ 5 lakhs, being the balance unexhausted threshold limit].

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 28 lakhs on 25.3.2024.

Note - In this case, since both section 194Q and 206C(1H) applies, tax has to be deducted u/s 194Q.

- (2) If Mr. Gupta's turnover for the F.Y.2022-23 was only ₹ 8 crores, TDS provisions under section 194Q would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds ₹ 10 crores in the F.Y.2022-23 and his receipts from Mr. Gupta exceed ₹ 50 lakhs.

No tax is to be collected u/s 206C(1H) on 1.6.2023 and 12.8.2023, since the aggregate receipts till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be collected u/s 206C(1H) on 23.11.2023 (₹ 22 lakh - ₹ 5 lakhs, being the balance unexhausted threshold limit).

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be collected u/s 206C(1H) on 25.3.2024.

- (3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax@5%, instead of 0.1%. Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 (5% of ₹ 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2023 and 25.3.2024, respectively.

In case (2), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect tax@1% instead of 0.1%. Accordingly, tax of ₹ 17,000 (i.e., 1% of ₹ 17 lakhs) and ₹ 28,000 (1% of ₹ 28 lakhs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2023 and 25.3.2024, respectively.

16. Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year -

Particulars	₹
2022-23	1,05,00,000
2023-24	95,00,000

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2023-24:

Particulars	₹
Interest paid to UCO Bank on 15.8.2023	41,000
Contract payment to Raj (2 contracts of ₹ 12,000 each) on 12.12.2023	24,000
Shop rent paid (one payee) on 21.1.2024	2,50,000
Commission paid to Balu on 15.3.2024	7,000

- Ans. As the turnover of business carried on by Ashwin for F.Y. 2022-23, has exceeded ₹ 1 crore, he has to comply with the tax deduction provisions during the financial year 2023-24, subject to, the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

TDS under section 194A is not attracted in respect of interest paid to a banking company.

Contract payment of ₹ 24,000 to Raj for 2 contracts of ₹ 12,000 each

TDS provisions under section 194C would not be attracted if the amount paid to a contractor does

not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

Shop Rent paid to one payee - Tax has to be deducted@10% under section 194-I as the annual rental payment exceeds ₹ 2,40,000.

Commission paid to Balu - No, tax has to be deducted under section 194H in this case as the commission does not exceed ₹ 15,000.

17. Compute the amount of tax deduction at source on the following payments made by M/s S Ltd. during the financial year 2023-24 as per the provisions of the Income-tax Act, 1961.

S. No.	Date	Nature of Payment
(i)	1-10-2023	Payment of ₹ 2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect alongwith his PAN.
(ii)	1-11-2023	Payment of fee for technical services of ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2023	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2024	Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates.
(v)	01-01-2024	Payment of ₹ 2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(vi)	01-02-2024	Payment of commission of ₹ 14,000 to Mr. Y.

Ans. (i) No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:

- (1) He owns ten or less goods carriages at any time during the previous year.
- (2) He is engaged in the business of plying, hiring or leasing goods carriages;

(3) He has furnished a declaration to this effect along with his PAN.

- (ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds ₹ 30,000 during the financial year. In the given case, since, the individual payments for fee of technical services i.e., ₹ 25,000 and royalty ₹ 20,000 is less than ₹ 30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.
- (iii) Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2023 to M/s X Ltd. is less than the threshold limit of ₹ 30,000.
- (iv) According to section 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or associate of such customer.

Therefore, there is no liability to deduct tax at source in respect of payment of ₹ 2,00,000 to Mr. A, since the contract is a contract for 'sale'.

- (v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000.

In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed ₹ 2,50,000.

- (vi) As per section 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds ₹ 15,000.

Since the commission payment made to Mr. Y does not exceed ₹ 15,000, the provisions of section 194H are not attracted.

18. Examine the applicability of TDS provisions and TDS amount in the following cases:

- Rent paid for hire of machinery by B Ltd. to Mr. Raman ₹ 2,60,000 on 27.9.2023.
- Fee paid on 1.12.2023 to Dr. Srivatsan by Sundar (HUF) ₹ 35,000 for surgery performed on a member of the family.
- ABC and Co. Ltd. paid ₹ 19,000 to one of its Directors as sitting fees on 01-01-2023.

Ans. (a) Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds ₹ 2,40,000, the provisions of section 194-I for deduction of tax at source are attracted.

The rate applicable for deduction of tax at source under section 194 -I on rent paid for hire of plant and machinery is 2%, assuming that Mr. Raman had furnished his permanent account number to B Ltd.

Therefore, the amount of tax to be deducted at source: = ₹ 2,60,000 × 2% = ₹ 5,200.

Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @ 20% on ₹ 2,60,000, by virtue of provisions of section 206AA.

- (b) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover from the business or profession exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession, as the case may be, in the financial year preceding the current financial year and such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.

Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source under section 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds ₹ 50 lakhs during the financial year.

In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2023 for a personal purpose, therefore, section 194J is not attracted. Section 194M would have been attracted, if the payment or aggregate of payments exceeded ₹ 50 lakhs in the P.Y.2023-24. However, since the payment does not exceed ₹ 50 lakh in this case, there is no liability to deduct tax at source under section 194M also.

- (c) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of ₹ 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax@10% has to be deducted at source under section 194J in respect of the sum of ₹ 19,000 paid by ABC Ltd. to its director.

Therefore, the amount of tax to be deducted at source: = ₹ 19,000 × 10% = ₹ 1,900

19. Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the F.Y. 2023-24:

- (1) Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31.3.2024.
- (2) Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
- (3) ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2024 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

- Ans. (1) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual.

Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000. Tax to be deducted = ₹ 4,20,000 × 1% = ₹ 4,200

- (2) Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000. The rate of deduction of tax at source is 30%.

Hence, tax to be deducted = ₹ 1,50,000 × 30% = ₹ 45,000.

- (3) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or

the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹ 2,50,000.

20. State of Uttar Pradesh on compulsory acquisition of his urban land. Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.

Ans. The proviso to section 234C contains the provisions for payment of advance tax in case of capital gains and casual income.

Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is not possible for the assessee to estimate his capital gains, or income from lotteries etc., it has been provided that if any such income arises after the due date for any instalment, then, the entire amount of the tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining instalments of advance tax, which are due.

Where no such instalment is due, the entire tax should be paid by 31st March of the relevant financial year.

No interest liability on late payment would arise if the entire tax liability is so paid.

Note: In case of casual income the entire tax liability is fully deductible at source @30% under section 194B, 194BA and 194BB. Therefore, advance tax liability would arise only if the surcharge, if any, and health and education cess@4% in respect thereof, along with tax liability in respect of other income, if any, is 10,000 or more.

21. Paras aged 55 years is a resident of India. During the F.Y. 2023-24, interest of ₹ 2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also

earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income?

What will be your answer, if he has incurred ₹ 3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time?

2 or the spouse of such partner if the provisions of section 5A applies to such spouse

Ans. An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section or section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. ₹ 3,00,000 under default tax regime u/s 115BAC and ₹ 2,50,000 if exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (for A.Y. 2024-25).

Computation of total income of Mr. Paras for A.Y. 2024-25

Particulars	₹
Income from other sources	
Interest earned from Non-resident (External) Account ₹ 2,88,000 [Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
Less: Deduction under Chapter VI-A (not available under the default tax regime under section 115BAC)	-
Total Income	33,000

In case he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction of ₹ 3,000 under section 80TTA. Accordingly, his total income would be ₹ 30,000. However, in both regimes, total income of ₹ 33,000, before giving effect to deductions under Chapter VI-A, would be considered.

Since the total income of Mr. Paras for A.Y.2024-25, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit in both regimes, he is not required to file return of income for A.Y.2024-25.

Note: In the above solution, interest of ₹ 2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to, inter alia, the deductions under Chapter VI-A, would be ₹ 3,21,000 (₹ 30,000 + ₹ 2,88,000 + ₹ 3,000), which is higher than the basic exemption limit of ₹ 3,00,000 or ₹ 2,50,000, as the case may be. Consequently, he would be required to file return of income for A.Y.2024-25.

If he has incurred expenditure of ₹ 3 lakhs on foreign travel of self and spouse, he has to mandatorily file his return of income on or before the due date under section 139(1), even if his income is less than the basic exemption limit.

22. Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- (i) Belated return filed under section 139(4).
- (ii) Return already revised once under section 139(5).
- (iii) Return of loss filed under section 139(3).

Ans. Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

- (i) A belated return filed under section 139(4) can be revised.
- (ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.
- (iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

23. Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2024 audited under section 44AB. Her total income for the A.Y. 2024-25 is ₹ 6,35,000. She wants to furnish her return of income for A.Y. 2024-25 through a tax return preparer. Can she do so?

Ans. Section 139B provides a scheme for submission of return of income for any assessment year through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, M^{rs} Hetal cannot furnish her return of income for A.Y.2024-25 through a Tax Return Preparer.

24. State with reasons whether you agree or disagree with the following statements:

- Return of income of Limited Liability Partnership (LLP) could be verified by any partner.
- Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2024 whether or not declaring presumptive income under section 44AD, is 31st October, 2024.

Ans. (a) **Disagree**

The return of income of LLP should be verified by a designated partner.

Any other partner can verify the Return of Income of LLP only in the following cases:-

- (i) where for any unavoidable reason such designated partner is not able to verify the return, or,
- (ii) where there is no designated partner.

(b) **Disagree**

In case Mr. A offers his business income as per the presumptive taxation provisions of section 44AD (₹ 11.60 lakhs or more), then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2024, shall be 31st July, 2024.

In case, Mr. A wants to declare business income lower than ₹ 11.60 lakhs, he has to get his accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore, in which case, the due date for filing return would be 31st October, 2024.

25. Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12-09-2024 for A.Y 2024- 25 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 21-12-2024, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21-03-2025?

Ans. Since Mr. Vineet has income only under the heads "Salaries", "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the

Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2024-25 under section 139(1), in his case, is 31st July, 2024. Since Mr. Vineet had submitted his return only on 12.9.2024, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4) in December 2024, to claim deduction under section 80TTA, since the time limit for filing a revised return is three months prior to the end of the relevant assessment year, which is 31.12.2024.

However, he cannot revise return had he discovered this omission only on 21- 03-2025, since it is beyond 31.12.2024.

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

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

Ans. (i) True: Section 139A(2) provides that the Assessing Officer may, having regard to the nature

of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.

(ii) False: Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

27. Explain the term "return of loss" under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?

Ans. A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2), in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- loss under the head "Capital Gains" to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward even if return of loss has not been filed as required under section 139(3).

28. Mr. Aakash has undertaken certain transactions during the F.Y.2023-24, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents -

S.No.	Transaction
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2023-24 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash
3.	Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives
5.	Applied to SBI for issue of credit card.

Ans.

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2023-24 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed ₹ 50,000 in the F.Y.2023-24.
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash	Yes, since the amount paid in cash exceeds ₹ 50,000
3.	Payment of ₹ 80,000, by ECS through bank account, for acquiring the debentures of A Ltd., an Indian company	Yes, since the amount paid for acquiring debentures exceeds ₹ 50,000. Mode of payment is not relevant in this case.
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000
5.	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.